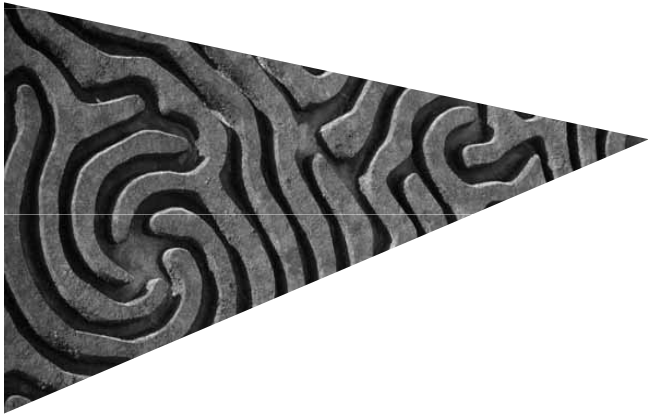
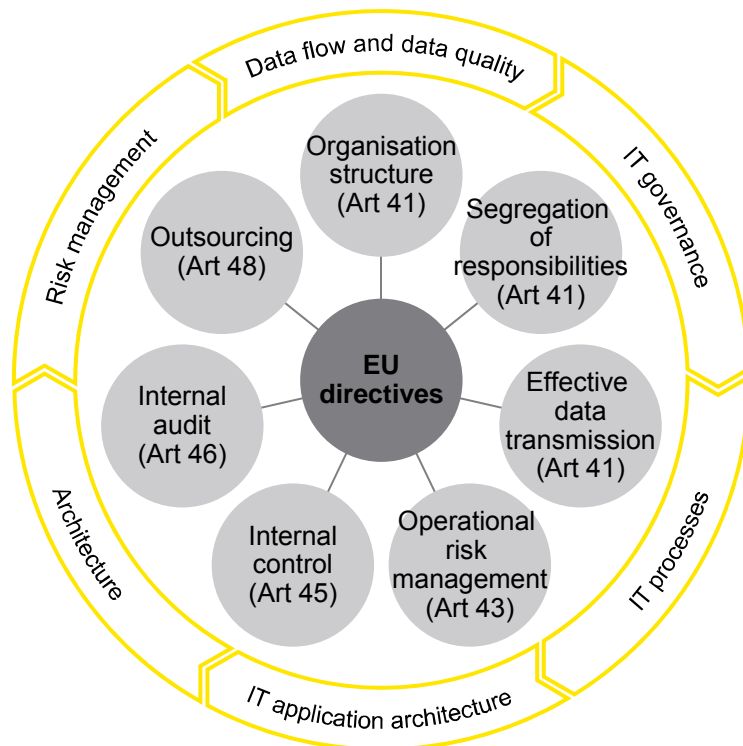


Solvency II - the systems and data challenge



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Solvency II has all the challenges of a major transformation programme and will have a significant impact on IT



Deploy Internal Model

Revise financial reporting processes

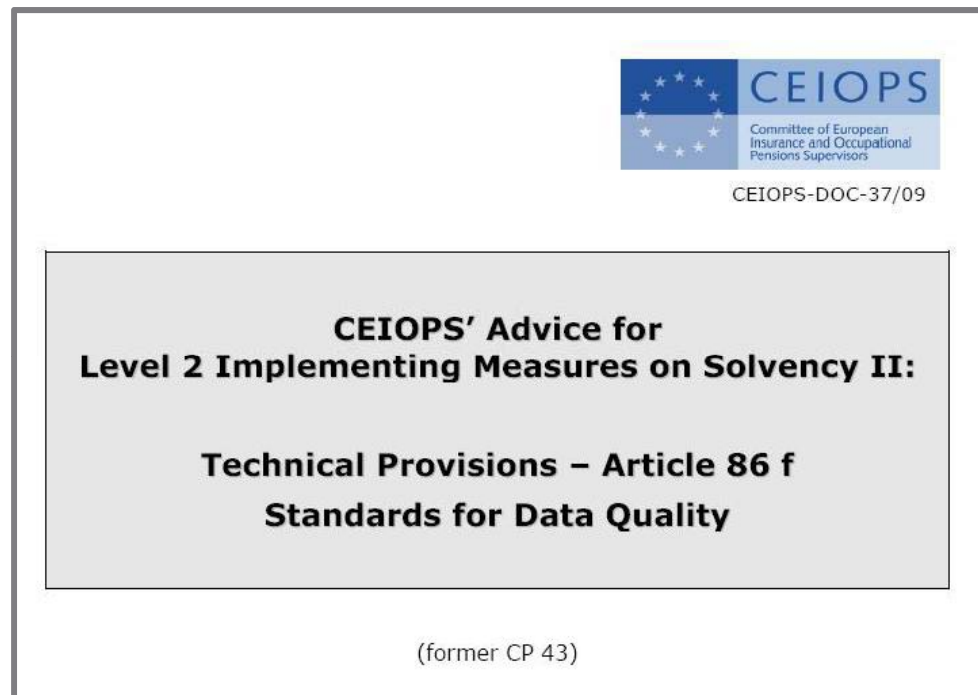
Design and build Own Risk and Solvency Assessment

Pass the "Use Test"

- ▶ Build and deploy new model functionality or enhance existing functionality to support the Internal Model Approval Process
- ▶ Establish the true source of key data attributes and ensure end-to-end data flows are transparent and auditable
- ▶ Implement changes to finance systems and associated financial reporting tools
- ▶ Improve the capture, storage and analysis of operational risk data, including actual loss events and "near misses"
- ▶ Deploy data-dictionaries and warehouse solutions to promote a common understanding of financial and non-financial data across the organisation

The Basel II experience - IT resourcing and budget requirements must not be underestimated. Overall, financial institutions typically spent 3-6 times their original estimates on Basel II programmes, and around 70% of this spend was on IT

Regulators are focusing particularly on the quality of data used in the Internal Models

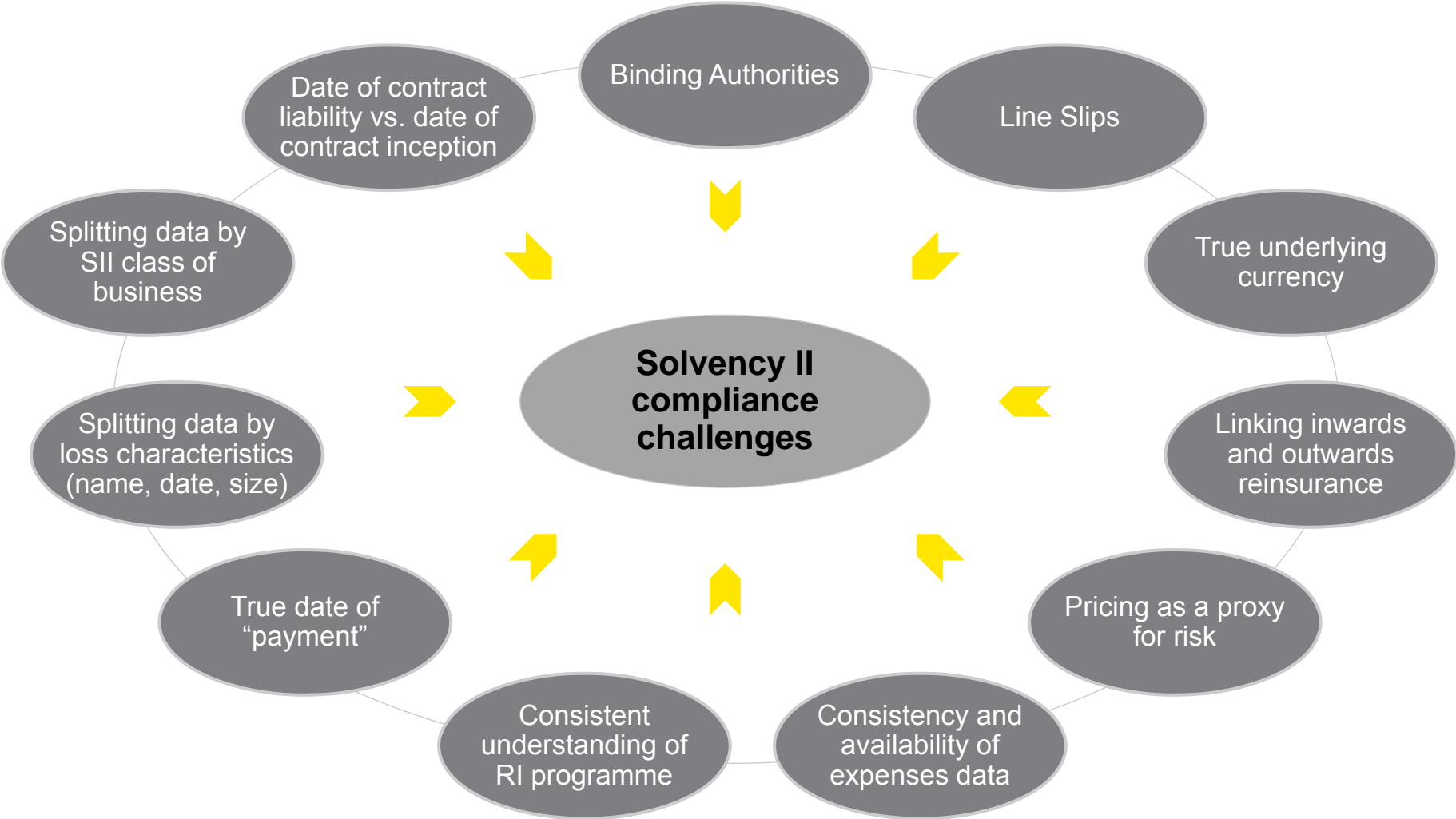


CEIOPS sets out explicit standards for data quality

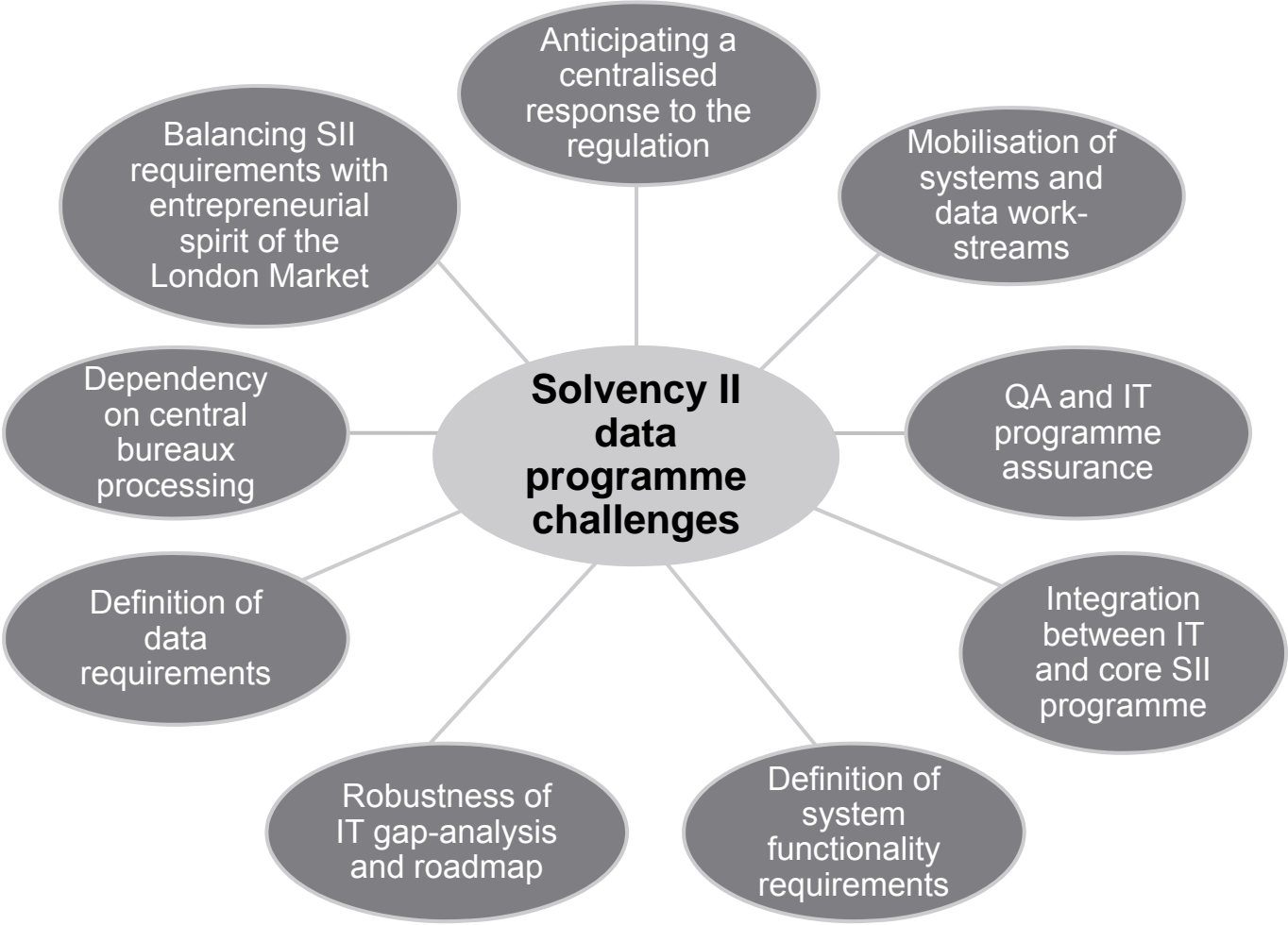
- ▶ Assess the appropriateness, completeness and accuracy of data
- ▶ Define objective data quality measures and apply expert actuarial judgement
- ▶ Embed a system of data quality management across the entity
- ▶ Define and monitor systems for identification, collection, transmission, processing and retention of data
- ▶ Ensure manual and automated data adjustments are auditable
- ▶ Agree the role of internal and external auditors in assessing data quality

The FSA's view - *“High quality data is essential for modelling... firms should pay particular attention to this requirement as experience under the FSA's existing regime has indicated that the current quality of data in many UK firms may fall short of both existing and Solvency II requirements”*

London Market organisations will face significant challenges in achieving compliance with Solvency II data quality requirements



Solvency II also poses wider systems and data programme challenges which should not be overlooked



Organisations should identify key actions and critical success factors for the systems and data work-stream

Planning for the future

Implementation plans - short-term actions

- ▶ Mobilise data/systems work-stream, ensure IT related project risk management and monitoring is in place and integrated with overall Solvency II effort
- ▶ Capture key data requirements from pillars I-III and feed into data/systems workstream
- ▶ Consider adequacy of current qualitative data available to support operational risk and capital modelling processes
- ▶ Track data back to true source and agree single view of data flows
- ▶ Inventorise spreadsheets and categorise by risk profile

Critical Success Factors - long term

- ▶ Identify architecture change requirements early and do not underestimate resourcing or budget requirements - legacy systems are designed around products or financial reporting, but rarely both
- ▶ There is a need to (re)design controls at the same time as designing changes to system architecture, data flows, or processes
- ▶ Spreadsheet remediation is critical to creating a sustainable Solvency II infrastructure - consider ways to automate and “industrialise” key spreadsheets
- ▶ Data quality initiatives must be focused on areas relevant for Solvency II and provide genuine ROI for the business
- ▶ There should be a single consistent and accessible data source for each type of reference data i.e., ‘Golden Source’
- ▶ All systems and data elements should have clear owners with responsibility and accountability for definition and integrity of data
- ▶ Good data management changes over time so monitoring and targeted remediation is required
- ▶ Data entry validation controls play an important role
- ▶ Data interfaces and data transformations must provide auditability