

Up to speed with reporting

Countdown to Solvency II

*Keeping pace with faster
turnaround times for
regulatory returns*

October 2010



pwc

The work needed to successfully deliver Solvency II won't end in 2012 as the required turnaround for quarterly returns is steadily cut from six to four weeks and reports to supervisors from 18 to 14 weeks between 2013 and 2015.¹ With these tightening timescales placing huge extra strains on already hard-pressed modelling and reporting systems, how can insurers structure their Solvency II programme to ensure these longer term reporting requirements are met?

One of the most common complaints about risk and capital reporting is that by the time it is delivered it is too out-of-date to be of much use. Solvency II will not only require quarterly reporting, but also cut the turnaround from many weeks to a matter of days. While this is clearly challenging, it is also an opportunity to develop near real-time risk and capital evaluation and hence make model outputs a much more useful feature of day-to-day

management information. Timelier risk and capital reporting will also help to lay a solid foundation for the planned move to a market-consistent IFRS for insurance contracts ('Getting to grips with the shake-up' outlines the differences and potential synergies between the two frameworks).

Figure 1: CP58 Regulatory submission timescales

*5 weeks from 31/10/2013 **4 weeks from 31/10/2014

Source: 'Consultation Paper 58: Advice on supervisory reporting and disclosure', published by CEIOPS in July 2009

The draft implementation measures for Solvency II call for two sets of regulatory submissions – the quarterly and annual quantitative reporting template (QRT) and the annual Report to Supervisors (RTS). As Figure 1 highlights, the already exacting timelines will be significantly reduced between 2013 and 2015. In addition to this periodic reporting, insurers will also need to be able to assess their capital position as soon as possible after a major decision or event that could affect their solvency position. The triggers might include a planned acquisition, new product launch or significant fall in share values.

While many companies will be focusing on getting over the line when Solvency II goes live at the end of 2012, it would make sense to build into current plans the process, systems and governance requirements which will enable delivery of the post-2012 reporting demands. Boards will want clear sight of all costs through to the end of 2015, and are unlikely to give programme teams a second bite of the cherry. Starting now will also allow sufficient time to identify staff and systems requirements and develop a sustainable

framework for delivery, while spreading the implementation costs.

Comprehensive assessment

Although the demands of submitting a full RTS in 14 weeks should not be underestimated, it is likely that delivering the QRT on time will present the toughest challenges. Figure 2 lists the main content areas of the QRT. Meeting the detailed disclosure stipulations in each of these areas will effectively require a full analysis of balance sheet, profit and loss, capital, assets and liabilities.

Production timeline

The demands on larger organisations will be especially onerous as they will be required to produce separate reports at both group and solo entity level. Figure 3 outlines an indicative timescale for a business unit which is part of a larger group.

Figure 2: Content of QRT

A – Summary data
B – Own fund, SCR and MCR
C – Balance sheet and profit and loss account
D – Asset data
E – Technical provisions and valuation basis
F – Revenue analysis
G – Life liability analysis
H – Non-life liability analysis
J – Risk analysis

Source: 'Consultation Paper 58: Advice on supervisory reporting and disclosure', published by CEIOPS in July 2009

As Figure 3 highlights, signed-off results for group submission are likely to be required as early as working day (WD) 10. As firms will need to allow time for aggregation, analysis, commentary and review, the bulk of inputs to the capital assessment process will be required as early as possible in the process. In practice, this is likely to include assets, liabilities and the stresses required for the Solvency Capital Requirement (SCR) calculation.

Laying the foundations

There is no 'magic bullet' to meeting these deadlines. Even the most advanced systems solutions only go so far and what is successful in some companies may not work elsewhere. Even if there were sufficient resources, bringing in truckloads of new people will not work either, especially as the key personnel needed are in increasingly short

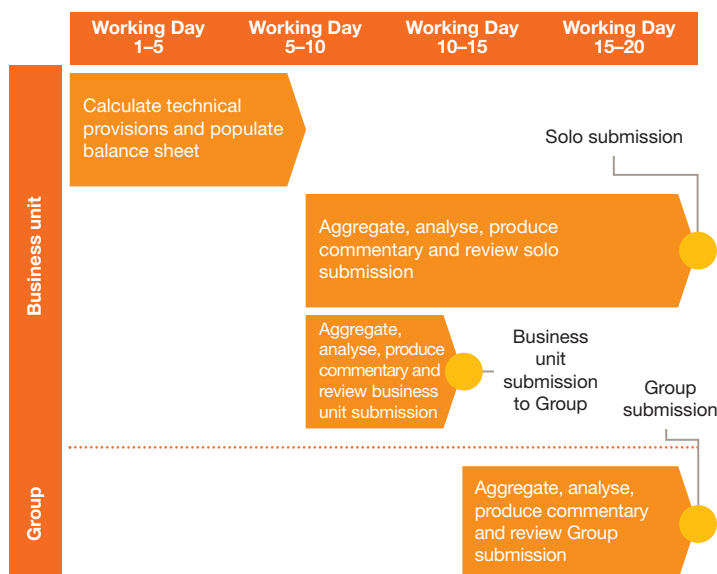
supply. It is therefore important to look closely at the current framework of reporting processes, IT and governance and consider what changes and upgrades will be needed to bring it up to speed. Technology is not the only enabler – operational models and the division of roles and responsibilities between finance and actuarial teams are likely to require considerable modification.

Figure 4 outlines the main issues and possible solutions. Greater automation of areas such as data retrieval and manipulation will be essential, enabling firms to speed up delivery and reduce the potential for error and need for costly extra control associated with spreadsheets. An increasing number of firms are also introducing acceleration tools such as replicating portfolios or curve-fitting, which often incorporate an aggregation system. The benefits include the ability to produce near

... the requirements for the quantitative reporting templates will have a significant impact for undertakings.

Source: CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements, October 2009

Figure 3: Indicative reporting timeline



Source: PwC

real-time and materially accurate management information, assess stress-testing requirements quickly and generate what-if scenarios to better understand the impact of business decisions or possible market developments. However, such tools are only one part of the overall process and systems which will be required to complete the QRT. It is important to ensure that investment in such tools is aligned to clearly defined business requirements or firms may end up with an expensive solution that is unfit for purpose. With or without new software, all companies will have to adapt and improve their existing reporting capabilities. The key is being able to identify and prioritise the ‘critical path’ to delivery as part of a more coherent and streamlined reporting framework. Areas that may need to be targeted for improvement include assets, policyholder data and external assumptions.

It will also be important to consider the governance and organisation design implications. This includes both sign-off by the relevant

committees and the controls needed to provide senior management with sufficient comfort about the material accuracy of the numbers. For example, completing a full analysis of the change on the actuarial liabilities and SCR will be challenging in this timescale. However, many firms would not be prepared

to submit the QRT without having prepared such an analysis as a key internal control. Similarly, while there is a considerable amount of debate and uncertainty around whether the numbers in the QRT and RTS can be different, boards will need to be consulted about whether such differences are acceptable from their perspective and, if not, what processes would be required to reconcile any variations.

The way forward

Figure 5 sets out a possible approach to developing the necessary evaluation and reporting framework. The starting point is a clear understanding of what senior management expects to achieve through Solvency II, including their goals for improving management information and the desired level of reconciliation between the RTS and QRT.

Companies can then begin to design a framework for delivery and decide what automation, acceleration and other systems and process improvements will be

required. To be effective, the implementation plan should include clear milestones and success criteria. Given the regulatory pressures surrounding Solvency II, completing these as soon as possible, preferably before the end of the first quarter in 2011, will be critical to ensure plans are credible.

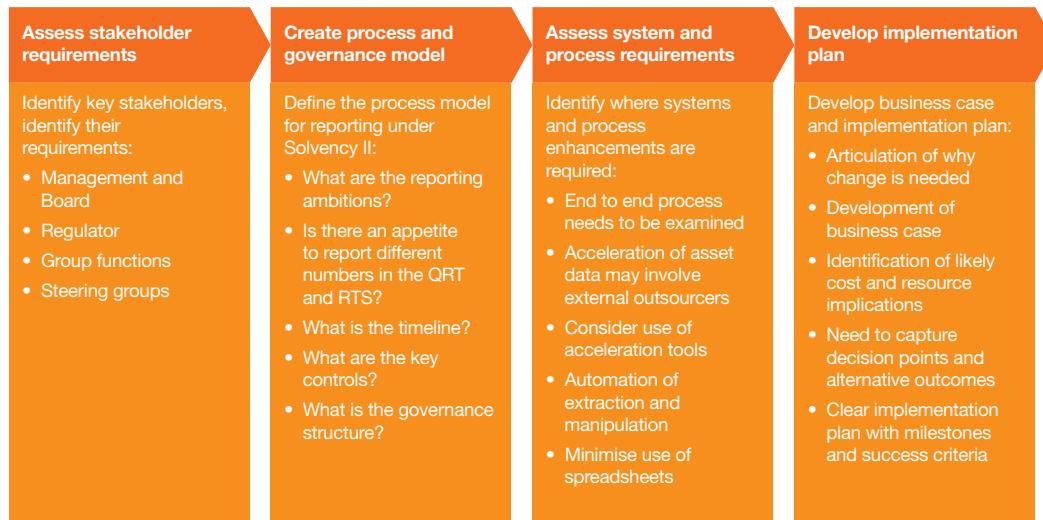
It may not be possible to implement all of the solutions needed in a strategic way for 2015 compliance by 2012, and firms may have to address specific issues tactically. The development of a 3-5 year systems architecture and implementation plan should address this point and demonstrate how improvements will be delivered over time in a phased, managed transition. In developing the business case, it will be necessary to set out these options and implications as there will be more than one possible roadmap to compliance.

Figure 4: Issues and solutions

Issue	Possible solution
Inputs to the process arrive too late	<ul style="list-style-type: none"> Review and acceleration of service level agreements Agree key non-economic assumptions in advance of reporting period Review and automation of policyholder data extraction and manipulation
Actuarial models run too slowly	<ul style="list-style-type: none"> Improve/enhance technology processing capacity Review of existing code to improve efficiency Alternatives such as curve-fitting and replicating portfolios
Results and data take too long to manipulate	<ul style="list-style-type: none"> Automate data handover Create ‘industrial strength’ processes Remove Excel and personal productivity tools where possible Address data definition inconsistencies and better leverage existing data/results repositories
No time for analysis	<ul style="list-style-type: none"> Revisit roles and responsibilities of key staff Automate the production element of the analysis as far as possible Use of dedicated project managers to ensure no delays
Governance process takes too long	<ul style="list-style-type: none"> Review and redesign of governance process Streamline existing committee structure Review roles, responsibilities and streamline hand-offs between risk, actuarial and finance Improve efficiency of management information

Source: PwC

Figure 5: A possible approach



Source: PwC

All quantitative reporting templates should be approved by the administrative, management or supervisory body of the undertaking.

Source: CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements, October 2009

Don't put it off

Many insurers may be reluctant to look beyond 2012 given all the other seemingly more pressing demands. Yet the QRT and RTS could prove as taxing as current priorities such as internal model development, both in the impact on systems and processes and in the need to create a robust framework

of control and senior management oversight. Assessing the implications now and building them into broader implementation plans will allow time to develop a sustainable approach to delivery that meets regulatory demands and enhances the basis for decision making.



Symon Dawson
 Partner PwC (UK)
 +44 (0) 207 804 1225
 symon.k.dawson@uk.pwc.com



Jonathan McGuffie
 Associate Director PwC (UK)
 +44 (0) 131 260 4414
 jonathan.mcguiffie@uk.pwc.com

1 These timelines are based on the latest proposals set out in 'Consultation Paper 58: Advice on supervisory reporting and disclosure', which was published by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) in July 2009. While there may be further review of the details and timescales, the direction towards much more extensive regulatory reporting and shorter turnaround is clear.

www.pwc.com/solvencyII

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2010 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.