



## Feedback on ICAAP Submissions

### Introduction

In January 2010, the FSA issued feedback summarising its findings on a review of limited licence Internal Capital Adequacy Assessment Process ('ICAAP') submissions. A link to the notice is attached below.

<http://www.fsa.gov.uk/pubs/other/icaap.pdf>

This feedback was in addition to previous feedback given in August 2007, linked below.

[http://www.fsa.gov.uk/pages/About/What/International/pdf/pil2\\_observations\\_inv.pdf](http://www.fsa.gov.uk/pages/About/What/International/pdf/pil2_observations_inv.pdf)

The FSA does not set out a prescriptive approach for ICAAPs. However many firms have chosen to adopt a similar format to the FSA's guidance for 'small firms', which can be considered by following the link below.

[http://www.fsa.gov.uk/pages/About/What/International/pdf/icaap\\_smaller.pdf](http://www.fsa.gov.uk/pages/About/What/International/pdf/icaap_smaller.pdf)

The FSA assess ICAAPs to see if recent guidance has been considered and/or followed. The guidance also includes a number of case studies highlighting good examples from firms.

<http://www.fsa.gov.uk/pages/Doing/Regulated/ona/index.shtml>

### Key observations of the most recent review include:

- In some cases, ICAAP submissions have not contained a sufficiently detailed explanation of and justification for the methodology adopted and conclusions reached.
- ICAAPs have not always included a robust analysis of the costs, risks and processes including timescales involved in winding up a firm.
- ICAAPs undertaken by firms in a group have often focused on 'direct' risk issues, rather than also considering group and 'contagion' risk.
- The FSA is more skeptical regarding the liability of parental support without appropriate analysis in the ICAAP being evidenced. Firms should be aware that the FSA adopts a very conservative approach in relation to guarantees or commitments of parental support.
- Challenge and adoption of the ICAAP by the Board has not always been clearly evidenced.
- It should also be clear that the Board considers the impact on the firm's ICAAP when considering business strategies throughout the year e.g. financial impact (both positive and negative) of new products and services, and not just for regulatory purposes.
- Operational risk analysis has in some cases failed to adequately quantify risk exposures and has made insufficient or inappropriate use of historical loss data.
- Stress and/or scenario tests have not always been appropriately severe and many base capital forecasts have appeared overly optimistic.



- The ICAAP should not be a static annual process but should be subject to ongoing review to ensure that the firm continues to meet its capital adequacy and manages any associated risks to this.
- Articulation of risk appetite has often been stated by way of 'generic' statements, however the FSA are looking for 'quantitative' measures regarding the firm's risk tolerance.
- The ICAAP should also identify 'key risk indicators' or 'key performance indicators' which are used as part of risk reporting.
- Insurance risk analysis. Many firms rely on professional indemnity ('PI') insurance, however there was generally inadequate analysis performed on the circumstances where risks may not be covered by the PI policy.
- Pillar 3 disclosures. Many firms do this in the annual accounts, however if the appropriate disclosures are being done in a separate document this should be made clear.
- The general consensus is that Pillar 3 disclosures should also be given on a firm's website. The FSA considers that showing these disclosures as 'on request' on a firm's website is not in keeping with the spirit of making the information publicly available.