



**Solvency II**  
Navigating through  
the minefield

### Unlocking the benefits: Not just Pillar I

Solvency II is already driving fundamental changes throughout insurers' businesses, organisations and the ways in which insurers manage and measure risk and capital. The implementation date for Solvency II is fast approaching and the timetable for compliance is tough to meet. Solvency II is about change of behaviour, managing the business better and proving that you are doing so. It encourages a multidisciplinary approach leading to better understanding of the business. The harmonised regime will ultimately bring many and a well-considered compliance strategy can enable companies to operate more effectively and profitably. Most of the time and effort expended by insurers so far has been on Pillar I, however full benefits will only be released if insurers focus beyond Pillar I to the less publicised Pillar II capital requirements.

### Time for Pillar II

Insurers face a daunting task demonstrating their compliance with the core elements of Pillar II. For those looking to use an internal model, the requirements are even more complex. Pillar II advocates stronger corporate governance programs starting at board level and addressing all business areas and include adequate risk management, compliance, internal audit and actuarial functions. A robust and transparent corporate governance structure will need to be implemented within the organisation in order to effectively manage risk and ensure regulatory compliance.

### Risk management to the fore

Pillar II requires insurers to manage risks proactively, ensuring appropriate financial resources are maintained

against these risks. Linking risk management with decision-making and strategic development is high on the business case agenda. To support Solvency II compliance, insurers need to fully embed risk management principles in their business operating model and this will require more formal enterprise risk management (ERM) processes and additional risk measurement capabilities.

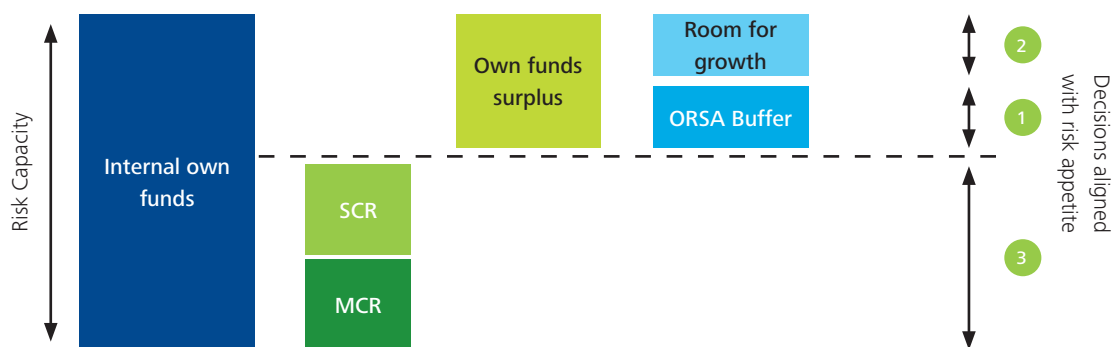
To comply with Solvency II, internal audit capabilities will need to be of sufficient depth and technical standard and needs to challenge the existence, articulation and understanding of the insurer's Solvency II strategy and key risk areas and thus a risk-based approach is essential.

By placing the attention on risk management and governance, Pillar 2 has shifted the emphasis and now there is significant focus on requiring insurers to have a full understanding of their risk universe. Pillar II will create a conceptual framework for risk appetite and insurers will need to define a clear risk appetite and risk policy. Insurers will need to develop an adequate risk culture specific to their organisation such that risk-awareness is enhanced at all levels. Because operational risk is identified as a separate risk category, Solvency II will require significant changes in operational procedures.

Solvency II will drive a renewed focus on data governance and data quality. Insurers need to ensure they have the resources to meet the challenges of documentation for data management purposes and the ensuing data governance requirements. This entails achieving a single view of data that should also be validated for accuracy. Improved data governance enables continuous improvement of data quality, which can help reduce operational costs and significantly mitigate business risks.

### System of governance





### Own risk and solvency assessment (ORSA)

ORSA requirements present a tremendous challenge to insurers. The ORSA is essentially a process that requires a voluminous report to be prepared and presented to regulators and clearly it will involve a lot of work. With the ORSA, Insurance solvency regulation is moving away from being retrospective to a point where an insurer is required to know whether it has enough capital for future risks. Boards and senior management will be required to decide on the adequacy of the ERM system and capital, based on their own assessment of the firm's future plans, risks and risk capacity

### Reporting it all: Pillar 3

Insurers have to develop new processes and tools to shoulder the burden of financial reporting under Solvency II. Recent studies estimate that Solvency II reporting will require about two million actuarial calculations and warn that insurers will continue to struggle with compliance and reporting unless they move away from the commonly used manual-based processes to more industrialised technologies.

### What Deloitte can offer

There is no doubt that Solvency II is a business priority and it is evident that complying with Solvency II necessitates a wide-ranging and integrated program demanding a systematic and structured approach. Successful delivery of each Solvency II program needs the right partner. Deloitte Malta is at the forefront of Solvency II regulatory developments and provides

Solvency II support services that span across all of insurers' Solvency II programmes. Deloitte Malta draws upon the extensive insurance knowledge base that is available within Deloitte's International network. We have one of the largest actuarial practices in the world and serve insurance companies in more than 40 countries. Our specialist knowledge and industry experience enables our experts to deliver tailored solutions to help companies address new challenges, maximise market opportunities and create competitive advantage.

Deloitte's outsourcing solutions enables us to provide clients with specialised expertise on a cost-effective basis. Outsourcing is an excellent and cost-effective strategy for addressing most of an organisation's Solvency II needs and enables companies to apply the best combination of internal and external resources thereby improving the efficiency and quality of the process. Insurers are in principle allowed to outsource all their functions and activities. The success of any Solvency II compliance strategy will depend on its proportionality. To create a regulatory response that is both uniform yet allows smaller firms to benefit, proper application of the principle of proportionality is fundamental. At Deloitte Malta we understand that one size does not fit all and our Solvency II advisory services are scalable and proportionate to meet individual requirements. Our clients will have access to Deloitte's Global industry knowledge, insight and technical expertise, tailored by our local experts to their individual requirements. Deloitte Malta is uniquely positioned to help clients through the maze of regulatory compliance by offering a wide range of Solvency II services that will help you reap the benefits from Solvency II as well as meet the regulatory timetable.

## Here to meet your needs

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Solvency II Service offering	Description
<b>Corporate Governance</b>	Assistance in setting up the required governance structure and processes; Setting up required board committees, including committee charters and terms of reference; Review companywide policies and procedures for organisational functions.
<b>Internal Control</b>	assistance in ensuring that the organisation's internal control system is fully compliant with the expected requirements of Solvency II and with MFSa Insurance Rule 27 of 2009 and that it is proportionate to the nature, scale and complexity of its operations.
<b>Risk Management</b>	Assistance in establishing a quality risk function and robust risk management process and to develop and establish an appropriate organisation structure to monitor the strategic, operational, financial and compliance risks.
<b>Internal Audit</b>	Provide an effective outsourcing solution so that a cost-effective outsourced Internal Audit function can be established. Deloitte Malta's internal audit approach is risk based and reflects the Solvency II strategy and key risk areas.
<b>Technical assurance reviews</b>	Technical assurance plays an important role in gaining comfort that what is being built is fit for purpose and will indeed satisfy the regulatory requirements. Amongst the major focal areas for technical assurance reviews are: governance and risk management system; technology and data; ORSA and reporting and disclosure.
<b>Compliance</b>	Assistance in developing a compliance function that stands up to the rigour of Solvency II.
<b>IT Systems</b>	Our team of IA practitioners and IT specialists provide IT focused risk assessments and corresponding audits in areas like: governance; security, privacy and data protection; data centre and network operations; and business continuity and disaster recovery.
<b>Pillar III</b>	Deloitte can help you undertake gap analysis that are designed to identify the current processes that drive the current reporting function; identify key focus areas and the Solvency II implications for each key area; Map out the roles and responsibilities of the persons/ departments responsible for each reporting process.

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