

Milliman Solvency II Readiness Assessment Tool First industry survey: Ireland – Life Assurance

July 2014



We asked companies using our Milliman Solvency II Readiness Assessment Tool to share their current levels of preparedness with us to gauge how companies are faring in meeting the key requirements of Solvency II.

INTRODUCTION

Milliman developed the Solvency II Readiness Assessment Tool to help companies prepare and plan for Solvency II. The tool is designed for life and nonlife direct writing and reinsurance companies, and it:

- Provides companies with a clear assessment of the status of the organisation's Solvency II project across key areas
- Includes separate assessments of readiness for both the Preparatory Guidelines and full Solvency II implementation
- Identifies work remaining in key areas and assists with project planning
- Is an easy-to-use reference tool with automatic links to the latest Solvency II regulations
- Enables benchmarking against industry best practice

The Milliman Solvency II Readiness Assessment Tool allows companies to rate themselves using a range of detailed questions covering the full scope of Solvency II. A score of 5 identifies areas that are 100% ready, whereas a score of 1 identifies areas where no progress has been made.

SURVEY

Thirteen life companies based in Ireland shared their current levels of preparedness with us and we have consolidated the results to give an overall idea of the issues facing companies.

This survey was taken during the first six months of 2014, noting companies continue to prepare and continue to improve their preparedness "scores"

The average scores for the various strands are set out in the table in Figure 1 below.

PILLAR 1 SURVEY RESULTS

Based on our survey, we believe companies are making good progress on meeting Pillar 1 requirements, with average scores ranging from 2.7 to 3.8.

Particular issues identified by companies include:

- Improving controls and documentation around the calculation of technical provisions.
- Implementing the volatility and matching adjustments to discount rates, and dealing with the complexities of contract boundaries and the risk margin calculation.
- Improving controls around data quality, including developing a data policy and directory, and a formal system of data quality assessment.
- Independent validation of the calculation of technical provisions and Solvency Capital Requirement (SCR).
- Increasing the involvement of the Board in the review and approval of the various aspects of Pillar 1.
- Meeting the requirements of the look-through of investment funds for the calculation of the market risk SCR.
- Formalising the assessment and approval of simplifications used in Pillar 1 calculations.
- For companies planning to use Internal Models, the issues identified included: the development of the model change policy, meeting the requirements of profit and loss (P&L) attribution, validation standards, documentation standards, and the 'use test'. Ensuring that the additional responsibilities are met of the risk management function in relation to internal models was also identified as a challenge.

PILLAR 2 SURVEY RESULTS

Companies are making good progress on meeting Pillar 2 governance and risk management requirements, with average scores ranging from 3.6 to 4.0. We expect that the measures introduced by the Central Bank of Ireland in recent years in the areas of corporate governance and fitness and probity are significant contributing factors. Particular issues identified include:

- Development of Solvency II policies including Capital Management, Remuneration, Internal Control and Risk Management.
- Development of a Capital Management Plan.
- Particular challenges identified for the Actuarial Function included producing the new actuarial report for the Board, and opining on the adequacy of reinsurance arrangements.
- In relation to the requirements of the Risk Management System, issues identified by companies included: developing a policy on asset-liability management, which addresses the impact of the various interest rate adjustments; and, ensuring adherence to the Prudent Person Principle.

A wide range of issues were identified in relation to the Forward-Looking Assessment of Own Risk (FLAOR, the preparatory name for the Own Risk and Solvency Assessment, or ORSA), which is not surprising as this is a new requirement. The average score was 2.7. Issues identified included: projections capability, defining stress and scenario tests, documentation, checking and evidencing continuous compliance, assessment of company-specific risk profile relative to the SCR assumptions, and independent validation.

PILLAR 3 SURVEY RESULTS

The Pillar 3 reporting and disclosure requirements were identified as the areas requiring most effort to meet the Solvency II requirements, with average scores ranging from 1.4 to 2.0.

Few companies have yet prepared drafts of the narrative for the Solvency and Financial Condition Report (SFCR) or the Regular Supervisory Report (RSR).

There are particular challenges in obtaining the detailed data required for Pillar 3 reporting. The data required for the look-through of investment funds was identified as a particular issue for some companies.

Some companies have started work developing the quantitative reporting templates (QRTs), but many have not. There are technological challenges in

relation to the automation of reporting and XBRL tagging.

OTHER FINDINGS

Solvency II will have an impact on most strategic areas of the business including: product pricing and business mix, corporate and capital structures, and investment and risk management strategies. Some companies have started to consider the impact on these areas, but further work was identified. The average score was 3.1.

CONCLUSIONS

Companies are within 18 months of the full implementation of Solvency II, and must also meet the requirements of the Preparatory Guidelines for Solvency II over 2014 and 2015.

We expect that the main area of focus for companies over the remainder of this year will be the development of their FLAOR/ORSA for submission in 2014.

We believe companies face challenges in preparing for the very time-consuming process of producing the Pillar 3 reports and QRTs and this seems to be evidenced by the lower readiness scores in this area.

Figure 1: Survey of 13 Life Companies During the First Six Months of 2014

 Solvency II Readiness Assessment Tool, Benchmarking

Summary - Full Solvency II		Weighted Average
Pillar 1	P1 - Assets and Liabilities	3.8
	P1 - Technical Provisions	3.0
	P1 - Data Quality	3.1
	P1 - Assumptions	3.6
	P1 - Own Funds	3.4
	P1 - Capital Requirements	3.6
	P1 - Internal Models	2.7
Pillar 2	P2 - Governance	4.0
	P2 - Risk Management System (RMS)	3.6
	P2 - Own Risk and Solvency Assessment (ORSA)	2.7
Pillar 3	P3 - Solvency and Financial Condition Report (SFCR)	1.4
	P3- Regular Supervisory Report (RSR)	1.4
	P3 - QRT - Annual Solo	1.9
	P3 - QRT- Quarterly Solo	2.0
Other	O - Strategic Considerations	3.1

Key - Level of readiness

1	1 = No progress has been made
2	2 = Some progress made but a lot of work still required
3	3 = Partly progressed
4	4 = Significant progress made but some minor work still required
5	5 = Fully implemented to meet all requirements

HOW MILLIMAN CAN HELP

Our consultants have been involved in advising our clients on Solvency II issues since its conception. We have undertaken a wide range of work for clients across all three Pillars of Solvency II including:

- Extensive experience of modelling of technical provisions and SCR calculations
- Assisting with the design, calibration, validation and documentation of Internal Models
- Providing Solvency II training courses for senior management and directors
- Design and implementation of Risk Management Systems and Own Risk and Solvency Assessment
- Identification of reporting requirements
- Milliman also has a range of software available to support companies in their implementation of Solvency II including:
 - Vega: An automated Pillar 3 reporting and standard formula aggregation system ([link](#))
 - Solvency II Readiness Assessment Tool ([link](#))
 - Navi: A liability proxy modelling tool ([link](#))

As a result, we have a wide range of experience that can be brought to bear to benefit your business. Above all, we remain focussed on efficiency and practical delivery.

ABOUT MILLIMAN

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit:

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CONTACT

If you have any questions or comments on this briefing note or would like to arrange a **free demonstration** of our Solvency II Readiness Assessment Tool®, please contact any of the consultants below or speak to your usual Milliman consultant.

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