

Implementing Solvency II

a practical guide



Solvency II requires action now from all Irish regulated insurers in order to meet key milestones along the way to full implementation. Our practical guide helps you to prioritise the main actions required over the coming months.

Action plan

- Obtain a board-level briefing to understand the main effects of Solvency II on your business.
- Assess the likely capital requirement using the standard formula (QIS4) if not already done.
- Determine the feasibility of achieving internal model approval by 31st October 2012. Note that this will require action during 2009 to allow adequate time for implementation.
- Appoint an accountable individual at board or senior executive level and set terms of reference.
- Review information systems (data gap analysis).
- Review existing actuarial models (model gap analysis) and risk management processes.
- Review reserving methodologies.
- Review likely resourcing requirements.

Solvency II:

Practical steps you can take now

Solvency II is a major regulatory overhaul, taking effect from 31st October 2012. It will require changes in virtually every area of an insurance business.

Solvency II may require you to hold more capital and it will change the way in which certain business areas affect your statutory solvency, including underwriting, reserving and reinsurance.

Solvency II requires financial modelling and risk management to play a central role in day-to-day processes as well as strategic business decisions.

Regulatory reporting requirements will increase significantly, as will the scope of public disclosures.

Action

- Obtain a board-level briefing to understand the main effects of Solvency II on your organisation.

How we can help

We can provide a briefing on the latest developments and key issues.

Why the urgency?

The implementation timeline means that firms who do not make substantial progress in the next 12 months are unlikely to achieve approval for internal capital models for statutory solvency by 2012.

This would leave them subject to a potentially penal capital requirement determined by the standard formula.

Action

- Assess the likely capital requirement using the standard formula (QIS4) if not already done.
- Determine the feasibility of achieving full or partial internal model approval by 31st October 2012.

How we can help

We can help you to perform QIS4 calculations and to understand what is required for model approval.



High-level change management

Because of the depth and scale of the changes required, Solvency II implementation will need to be managed proactively at board level to ensure a consistent approach across the business and to avoid potential pitfalls.

In particular, it will be crucial to ensure that the business does not lose focus as a result of the additional work created by Solvency II.

Action

- Appoint an accountable individual at board or senior executive level and set terms of reference.
- Assess the likely resourcing requirements in each business area.

How we can help

We can help you to understand the skills and knowledge required for successful Solvency II co-ordination.

Board responsibilities

Directors and senior executives will have more direct accountability for risk management and financial modelling as well as more onerous disclosure requirements.

However, it is unrealistic for them to digest the vast amounts of Solvency II information being produced.

Action

- Provide training for board/senior executives.

How we can help

Our Solvency II executive training provides a thorough grounding in the key new requirements of Solvency II, how to use and challenge financial modelling and how to manage actuaries and other specialists.

Ensuring IT systems can cope

Current data systems will struggle to cope with the additional demands placed on them by Solvency II as well as the proposed changes to IFRS.

This may be the most urgent issue because of the time required to re-engineer data systems and collect better data, and because of the direct effect of data quality on internal model approval.

Action

- Identify the gaps between the current data and IT systems and those which will be needed for Solvency II (a data gap analysis).

How we can help

We understand how data quality impacts capital modelling, reserving, pricing and reinsurance, and we can help you to carry out a comprehensive and efficient review. Our team includes both insurance professionals and IT systems experts.

Financial modelling

The Solvency II regime encourages the development of internal models. These models may provide significant benefits in terms of a fairer assessment of regulatory capital. However, under Solvency II, an internal model cannot be used for statutory solvency unless it achieves regulatory approval. Irish regulated insurers should not under-estimate the effort required to achieve model approval.

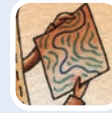
Action

- Perform a model gap analysis to identify the work needed to build and achieve approval for your internal model.
- Consider mechanisms for board-level reporting of modelling and for using modelling output in decision making.

How we can help

We understand the requirements of Solvency II and can help you to perform a model gap analysis.





Reserving

Solvency II will change the way reserving works. Technical provisions will need to be marked to market or calculated on a discounted probability-weighted basis together with a prescribed risk margin. Many changes to current practice will be needed.

Action

- Understand the detailed requirements including the likely differences between the Solvency II and IFRS bases.
- Determine the effect of Solvency II on technical provisions.
- Consider current reserving methods, in particular the ability to model reserve uncertainty.

How we can help

We have already helped clients to implement enhanced reserving processes and we have a range of tools and methodologies that can assist you.

Investment strategy

Solvency II provides a degree of investment freedom, but investment strategy has a knock-on effect on capital requirements. It will be essential to manage liabilities and investment strategy together.

Action

- Consider Solvency II impact of investment strategy.

How we can help

Our award-winning Investment Consulting practice advises on all aspects of investment strategy and has developed modelling tools to allow real-time consideration of strategies and their impact on regulatory capital and other risk measures.

Risk management

Solvency II requires firms to establish an ongoing internal process, called an Own Risk and Solvency Assessment (ORSA), to identify, quantify and manage risks and to determine how much economic capital the business should hold.

The ORSA will also need to be capable of tracking the estimated solvency position between formal valuations.

The results of the ORSA will need to be reported to regulators and part of this information could be made public through an annual Solvency and Financial Condition report.

Action

- Understand the detailed requirements regarding the ORSA and identify gaps relative to current risk management processes.
- Begin to plan how current risk management, financial reporting and modelling systems will need to change to create an effective ORSA.

How we can help

We can show you how to reflect business realities in actuarial models and risk management processes, to ensure that the ORSA output is relevant for the business.

Building modelling infrastructure

It is crucial to get the right internal model architecture in place from the start. This is the only way to ensure that the model is sufficiently flexible and future proof, that new data and expert input can be incorporated easily and that the output can be readily used at board level and within operating divisions.

Action

- Start planning internal model design.

How we can help

We provide a complete Solvency II model building and review service.

We understand the technical detail involved and, just as importantly, we understand what works from a business perspective.

Knowledge transfer is key. We can help you to create modelling systems that can be understood, owned and maintained internally.

The actuarial function

Solvency II requires an actuarial function to be established. The actuarial function will have wide-ranging responsibilities and will affect the way you price business, set reserves, manage risk and report to regulators and shareholders.

Action

- Review actuarial resourcing requirements.

How we can help

We can help you determine the optimum actuarial resourcing through a needs assessment and cost-benefit analysis.

We can provide resource and support in a number of different ways, from full ongoing actuarial support to specific involvement on a project basis.



Why LCP?



LCP is a leading firm of consultants and actuaries, with 85 partners and more than 450 employees. We have offices in London, Winchester, Dublin, Jersey, Brussels, Zurich, Basel and Utrecht.

LCP's Insurance Consulting practice provides a full range of actuarial and consultancy services to insurers and reinsurers, including advice on all aspects of Solvency II.

We have a personal and interactive approach and a reputation for understanding the wider business context of our advice.

Our team, based in London and Dublin, includes actuaries, insurance professionals, investment consultants and IT systems experts, enabling us to undertake virtually any insurance project.

Our advice is enhanced by a range of powerful software tools, which can often be run in real time, bringing deeper understanding of the dynamics of your business and enabling you to make better-informed decisions.

We are working with a number of organisations to help them prepare for Solvency II. Why not contact us to find out more about how our unique approach could help you?



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