Incorporate Solvency II into your organization

Getting control on risk funding and risk reporting

This whitepaper offers an approach for (re)insurance organizations to get the Solvency II requirements incorporated into their operations in order to comply with the reviews, audits and demands of the regulator.

This document is composed of three parts. The first part focuses on the essence of Solvency II. In the second part we illustrate a Solvency II concept on which the methodology is based to operationalize and implement all relevant changes in the organization. Part three describes the implementation of an integrated risk handling methodology.

This article does not include other relevant and critical aspects of the Solvency II related business transformation such as communication, education, commitment of top level and change management.

This document is based on the following sources:

CEIOPS, EIOPA, FSA, Dutch Central Bank a.o.

1.
Essence of Solvency II

Solvency II has two elements: The impact for insurance companies to live up to the requirements and the implications for the regulators in Europe to perform their new reviewing and auditing tasks. Limited by the scope of this paper we will not get into the impact for the regulators but focus on the impact for insurers.

To comply with Solvency II, the insurance companies will have to incorporate and embed a companywide professional risk management approach that handles all material risks on a daily basis. This approach impacts all aspects of the business operation:

• Extension of the expertise of actuaries (e.g. new developed program called Chartered Enterprise Risk Analyst - CERA)
• New governance procedures, processes and structure
• Additional reporting and IT/data quality and security.

All these aspects should be supported by a professional risk based risk handling method on a continuous basis. The implications are far reaching. The necessary transparency will tear down walls between 'silos' in the organization. More intensive cooperation between departments is really required because some responsibilities will change. More detailed control will be in effect over performed risk related tasks in all relevant parts of the company; from actuary to investment and from underwriting to claim handling. Board level management has to be involved in the Solvency II risk handling of the operation. This could require increased awareness and perhaps even additional skills training.

The two main objectives of Solvency II are:

1. Sufficient funding for all the material risks to which insurance companies are or will be exposed – in short: The ability of insurers to live up to their financial obligations and liabilities.
2. Transparent standardized reporting to regulators and to other stakeholders (e.g. shareholders), indirectly creating a level playing field in Europe and the possibility to assess and compare insurance companies.
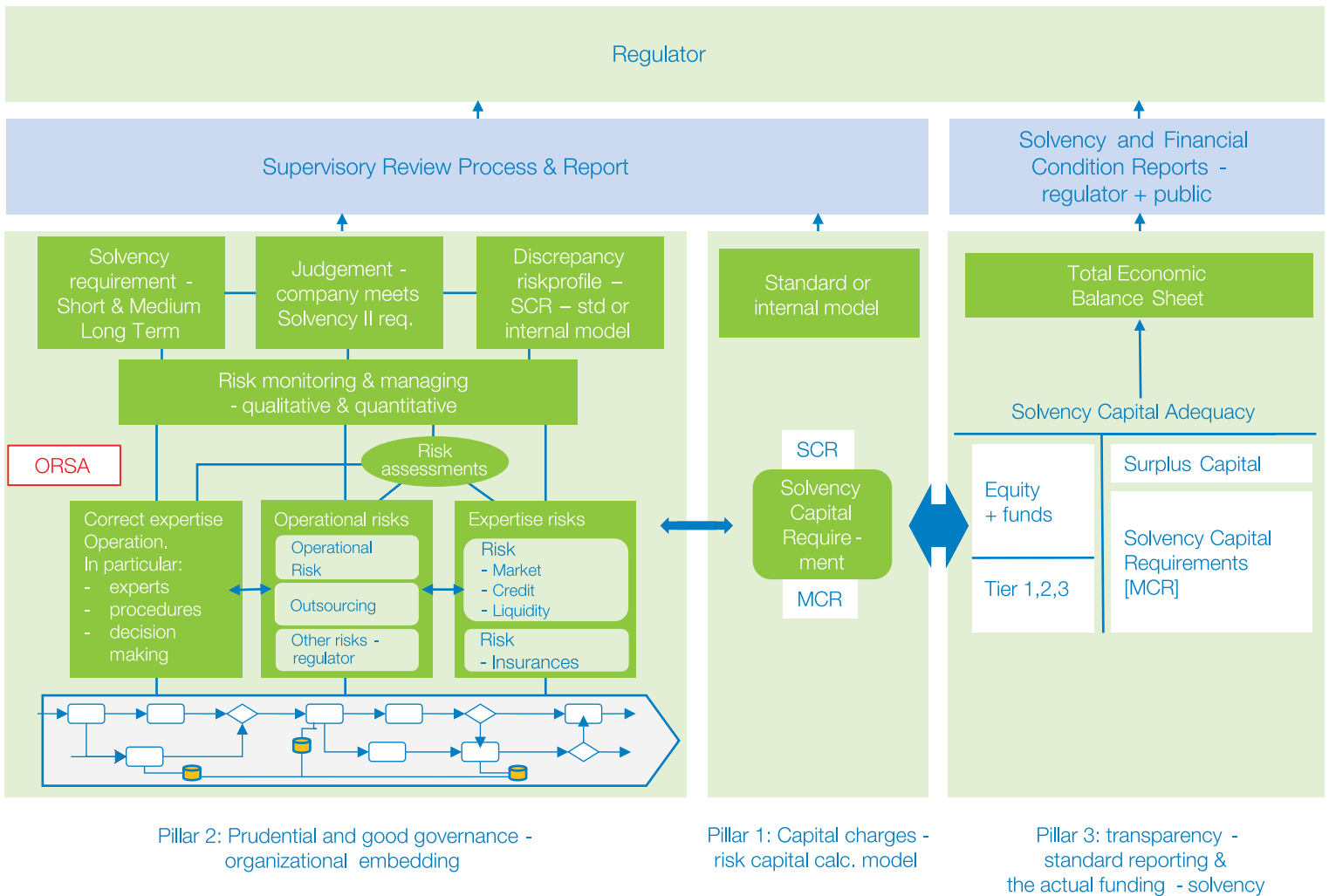
Figure 1. Solvency II methodology

2.
Solvency II, a conceptual perspective

To get grip on the scope and dependencies of Solvency II an overview was developed by BWise to create understanding on the one hand and a starting point to develop an implementation approach on the other.

This overview covers the core of Solvency II. The supervision will be different. Insurers are forced to demonstrate to the regulator, per license entity as well as aggregated, that the governance structure for "being in control of all material risks" is really embedded (ORSA). Doing so secures sufficient funding, correct control mechanism, documenting and transparent public and regulator reporting.

3.
The BWise solution for Solvency II compliancy

The BWise integrated risk and compliance software solution fully supports the 'ORSA process'. Insurers that implement this BWise solution are able to internally monitor and manage all material risks involved. Since all information is logged and has an audit trail in BWise, insurers are enabled to meet internal and external obligations for reviews and audits, irrespective of their own compliance and audit functions. The BWise Solvency II solution is based on the integrated BWise software platform that can be extended with other so called Governance, Risk and Compliance initiatives such as auditing, board & entity management, Continuous Monitoring (CM), IT-GRC, Environmental, Health and Safety (EHS) and Sustainability.

A customer specific Solvency II overall risk framework, accompanied by governance processes, procedures and a structure is supported by the BWise software to 'Identify, Assess, Monitor and Manage' all risks involved as prescribed in the Issues Paper. The BWise function 'Issue management' supports the monitoring and management of handling and remediating of risk discrepancies of any kind. Flexible reporting features support all kinds of dashboards and detailed reporting requirements. Mandatory documentation of essential management decisions and keeping track of the follow-up in the organization is fully supported by BWise as well.

Continuous Monitoring

Relevant market, credit, liquidity or insurance risk data can be imported into the BWise platform in various ways, either manually or uploading the data by using Excel. The next level of sophistication is to import relevant risk data by interfacing with IT systems such as Oracle, SAP, SAS or other databases automatically and continuously. Alarms and thresholds can be defined that will trigger alerts and actions automatically. The BWise software platform requires to be extended with the BWise Continuous Monitoring (CM) module for this IT integration. Expert data calculations take place in several departments using various expert systems with which the BWise CM module interfaces. This enables analyzing and monitoring of crucial key risk data including an automatic alerting workflow to responsible employees and management, based on an effective concept of 'management by exception'.

The implementation

The Preparation phase

The Preparation phase includes a gap analysis. The capturing of the current risk handling and monitoring, including risk assessments - preferably process based - and supporting IT systems has to be done upfront. For a good (risk) understanding of the entire operation it is advisable to model the most important business processes; the insurance and investment processes which incorporate the biggest capitalized risks. This can be done very efficiently in so called integrated workshops in which key employees define these primary business processes, no more than three levels deep, and at the same time perform risk assessments. Finally, reports and information requirements can be defined during these workshops. See figure 2 for some details.
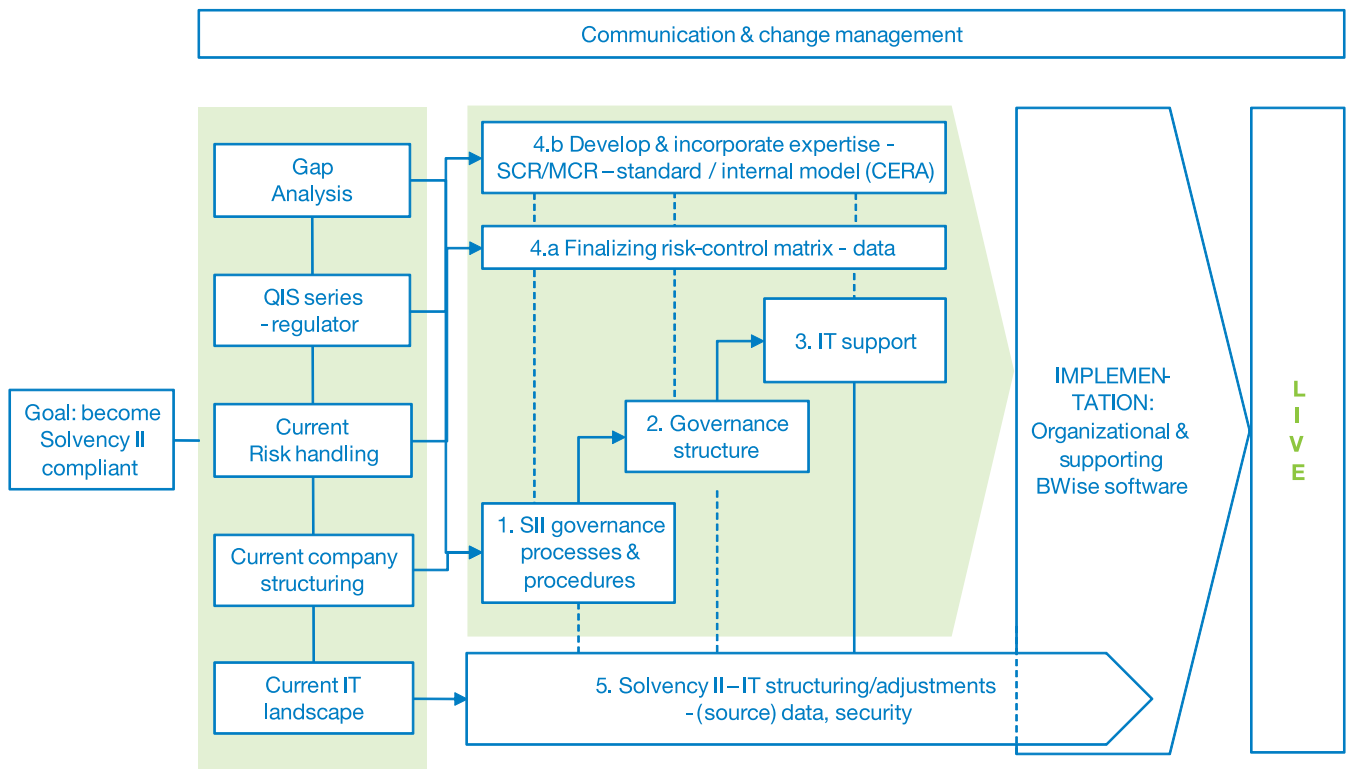
Figure 2. Solvency II project implementation

The next step: Concept development phase

The following topics need to be covered in this Concept/design phase in order to be able to implement and embed a professional governance structure in the organization to become and stay compliant with the Solvency II requirements. The numbers refer to the figure.

• Definition and documentation of the necessary governance processes and procedures (1). Defining how the Solvency II governance control will be executed by the organization. For instance including the definition of alerting and escalation procedures, decision making and monitoring of all relevant issues;

• Based on the approved governance processes and procedures, define the govern-ance structure (2) including allocation of tasks, responsibilities, authorities (all captured in adjusted or new job descriptions) for handling all related risks in the company at all levels in the organization. These processes and procedures include operational, compliance and audit functions. All the information will be documented and captured in a hierarchical chart;

• Based on the results of the Preparation phase and the designed governance control (add 1 and 2), the required supporting information, reporting data and IT adjustments (3) can be finalized as input for the IT project part (5);

• Parallel to the previous three subjects the risk-control content (4.a) has to be finalized and documented (preferably in Excel). The necessary expertise (CERA) and expert models have to be fine-tuned and incorporated (4.b), using the acquired QIS knowledge.

After the Preparation and Concept development phase have been concluded the BWise software platform can be installed, configured and deployed. The organizational changes and IT adjustments have to be taken care of separately, but in line with the implementation effect and impact of the supporting BWise software.

The BWise software can be configured to the customers' specific requirements. Based on hundreds of risk management and compliance implementations around the globe BWise developed a successful standardized implementation methodology (figure 3). This ap-proach includes best practices and secures an effective control for our projects.
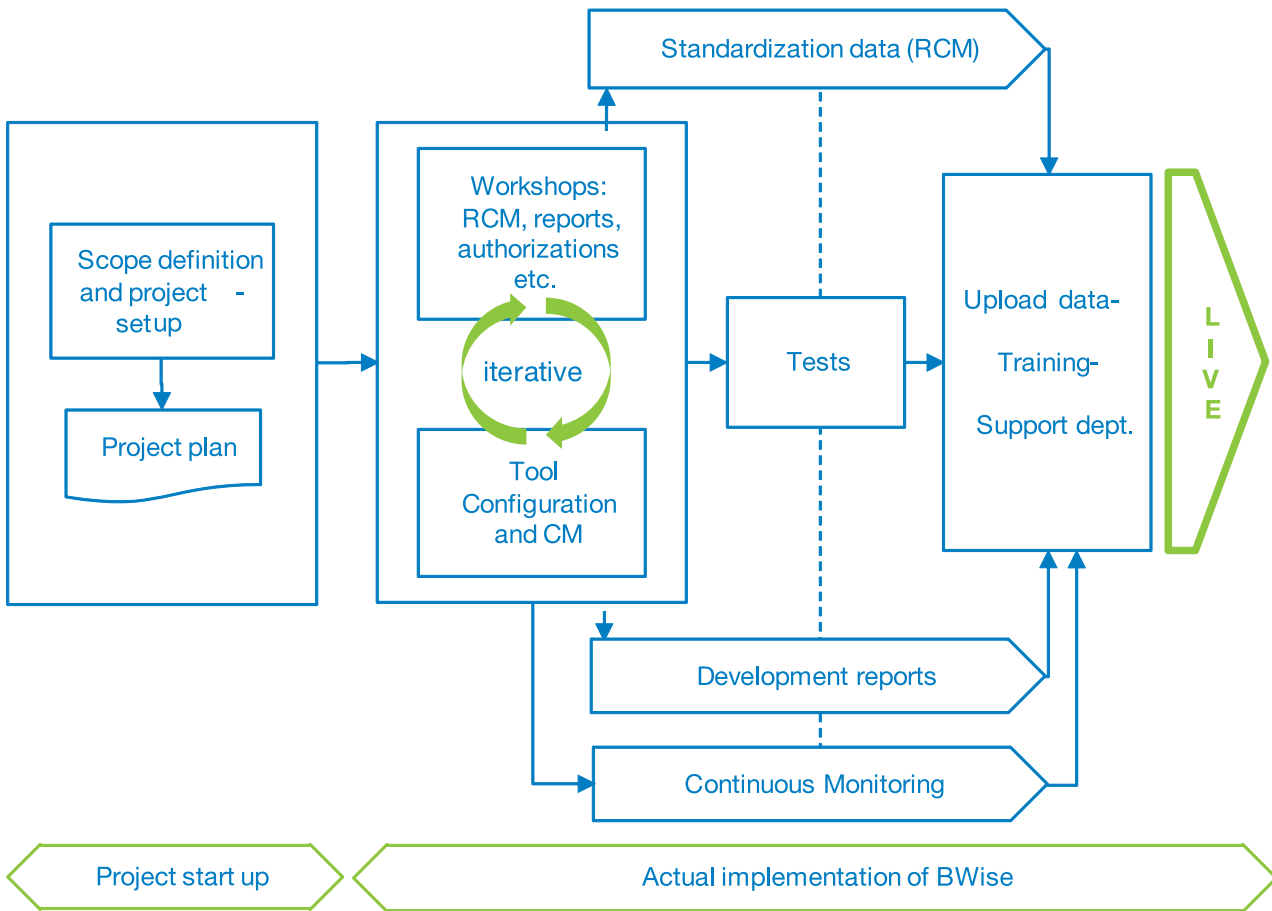
Figure 3. BWise Implementation methodology

A converged risk management approach

The BWise software solution helps insurance companies to comply with Solvency II and GRC subjects such as audit and sustainability. The benefit of this converged risk management approach is that an integrated single platform with one overall risk framework can be used to identify, monitor and manage the risks throughout the enterprise. The TCO is considerably lower than a 'silo way of working'.

Large and midsize European insurance companies implemented and deployed BWise for operational risk management and Solvency II compliancy. The business consultants and project managers of BWise developed an unrivalled collective intelligence of best practices that ensures the smoothest possible implementation in the shortest possible time.

About BWise

BWise, a NASDAQ OMX company, is a global leader in Enterprise Governance, Risk Management and Compliance (GRC) software. Based on a strong heritage in business process management, the BWise® GRC platform provides companies with highly-rated, proven software solutions for Risk Management, Internal Control, Internal Audit, Compliance & Policy Management, IT GRC and Sustainability Performance Management.

BWise's end-to-end solutions support an organization's ability to understand, track, measure, and manage key organizational risks. BWise helps companies truly be in control by balancing performance with their financial and reputational risks, improving corporate accountability, increasing financial, strategic and operating efficiencies. Using BWise, organizations are able to efficiently comply with anti-corruption regulations like FCPA and the UK Bribery Act, the Sarbanes-Oxley Act, European Corporate Governance Codes, ISAE3402/SAS-70, PCI-DSS, Solvency II, Basel II and III, Dodd-Frank, ISO-standards, and many more.

BWise sales, service and support offices around the globe provide for the GRC needs of hundreds of clients, including: adidas, AEGON, Ahold, AngloGold Ashanti, Connexxion, Health Alliance Plan (HAP) of Michigan, LeapFrog, Liebherr, Marathon Oil, Southern Company, Swiss Life, and Transcontinental. For more information, visit www.bwise.com.

BWise® GRC Platform

BWise offers multiple role-based software solutions for Risk Management, Internal Control, Internal Audit, Compliance & Policy Management, IT GRC and Sustainability Performance Management. Each solution derived from the BWise integrated Governance, Risk management, and Compliance Platform supports the end-to-end process of a given role.

Role		Professional	Advanced
Gerard Parker — Chief Risk Officer (Risk Management)		BWise® Risk Management Professional	BWise® Risk Management Advanced
Michael Bauer — Corporate Group Controller (Internal Control over Financial Reporting)		BWise® Internal Control Professional	BWise® Internal Control Advanced
Ann Green — Internal Auditor Internal Audit (IA)		BWise® Internal Audit Professional	BWise® Internal Audit Advanced
Jackie McLaren — Compliance Officer (Compliance & Policy Management)		BWise® Compliance & Policy Management Advanced	BWise® Compliance & Policy Management Advanced
Damian Thomson — Chief Information Security Officer (IT GRC)		BWise® IT GRC Professional	BWise® IT GRC Advanced
Kim Lee — VP Corporate Sustainability (Sustainability Performance Management)		BWise® Sustainability Performance Management Professional	BWise® Sustainability Performance Management Advanced

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