

Executive Briefing

Solvency II

Data Quality Requirements within Solvency II Compliance

Introduction

Data Quality is one of the main pain points of Solvency II as it needs to be proven to the FSA to be of an acceptable standard and to be maintained at that level. This paper aims to deliver a summary analysis of the data quality requirements in Solvency II and actions needed to ensure your organisation is prepared. It aims to help you both in preparation before the regulations are enacted and in ensuring the most cost efficient, responsive and practical ongoing compliance regime once Solvency II is live.

What is Solvency II?

EU (re)insurers with annual premiums of more than €5 million or with technical provisions of more than €25 million will be required by 2012 to conduct their own risk and solvency assessment (ORSA). This must include compliance on an ongoing basis with the Solvency Capital Requirement (SCR).

To calculate the Solvency Capital Requirement, companies can use either the standard formula or their own internal or semi-internal model. The challenge under Solvency II will be to demonstrate to the Regulator that the model meets exacting statistical standards including data quality, calibration, validation and documentation requirements.

The legislation is broken into three pillars of implementation. Pillar I – Financial quantitative requirements, Pillar II – Qualitative supervisory review and Pillar III – Reporting disclosure requirements. Data Quality is a particular focus of Pillar II and the onus is on the insurer to prove their data is accurate for the ORSA.

Article 86f of the Directive dictates that data needs to be appropriate, complete and accurate. The following are the specific Solvency II criteria for Data Quality:

- 3.8 Data is considered to be **appropriate** if it is suitable for the intended purpose (e.g. the valuation of technical provisions, setting of assumptions) and relevant to the portfolio of risks being analysed (i.e. directly relates to the underlying risk drivers).
- 3.11 Thus, data is considered to be **complete** if it has sufficient granularity to allow for the identification of trends and the full understanding of the behaviour of the underlying risks.
- 3.14 Data is considered to be **accurate** if it is free from material mistakes, errors and omissions.

Proving the Quality of Data to the Regulator

Within the Solvency II directive data must be **proven** to be of a high quality standard for the Risk Assessment Model to even be approved by the Regulator. Data must be accurate, complete and appropriate (article 86f above).

Leading analysts in the area of Solvency II have suggested that companies need to be 'Solvency II ready' by the end of 2011 as they will need one year to test the applicability of their model. This is particularly relevant in cases where the company has multiple systems or sources of

data as this will take longer to implement and test.

While a company may handle some upkeep of data quality in-house, **this is unlikely to be adequate to prove cover of the directives in Solvency II and satisfy the Regulator.**

For example, in the document by CEIOPS, 'Advice for Level 2 Implementing Measures on Solvency I', CEIOPS state that the process of monitoring data quality should be based on data quality performance indicators along with expert judgment in the analysis. This degree of analysis and recording KPIs would be very difficult to attain with manual/in-house processing. Insurance companies need a professional Data Quality tool which will enable them to profile, standardise, reformat and scorecard data coming from multiple systems in various currencies and languages. Organisations need to be proactive and not reactive in their approach to Data Quality or they could be setback in their implementation of Solvency II for 2012.

As the Insurance companies need to prove the quality of their data to the Solvency Regulator, the first step will be to have a sample of their data analysed by a Data Quality provider to show the extent of anomalies that need to be addressed. Then a solution will be created to validate, re-engineer, deduplicate and correct data. Data in this instance can be any or all of the following: policy holder, premiums, underwriting and claims data as well as financial records and capital market information.

The Datactics Product Suite can help meet these requirements by providing a data quality solution that will enable them to:

- a) Investigate the accuracy and completeness of data by profiling
- b) Resolve Data Quality issues found such as removing redundancies, de-duplicating and reformatting data
- c) Enable the continued quality of the data with a Data Quality Firewall to ensure that inaccurate data does not enter the model
- d) Continually monitor Data Quality

Datactics and Solvency II – Fixed Price Model

The traditional approach to such a major change in compliance usually involves a vast amount of consulting support and high levels of spend on technology and solutions (software, people and ongoing support). The problem is that even if the initial result is achieved the ongoing costs start high and then grow.

We understand that solutions providers are quoting figures starting at as much as £250K for a Data Quality Solution to begin this process of Solvency II compliance for their clients. Datactics takes an entirely different (but well proven) view of this problem and can deliver the required results with lower overheads AND at an order of magnitude lower cost.

Datactics can deliver a Data Quality Solution for Solvency II on a fixed price basis, at a lower initial cost than the market expects and, it also provides for highly efficient and non disruptive compliance moving forward. Our pricing model reflects your business model. Your Solvency II Data Quality solution can be paid out of premium income – rather than capital.

Dataactics v4

Dataactics v4 is a set of high performance applications to enable you to solve your data quality issues. It is designed to be used by your own staff such as business analysts, data stewards, application developers, and system administrators.

It does not require specialist support or consulting assistance.

We can train your analysts to build and then run their own projects within the organisation for a fraction of the price of other suppliers. These projects can deliver Solvency II compliance quickly and you control the ability to manage and adapt as needs or directives change.

Dataactics v4 can provide the initial cleanse of the data warehouse as well as implement Data Quality Firewalls on all sources of data entry to prevent inaccurate data from entering the warehouse. For more information on the Solvency II solution visit www.dataactics.com/Resources/solution-fact-sheets

Dataactics has already run Data Quality projects with major insurance players like AIG, FBD and Ark Life. In the broader market we have also worked – and delivered – for the likes of Royal Philips Electronics, Terex and Bank of Ireland. We specialise in complex, large scale Data Quality, scorecarding and reporting activities. We are on the radar of several of the world's leading analyst groups.

Call us today or visit our website for more information on just how we can help you comply with Solvency II while improving your overall Data Quality...

This paper is the third in a series on Data Quality as it relates to business challenges and value. Read in conjunction with the other Executive Briefings, this document will provide you with an understanding of a faster, more effective and efficient route to compliance.

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