

Solvency II
*Anticipating issues,
capturing benefits*



Solvency II challenges...



Solvency II is a major and significant reform for the insurance sector. **It will have deep and long-lasting impacts on the way insurers look at risk:** how they identify and anticipate it; how they measure it; and how they manage and mitigate it.

Solvency II opens new questions, which will force many insurers to **revisit significant elements of their business models and reconsider the way they operate.** For example: how to compete in the market place, taking advantage of the new solvency principles (such as diversification); how to structure their business (e.g. under a group holding, through joint ventures, by outsourcing major operations, etc.); and how to organise the decision-making process about risk-taking.

Finally, getting there will not happen overnight. Insurers may have managed insurance and financial risks for many years, **but Solvency II changes the reference for risk management – it is not just about marginal improvements.** The Solvency II project will need to overcome several challenges: driving a large project to completion while the underlying regulation is still moving; improving the quality and traceability of the data that feed the risk management processes; implementing the tools to measure risk (be it a standard formula or a more sophisticated internal model); embedding the risk management culture in the insurer's organisation; and fostering the cooperation of stakeholders with complementary points of views about risk throughout the process.

In short, **a few words summarise what implementing Solvency II means:** cross-competency expertise, anticipation, pragmatism, collaboration, excellence, rigorous analysis and relentlessness in the pursuit of Solvency II opportunities.

We are the only large firm able to offer the actuarial, consulting, accounting and corporate finance expertise that Solvency II calls for, supported by our in-depth experience in the insurance industry.

... joined by the expertise of Deloitte

Our Solvency II experience and expertise:
A strong and multi-competency EMEA team.

With our Global/European footprint and our pan-European research and market watch network, **we are in a unique position to provide our clients with insight and anticipation in addition to lessons learned from our Solvency II projects.**

We are recognised for our collaborative style, a real asset when it comes to weaving various competencies and profiles into a single project.

We are used to conducting major regulatory deployments for multinational and local financial institutions.

We consistently receive high ratings from analysts and clients for our ability to help them shape and execute their strategic vision. **Many large European insurers already trust us to assist them on the path to Solvency II.**



The impact of Solvency II

Decision making and communication

With Solvency II, insurers will have to demonstrate that risk has become a key criteria in the decision making process. In addition, the board and the senior management are expected to clearly understand the risks they take and the insurer risk profile.

To make this possible, insurers need to revisit their internal processes, models and reporting to embed risk management in the business through improved indicators, activities, and governance. Insurers will have to document their practices, as the burden of proving the soundness of their risk management is theirs.

However, senior management should be careful to avoid two pitfalls: first, implementing risk controls so strict they stifle the insurer's growth; and second, blindly following models and controls without exercising business judgment.

Talents

Effective decision-making and risk management demands the collaboration of all talents within the organisation.

This means managers and directeurs should complement their own technical background with "soft" skills: the ability to work together, to explain simply their technical points of view and consider different risk perspectives on products, operations, investments, etc.

This is a prerequisite to achieving a proper balance between talents : no specific expertise can legitimate the seizure of power by a single group – internal control, actuarial function, sales, etc.

Insurers should ask themselves whether today's risk management talents will serve tomorrow's goals and act accordingly: trainings, review of expected profiles for risk managers, etc.

Innovation

By introducing new requirements for regulatory capital and practices, Solvency II opens new avenues of innovation, both in terms of product design and internal processes.

Solvency II is about pricing and managing volatility: marketers should work with risk managers to imagine new coverage structures, pricing formulas, or risk transfer systems that would have been discarded under the Solvency I regime.

Processes and models to measure and manage risk are another field of innovation: more accurate pricing, efficient asset allocation, risk-based performance assessment. This intellectual property may be critical to success, since it provides long lasting differentiation from the competition.

Models and data management

Even though capital models have been the focus of most discussions so far, insurers should not overlook the fact that they sit at the top of a pyramid: operational systems providing raw insurance data, detailed models focusing on specific risk components (pricing, reserves, asset valuation, etc.), datawarehouses and reporting systems.

What is at stake is the contribution of all these bricks in the construction of a robust architecture: consistency, quality of data and methods, governance and validation, and use in business decisions.

The implications for IT are huge and will lead to large efforts to implement new tools and architectures or upgrade existing ones.

The implementation of Solvency II



Pillar I Solvency capital requirement (SCR) Capital modelling (internal models)	Pillar II Risk management and governance requirement	Pillar III Risk management and capital disclosure
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Pillar I challenges

- Developing economic capital models and other tools to assist with embedding risk and capital management;
- Enhancing risk based capital allocation and pricing tools in line with risk based management expectations;
- Understanding the drivers of capital required under Solvency II SCR risk models (standard vs. internal);
- Developing an integrated modelling capability to set risk appetite tolerance and limits;
- Enhancing data environment to support risk based capital models.

Pillar II challenges

- Redesigning the target operating model across risk, actuarial, finance, compliance and audit;
- Implementing policies and procedures to meet the ORSA test;
- Enhancing the approach to assessing the diversification benefit across products and business units;
- Enhancing and integrating the existing control environment;
- Developing an ERM strategy in line with Solvency II requirements and establishing a process for setting a risk appetite framework.

Pillar III challenges

- Understanding the disclosure requirements, educating key stakeholders on the potential impacts and developing a strategy for disclosure;
- Designing the reports to be disclosed to regulators, analysts, rating agencies and shareholders;
- Developing the process and systems to produce external (public and regulatory) and internal reporting;
- Designing and maintaining an effective data management system that allows risk calculations to be carried out in a timely manner.

Challenges across all pillars

- Assessing gaps between current risk and capital management practice and capabilities and the requirements of Solvency II;
- Designing a coordinated SII programme and plan over the next 3-4 years to effectively deliver all the regulatory requirements while continuing to meet the needs of the business;
- Building awareness of the impact and opportunities of Solvency II within the appropriate areas of the business and developing support for change amongst stakeholders.

Deloitte's multidisciplinary approach is our Solvency II trademark

Our range of offering on Solvency II includes services such as:

Section	Offer	Client Challenge	Deloitte proposition description
Awareness / Education	Interactive workshops	Solvency II is complex and will have impacts on the key functions of your organisation. Senior Management must understand and plan ahead for the strategic and operational challenges of the new regulation.	We offer workshops which can be adapted to your specific needs and business environment. Workshops typically include: review of 3 pillars specificities, key impacts, programme methodology, potential synergies,...
Identify the impacts	Gap analysis & business case	The organisation should identify gaps between its actual position and the regulatory requirements. Gaps should be classified by nature and by priority and implementation options analysed in terms of cost and benefits.	<ul style="list-style-type: none"> - We help to structure the gap analysis process (including the business case definition); - To support the process by taking advantage of the Deloitte Gap Analysis Tool (pre-populated with the Solvency II text/consultation papers) to identify gaps and formulate factual recommendations.
Cross-pillars activities	Programme design & governance	Ensure that the project will be ready on time, on quality and within budget by: <ul style="list-style-type: none"> - Defining clear ownership and responsibility levels; - Taking into account existing synergies and dependencies; - Achieving transparent progress and monitoring. 	We propose to help organisations in defining the programme structure taking into account the company's specificities: workshops are organised with stakeholders to define workstreams, activities, responsibilities and select together the most suitable solutions for your Solvency II programme.
	Data & systems architecture	<ul style="list-style-type: none"> - Ensure appropriate data is available in the required quality and format; - Assess and select the IT systems and architecture (e.g. upgrade required, "Make or Buy" strategy). 	We propose performing a detailed data and system architecture gap analysis to provide a gap closure plan, to help during the IT selection process (with the help of our Solvency II market survey) and/or to assist the upgrade of your existing solutions.
	Pillar III: disclosure and report building	<ul style="list-style-type: none"> - Assess and include Pillar III requirements and guidelines since the inception of the project; - Consider Pillar III requirements in every decision process. 	<ul style="list-style-type: none"> - We offer support to identify gaps between the current reporting and Solvency II reporting requirements (public and regulatory); - We help to design the IT architecture to respond to these requirements.
Pillar I specifics: Modeling services, cross risks	Modeling support to upgrade current models to Solvency II standard	Identify the adjustments or new development needed to ensure risk appetite objectives are taken into account and the right level of documentation is available.	We propose modeling and documentation support to insurers to upgrade current models to Solvency II standard.
Pillar I specifics: Capital charges calculation and mitigation techniques	Operational risk	Enhance current operational risk management and measurement techniques to support consistent treatment under Pillar I and Pillar II.	We propose to review various components of the operational risk management framework (scenarios definitions, stress testing, process & procedures, data, etc.) and adopting active management processes.
	Credit and market risks	Better comprehension of the impact of risk models to compute capital requirements and measure the impact on the business. Define the appropriate models to measure and actively manage these risks.	We propose to perform cost/benefit analysis between modeling approach; identifying potential process enhancements; designing and implementing tailored internal models.
	Insurance Risk	Assess the impact of Solvency II regime on the capital requirements and the business in general. Ensure compliance of current models with regulators' expectations and identify potential enhancements to align with market practices.	Our value proposition includes impact analysis of capital consumption (life and non life) and the cost/benefit analysis between modeling approach; gap analysis of current internal model against regulatory requirements; methodology support; and benchmarking against market practices.
Pillar II specifics: Risk governance and ORSA	ORSA – Own Risk and Solvency Assessment	Assess adequacy of the current risk management framework and the resources to sustain it, understand the benefits from implementing an integrated risk management framework that covers all risks (short and medium term).	We propose to support undertakings in the various building blocks of the ORSA: sound internal risk governance; risk identification and assessment process; methodology to assess overall own funds adequacy (incl. economic capital); and risk limit setting in accordance with the company's risk tolerance.
	Use test	Companies face the challenge of passing the "use test" with regulators (i.e. demonstrate that Solvency II outputs are used in the decision making process).	We propose enabling insurers to provide structured and evidenced demonstration of an "appropriate use" of internal models in the risk governance, management systems, models and processes to their regulators.

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Solvency II: Revisiting the way people, technology and processes interact

In these turbulent times, insurers will have to cost-effectively meet Solvency II's stringent requirements while preserving the highest quality level

The Solvency II (SII) implementation deadline is getting closer:

Insurance companies are under pressure to quickly implement SII programmes to meet SII's stringent requirements in terms of risk management, organisation, technologies and processes.

A recent survey conducted by Deloitte shows that most of the market is still diagnosing issues and assessing the impacts generated by the new directive. Indeed, many companies have undertaken gap analysis and begun to establish business cases but have not yet undertaken significant remediation programmes.

Meeting SII requirements is a complex undertaking requiring transversal action across all levels of the firm: the Board, risk management, IT, actuaries and compliance to name only a few. Getting these different elements to efficiently work toward common objectives, deliverables, dependencies and requirements is challenging at best.

Deloitte's 3D Solvency II methodology further shows that certain preliminary steps must be taken before full implementation can begin:

	Diagnose		Design		Deliver		
	Programme Concept & Definition	Requirement & Gap Analysis	High-Level Design & Implementation Planning	Detailed Design	Build, Test & Implementation	Expanded Roll-out, Integrated Operation & Enhancements	Ongoing Benefits Realisation
Key activities and Outputs	<ul style="list-style-type: none"> • Programme scope • Business case • Executive approval • Timeline & milestones • Assignment of responsibilities 	<ul style="list-style-type: none"> • A gap analysis is performed against current state • A Solvency II tier structure model is used to help define the desired target state for enterprise risk management • Prioritisation of opportunities: "Quick wins" are identified to progress as a matter of priority • Detailed recommendations are raised to transition from current state to target state 	<ul style="list-style-type: none"> • High level design, encompasses: <ul style="list-style-type: none"> • Process, • Technology, • People, • Organisation. • Comparison of technology architecture options • Implementation strategy & plan are designed • Update business case 	<ul style="list-style-type: none"> • Definition of detailed blueprint of the target operating model 	<ul style="list-style-type: none"> • Target operating model development following blueprint • Target operating model test, ensuring alignment with blueprints • Roll-out of designed processes and systems, alignment to revised roles and responsibilities of the target operating model • Personnel training in aspects of Solvency II and revised processes • Implement risk appetite framework under Solvency II 	<ul style="list-style-type: none"> • Roll-out to across divisions/countries • Validate policy changes • Design & implement enhancements • Pilot operational processes prior to next reporting milestone 	<ul style="list-style-type: none"> • Validate benefits with the business • Compare results to programme objective and benefits metrics • Achieve sign off of programme deliverables or rectify deficiencies • Look to ongoing optimisation initiatives around risk appetite and tolerance under Solvency II

While the economic situation encourages cost reduction, SII will impose insurance companies to take costly and time consuming actions in the coming years.

In order to control and reduce these costs, Deloitte has developed "Solvency II Accelerators" to help you quickly and successfully implement Solvency II.

Deloitte Solvency II accelerators - do not “reinvent the wheel”

We set out below the Solvency II Accelerators’ tools and methodologies that you can use to answer your main current concerns on Solvency II:

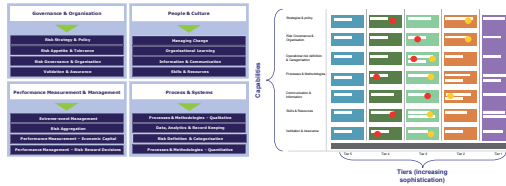
1. How to define and launch the SII initiative within my organisation?

Deloitte’s SII programme structuring will allow you to answer questions regarding Solvency II governance: How do I structure my SII programme? What are the best practices in terms of programme governance? Which skills are required for my SII programme? How much should I budget for the financial year? What are the programme’s main activities? How to move from project to operational mode?



2. What are my objectives for SII?

Deloitte Enterprise Risk Management (ERM) & tier structure model: A tier structure model is used to define the desired target for the 16 enterprise risk management (ERM) capabilities identified by Deloitte for Solvency II.



3. What are the major gaps to be filled in order to reach the objectives?

Deloitte SII high level gap analysis tool: A pre-populated Solvency II analysis toolkit is used to quickly track the identification of gaps between the current and target situation. Identified gaps are organised around projects and addressed by importance.



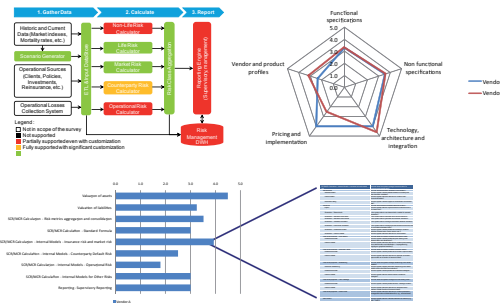
4. Are data available to comply with the SII directive?

Deloitte data gap analysis tools: Identifying weaknesses in data quality and availability is critical to achieving SII compliance. In order to facilitate the data gap analysis, Deloitte has developed a toolkit describing the data needed to comply with QIS4. This toolkit will accelerate identification of missing data on your systems (standard formula).



5. How to cover my needs with the market offering of SII packages?

Deloitte Solvency II systems market survey: defining the right architecture is essential to reach the Solvency II objectives. Having performed a market survey of the main system’s vendors, Deloitte can offer a comprehensive view of the market offerings. The outcome of this survey facilitates and accelerates Deloitte’s ability to define the target architectures required by our clients and enables us to prescribe a “make”, a “buy” or a mixed solution recommendation.



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