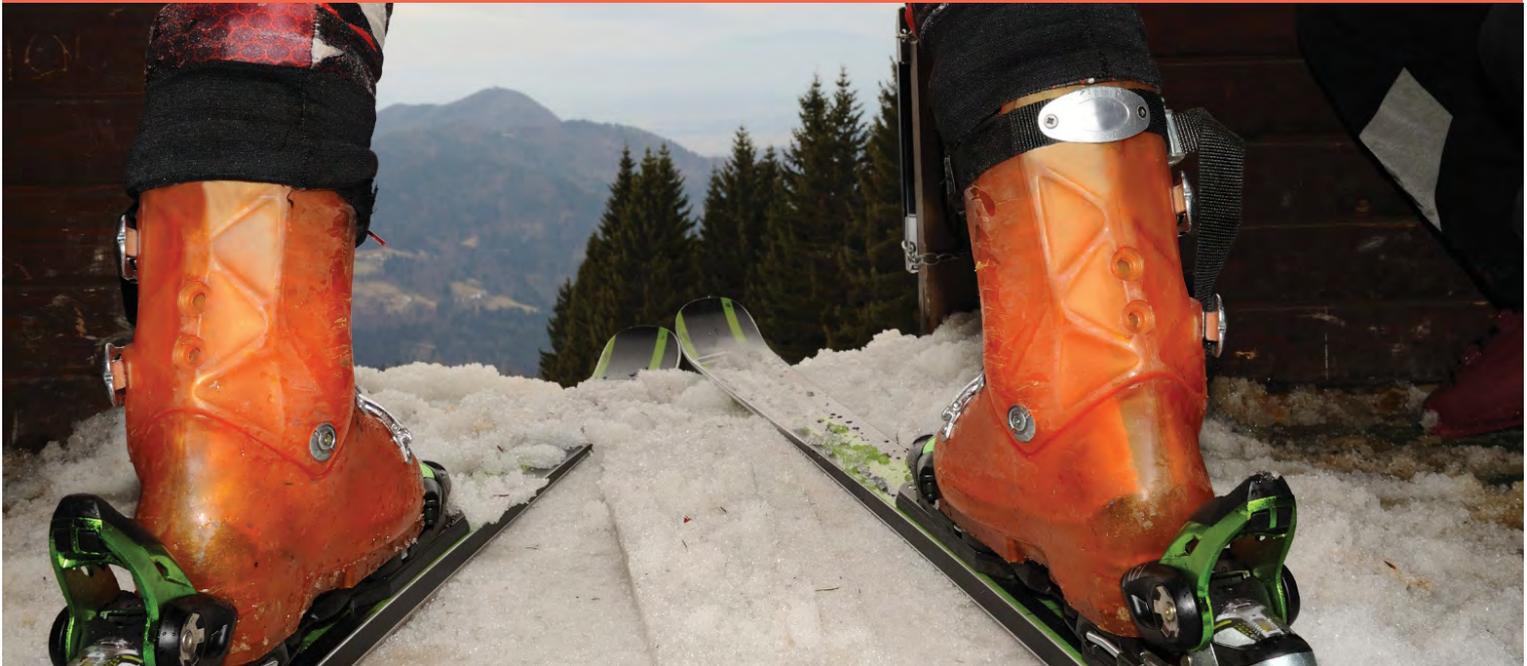


February 2010

countdown



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Data quality: Don't leave it until last!

With so much of the Solvency II implementation project resting on the quality of the data, now is the time to make data a priority and get preparations on track.

Quality data is the lifeblood of successful Solvency II implementation and ensures the effective integration of risk considerations into the decision-making that underpins it.

In its Level 2 implementation measures, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) said: "Given the high importance of data quality standards, CEIOPS advocates gearing interpretation towards a comprehensive scope of data quality requirements."¹ To date, the Level 2 guidelines (CP 43 and CP 56) have focused on the data used in the operation of internal models and the calculation of technical provisions. Further proposals are likely to broaden the scope by incorporating all the key data used in the running of the business into the Own Risk and Solvency Assessment (ORSA). Data

quality management is therefore set to be an ongoing and highly scrutinised process.

There are three criteria for the assessment of data quality:

'Accurate' – the degree of confidence that can be placed in the data

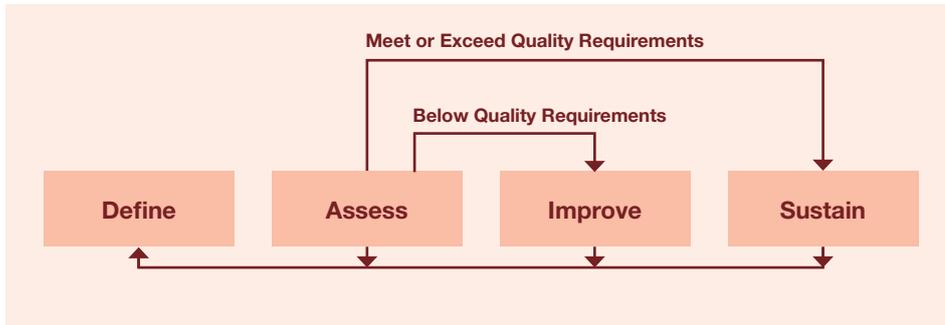
'Complete' – databases provide comprehensive information for the undertaking

'Appropriate' – data does not contain biases that make it unfit for purpose

The onus will be on boards to set a policy on data quality that meets their management information (MI) needs and to be able to justify to supervisors that the data they use and the surrounding governance are fit for purpose. This should include a documented record of what is meant

1. CEIOPS CP 56 – 'Tests and standards for internal model approval', issued in July 2009

Figure 1 | Data quality process



by 'quality', how this is monitored, what processes are in place to validate and update the information and identification of all instances in which data quality may be compromised, these procedures should be supported by metrics and agreed tolerances for tracking and upholding quality. The other key foundation is a data directory setting out the source usage and characteristics of the information: who owns it, how it is deployed and how its use may need to be qualified to take account of any uncertainty or margin of error. As Figure 1 outlines, these quality control procedures can be summarised as 'define, assess, improve and sustain'.

Potential gaps

Many companies have some form of data quality policy and associated monitoring procedures in place. However, the formal mapping of sources, ownership and other key aspects of data governance may be lacking. Among the suppliers and users of information there is also varying understanding of what is meant by data quality, the tools in place to measure it and what should be done when deficiencies are detected.

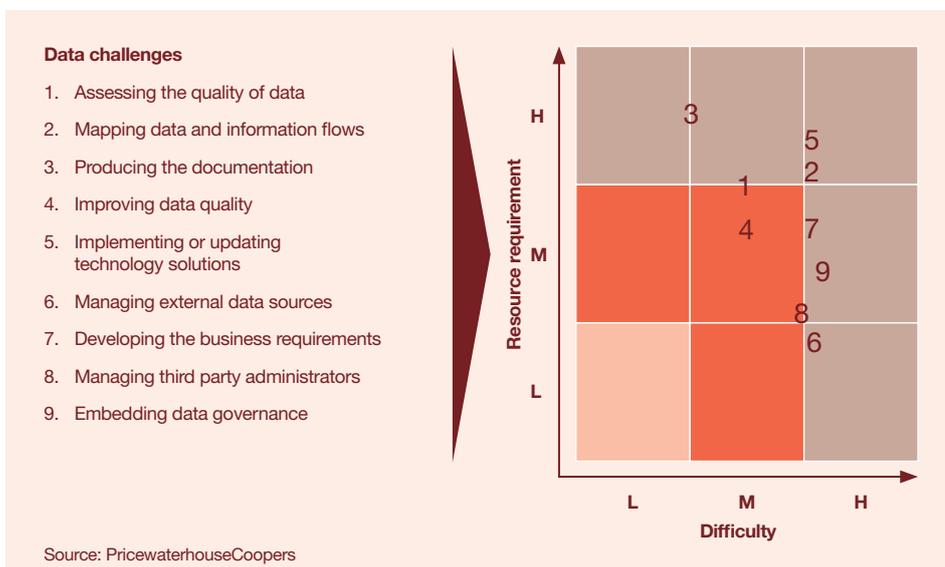
Many companies are looking to enhance consistency and improve MI turnaround by developing centralised data warehouses. Although internal, transactional data may be well understood, what are often missing are systematic processes for managing external data, which CEIOPS insists

should be equal to the standards for internal data.²

Solvency II will require clear evidence of this through a formal set of processes and procedures. Experience of Basel II highlights further potential gaps. Often, data preparations were left until quite late in the day. As a result, many institutions found themselves in a race against time to establish and document the necessary control, ownership and monitoring of their data flows. These difficulties were heightened by the proliferation of spreadsheets and associated manual adjustments as the deadline for implementation approached.

In the autumn of 2009, we carried out an informal survey of more than 40 insurance professionals to gauge what they see as the toughest challenges their firms face in developing an effective data quality framework (see Figure 2). While the difficulty and calls on resources for mapping information flows were recognised as high, it is notable that external data management was seen as less onerous. It is also perhaps surprising that data assessment and data quality improvement as a whole were only seen as moderately difficult.

Figure 2 | Biggest challenges in developing effective data systems

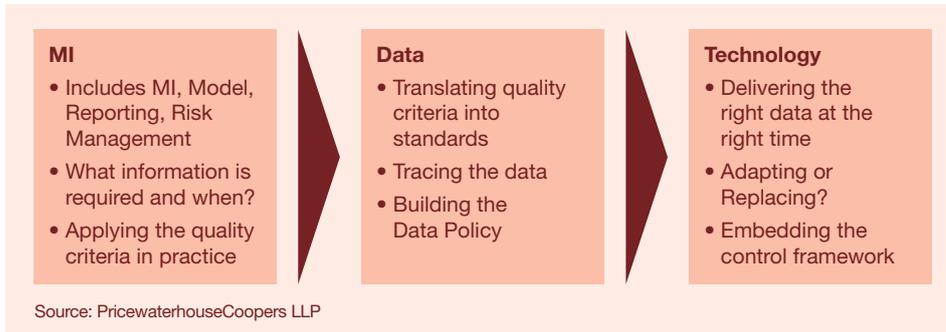


The bigger picture

While many companies have so far tended to focus on the data needed for capital evaluation or the IT developments that may be required to support this, we would advocate a broader and more strategic approach that looks at the data needed to comply with Solvency II as a whole and how these developments could be harnessed to enhance MI within the business (see Figure 3). Early engagement with boards and business teams will help to discern how the usefulness of MI could be improved and allocate responsibilities within implementation work streams. Companies can then decide if their primary objective is merely compliance

2. Data quality requirements should apply to 'all data, irrespective of the source' from CEIOPS CP 56, issued in July 2009

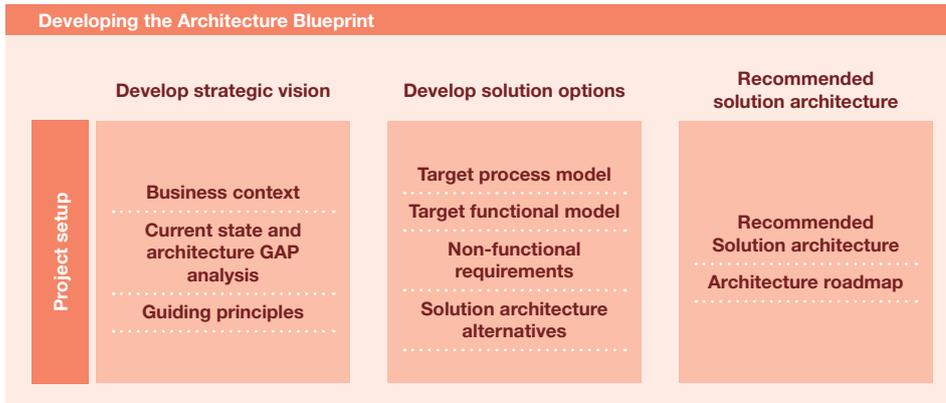
Figure 3 | Building the approach



or more ambitious business change and then establish appropriate priorities for governance and investment. The early development of a data directory has the particular benefits of providing a powerful tool for running the project and enabling firms to adapt to any changes/additional requirements in the implementing measures.

Having established the strategic objectives, it is then possible to identify gaps and create an IT blueprint for delivering the vision (see Figure 4).

Figure 4 | Designing your solution architecture



All-round solution

With 2012 just around the corner, now is the time to bring data quality to the top of the agenda. This includes looking at what the business needs and how this can be delivered in time. On the flipside, seeing data quality as primarily a technological challenge that can be resolved by investment in data warehouses and other such systems solutions in isolation may fail to provide business teams with access to the information they require. In turn, a tactical response to compliance is unlikely to provide the necessary usability and adaptability to change and may ultimately prove more expensive than a strategic solution.

Giving you the edge

PricewaterhouseCoopers is helping a range of insurers to get to grips with the practicalities of Solvency II implementation. If you would like to know more about how to develop and embed an effective data quality framework, please contact:



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