

Making the case for Solvency II technology The role of the CIO



The Directive

Solvency II requires that by the end of 2012, insurers will be able to calculate their risks and capital requirements in a controlled and auditable way that is demonstrably used in business decision-making. The Directive does not overtly specify technology requirements to insurers but a considerable amount is said about the controls and governance expected around the systems and data in use, and it is clear that technology will have a central role to play in delivering future compliance. For most organisations this will mean implementing a significant IT programme for Solvency II.

From a technology perspective, each of the programme pillars presents a different set of challenges to overcome:

Pillar one – Quantitative

Data quality will be key to producing reliable calculations.

Pillar two – Qualitative

IT governance, internal audits and automation are all key elements.

Pillar three – Disclosure and transparency

Underlying data models will support the necessary reports and dashboards for internal and external consumption.

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Laying the right foundations

It may be tempting for some CIOs to simply wave the flag of external regulation, and the requirement for compliance with it, in order to secure investment for a Solvency II programme. However, our view is that this is not the most effective way to secure buy-in for such an important programme. Organisations that see only a compliance requirement and so only design an extra layer of system changes and reports in response to this, will limit the end results they realise. Successful implementation of Solvency II is about delivering a business change programme, not merely regulatory compliance.

Our experience is that change programmes built and focussed on business benefits enjoy wider support and generate a better return for the business. Although it can be difficult to see beyond regulatory requirements to business benefits, it is important to consider the wider opportunities that Solvency II can bring. Insurers who genuinely engage with Solvency II could benefit from risk-based business planning, active product governance and superior customer management. Technology will need to play a significant role in the realisation of these benefits, and as a consequence could represent a significant proportion of the investment that will be required.

For example, in order to support the requirements for governance and controls, insurers will probably want to remove manually intensive and low value processes with at least semi-automated, technology based solutions. The business benefit comes in terms of speed of response when recalculating upon demand the latest capital position and seeing this roll through to the relevant management reports. Insurers should also choose to align their Solvency II plans with their ongoing IFRS work packages to minimise impact on business as-usual processes, avoid any duplication of effort, and ensure maximum benefit is realised.

With careful planning and early buy-in from the Board, a CIO can use the necessity of a Solvency II programme to create efficiencies and synergies with other initiatives thereby turning the Directive to their firm's advantage. Through his or her advocacy of a concerted and fully considered Solvency II technology strategy, a CIO can really demonstrate his or her understanding of the key business imperatives. It is through the skilled navigation of requirements such as Solvency II that a CIO can really earn their seat at the Board.

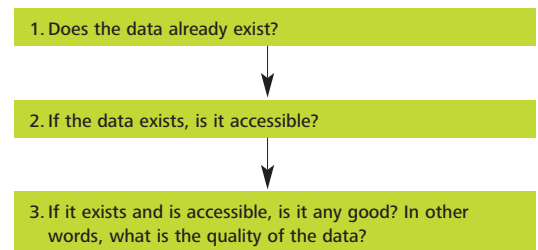
The right blend of skills

One key challenge for CIOs implementing Solvency II technology programmes is the distinction in many insurers between actuaries, business stakeholders and IT teams – any historical tendencies to operate in silos will limit the positive benefits that can be achieved through Solvency II compliance.

Specifically, many IT and actuarial departments do not have a history of close cooperation on their key systems, but it is only through these functions working effectively together that the real benefits of the Directive can be realised. The three pillars of Solvency II need to be reflected by a multi-faceted programme team building on the knowledge and experience of actuarial, business and IT experts.

Data requirements

CIOs and executive boards will have to ask themselves 3 simple questions with respect to the data that Solvency II requires firms to be able to produce.



Where the answer is 'no' at any stage of the above, remedial steps will need to be taken. This basic framework will allow insurers to work through the extent of their revised technology needs with respect to data gathering.

An integral piece of the internal model

How the IT systems for Solvency II compliance are changed and managed is much more than simply an application of the internal model. Rather, it is an integral part of the internal model itself. For this reason, plans for the maintenance and governance of the technology itself in fact form part of the internal model. And demonstrating robust and reasoned plans for technology will be an essential part of the internal model for which approval will be sought. It is crucial that the CIO's team does not simply receive the model but plays an integral part in contributing to its design.

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Familiar territory

From a technology perspective, programmes related to Solvency II are likely to mirror many elements of business intelligence or systems integration initiatives. This means that useful lessons can be drawn from the implementation of major change programmes of that sort. Large-scale business intelligence programmes can be complex and tend to run over the long-term which in the past has implied a high level of cost. Adding the further complexity of Solvency II's actuarial requirements to this may seem to create a programme which will be even more complex and difficult.

But there are positives in the similarities with business intelligence programmes. Insurers are already experienced in business intelligence and, with appropriate analysis, will discover that many of the tools necessary to achieve their Solvency II requirements are already in place.

More widely, here is an opportunity for the CIO to demonstrate his experience of business change programmes, territory which may be largely unfamiliar to colleagues on the Board but which the CIO may well have experienced on numerous occasions. Solvency II will be a complex and constantly-evolving change programme for the business overall, but large-scale, multi-disciplinary change programmes are familiar territory to most CIOs and we would encourage them to leverage their expertise in this area to the benefit of the wider business and its approach to change management for Solvency II.

The unique advisory role of the CIO

The CIO is in a unique position to challenge the Board from a business perspective. With his view of the technology requirements of the Directive, it is the CIO alone who can suggest the differentiating steps that can be easily taken whilst the 'body is open' in the IT infrastructure, to the insurer's long-term advantage. This means that the CIO is not merely responding to regulatory requirements, but helping to move his business forward and to differentiate it from the competition.

An integrated approach

A reasoned assessment of current capabilities and a detailed gap analysis will have demonstrated two things for most insurers. Firstly, the integration challenges posed by drawing together disparate data sources are significant. And secondly, there is no out-of-the-box solution available from a single IT vendor to satisfy the end-to-end solution demanded by Solvency II, rather an integrated approach will be needed.

Integrating data will present any organisation with substantial challenges, and the nature of insurance firms means that they bring their own levels of complexity.

Often siloed sources of actuarial, financial and risk data with limited alignment can threaten to make the process lengthy and convoluted. When integrating data, it becomes essential to prioritise elements of the programme and to start the integration process early in order to ensure a successful outcome.

Delivering a Solvency II technology programme will require 3 key elements:

1. Integrating existing systems which will now be required to work together.
2. Changing those existing systems as necessary.
3. Adding new tools where existing technology cannot be adapted to meet requirements.

Solvency II technology solutions will need to feature a broad range of components, from data sourcing and extraction, through to normalisation, storage, calculation, analysis and presentation. The solution is further complicated by the size and diversity of the audience which will require access to the data and the variety of questions that the data will need to be able to answer for them. Actuarial, finance and risk functions will use the data gathered to make decisions about everything from product selection to pricing, from capital allocation to risk management.

There simply isn't a single vendor solution which can satisfy all these requirements, making it necessary for insurers not only to understand what they need, but also navigate the difficult decisions about when to buy externally and from which vendors. With prudent updates to the existing architecture, the outcome will be a solution for Solvency II which has all the key attributes of automation, timeliness and auditability with outputs that can be shared and trusted.

Be prepared

As we have demonstrated, there is much for the CIO to be thinking about with regard to Solvency II – beyond simply meeting the requirements of the Directive, the CIO should use his expertise to determine other improvements that can be made whilst regulatory compliance is being achieved and, more broadly, to advise the Board on how to manage a change programme of this kind. Although the nuts of bolts of building a Solvency II IT architecture may still be some months off, the savvy CIO will use this period to act now in order to reduce implementation risks when the Directive does come into force.

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