Strengthening risk and capital management through better quality data – Acord Roundtable

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Agenda

- What Solvency II says about data?
- The need for coherent data
- Key challenges
- Market views
- Best practice approaches
What does Solvency II say about Data?

“Undertakings shall establish their own policy on data quality.”

“The undertaking specifies its own concept of data quality.”

“The undertaking shall perform regular data quality checks.”

“Data used for the internal model shall be accurate, complete and appropriate.”

“Internal Model Validation Process shall (...) include an assessment of the accuracy, completeness and appropriateness of the data used by the internal model.”

“Undertakings shall compile a directory of any data used to operate, validate and develop their internal model. In doing so, they shall specify in detail the data source, its characteristics and usage.”
The need for coherent data

Solvency II data requirement

An assessment of the quality of data should be carried out on the basis of three criteria: appropriateness, completeness and accuracy.

- **Accuracy**: The degree of confidence that can be placed in the data. Data must be sufficiently accurate to avoid material distortion of the model output.

- **Completeness**: Databases provide comprehensive information for the undertaking.

- ** Appropriateness**: Data does not contain biases which make it unfit for purpose.
Key data challenges

Solvency II poses some major challenges for insurers:

- New data requirements for internal and external reporting (insurance, market, liquidity, credit and operational risk data)
- Increased emphasis on robust processes for data collection, extraction, validation, cleansing and reporting
- Major storage requirement for historical data eg historical lapse rates, historical deviation on mortality tables, technical basis of each product
- New data models / dictionaries will need to be defined
- Data architecture / strategy required
- Data governance and management to enable data to be managed in new ways
- Need to resolve data quality issues

Lessons learnt from Basel II

- Majority of Basel II expenditure was on the technology to capture data / process / report data
- Data underpins all aspects of Solvency II
- Data is on the critical path for compliance with Solvency II
Market views

- For a long time, Solvency II was seen as a technical (actuarial) issue
- Insurers are taking the issue of data quality seriously and recognise the issue — but aren’t yet fully aware of the potential impacts
- Work is taking place as part of the pre-application process — firms need to have a plan showing how they will meet the data quality requirements in time for Solvency II
- Lack of definitive / clear guidance on:
  - The Directive states that each organisation must derive its own definition of data quality
  - Scope of data for Solvency II
  - Standards for data quality — opportunity / role for ACORD?
- Systems and data workstreams in place — focusing on gap analysis, policy definition and shaping of data governance framework
- Initial focus is to map and understand the data and data/system architecture given the long lead times to make changes.
- Limited quality resource available in the market place

Findings from work to date

- Lack of defined Solvency II data strategy
- Unstructured, non-financial data causing difficulties
- Long cycle times to obtain data and significant manual intervention
- Data residing ‘off-system’ — such as spreadsheets and other workarounds
- Duplicate data is stored within inconsistent understanding of data leading to incorrect usage
- Poor remediation processes leading to inconsistent data
- No-one version of the truth

- Iterative approach to managing deliverables — necessitated by movement in internal requirements, and final CEIOPS / Supervisory guidance not due until the end of 2010.
- ‘Data ask’ is a moving target — CEIOPS & ABI field testing implies that numerous (CP58) reports are now out of scope, whilst new reports emerge
Best practice approaches

Group Business & IT Strategy

Group Solvency II Strategy

Pillar I

• Establishes Groupwide Internal Model input data standards
• Introduces common governance & control framework to monitor Internal Model data quality
• Creates ‘data directory’

Pillar II

• Defines standards which apply to inputs to ORSA / Use Test
• Integrates Data Governance with Corporate and Risk Governance

Pillar III

• Defines data quality standards for those Disclosure data items also used as Internal Model inputs
• Opportunity to define Group standards for all Disclosure data
• Defines data storage requirements

Data Policy

• Establishes ‘own concept of data quality’
• Builds ‘data directory’
• Applies Data Policy governance controls to Internal Model

Data Quality

• Includes Risk Management data in directory where required for Op Risk modelling
• Catalogues data required for Use Test / ORSA (where numerical)
• Applies Data Policy governance controls to Use Test / ORSA

• Catalogues data required for SFCR / RTS / QRT reporting
• Applies Data Policy governance controls to Disclosure data

Systems Strategy

• Selects & implements Internal Model software / hardware solution
• Aligns existing capital modelling IT requirements with Solvency II
• Maps data flow provision to business process

• Selects & implements Risk software / hardware solution
• Supports Use Test / ORSA reporting
• Maps data flow provision to business process

• Selects & implements Disclosure reporting solution
• Develops & implements data management solution, including storage & processing
• Maps data flow provision to business process

Country Unit Solvency II Programme

Country Unit Business & IT Strategy
Best practice approaches

Data Policy

CP56 Requirements
- Clear concept of data quality & how to apply
- Data quality checking and validation processes must be clearly laid out as well as the process for remediation
- Any quality issues

LoB 1
Claims 1

Other

LoB 2
Claims 2

Other

LoB 3
Claims 3

Other

SII
Systems Strategy

General Ledger
Non-EEA Entity
Other

Figure = number of questions per data item

- Level of expertise required increases
- Accuracy improves
- Complexity increases
- Increased workload

Purpose
- Core data governance tool
- Establishes requirement for "own concept of data quality" and data directory

Key considerations
- Clearly state the target audience
- Ensure the scope is clear (i.e. which entities are subject to its terms)
- Don’t cut and paste from the CPs – do interpret for your organisation
- Clearly show mandatory vs. advisory elements
- How will it be enforced as a BAU policy?

Data Quality

Data Policy

Goal / Business Considerations:
- Policy must clearly state
- Who are the intended audience
- What is scope of the policy (entities, data, functions, roles)
- What are the mandatory requirements (as opposed to guidance and against which entities will be audited)

Purpose
- Defines "data quality" for own data – for use now and later data quality assessments
- Builds data directory

Key considerations
- Is there an opportunity to extend scope of directory / DQ Framework beyond the Internal Model?
- How will the DQ Framework be presented to regulators?
- Data directory ease of use / access /storage

Project Management

Effective and consistent workstream management aligned to the SII programme

Clear and unambiguous communications with stakeholders

Appropriate controls and governance structures
Presenter’s details

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