

Getting the balance right

Countdown to Solvency II

Preparing and managing documentation under Solvency II

April 2011



pwc

Your documentation is the public face of your Solvency II programme. It helps you to make a convincing case to your supervisor that your capabilities and approach are fit for purpose. How can you provide the right kind of documentation to demonstrate compliance without swamping your business in needless paperwork?

The amount of evidence and record-keeping needed to demonstrate the compliance of governance, risk management, data quality and other core elements of your Solvency II programme is daunting enough. For insurers looking to use an internal model, the requirements are even more formidable. In the UK, for example, the prescribed 'contents of application' for internal model approval encompass 70 to 90 categories, depending on

the size and nature of the business, with each category requiring multiple pieces of supporting evidence. In a list that ranges from technical specifications and the model validation plan to a detailed exposition of your risk management strategy and processes, the headings outlined in Figure 1 provide some indication of the scale of the required documentation. The technical manual alone could run to up to a thousand pages.

Figure 1: The scale of the task

Chapter headings in the UK Internal Model Approval Process (IMAP) Contents of Application (d-n)

- d) The results of the latest Own Risk and Solvency Assessment (ORSA) and details of the undertaking's business and risk strategies.

- e) Scope of application for full and partial internal models and model coverage.

- f) Risk management process and risk profile.

- g) Tests and standards: use, statistical quality, calibration, profit and loss attribution, model validation, documentation.

- h) Technical characteristics of the internal model.

- i) External models and data.

- j) Model governance, systems and controls, including documentation and a copy of organisation charts.

- k) Up-to-date independent review/validation report.

- l) Policy for changing the full and partial internal model (Article 115) and other policies for internal model governance.

- m) Plan for future model improvement.

- n) Capital requirement.

Source: UK Financial Services Authority

The scale of the task is made all the more difficult by the fact that many insurers are only just getting round to documenting the model development and other implementation work they've been carrying out for many months, if not years. Even if all the necessary paperwork is ready in time for the initial compliance deadline, there's still the challenge of making the management of all this documentation a workable part of business as usual.

So how can you gather the evidence you need to make a clear and compelling case to your supervisor, and how can you manage documentation in a sustainable, systematic and cost-efficient way?

Production: Less is more

The first issue is production, which includes the quality, content and presentation of your documentation. The most common pitfall is generating more documentation than is actually necessary or, as some companies are doing, documenting pretty much everything related to their Solvency II programme. The results are turning what's already a fairly sizeable stream of required paperwork into an

uncontrollable torrent. This will not only make it harder to focus attention on the salient evidence needed to demonstrate compliance, but will also create a whole lot of needless extra work and cost – it's tough enough, don't make it any harder. So it's vital to step back and articulate exactly what evidence is necessary for each aspect of Solvency II. This will allow you to cut out the 'noise' of documentation and go straight to what is needed.

A large chunk of the evidence and information you require – in some cases up to a third – may already be available. Examples might include risk and audit policies, along with board minutes outlining discussions about risk or the processes for the internal audit of key functions. The main consideration is how

to locate and marshal all this information. A further chunk will be being produced as part of the implementation programme. Examples might include the actuarial description of how your model works or the justifications for the assumptions being used. The main consideration is how to make sure the production of this documentation is systematic, up to date and subject to proper controls. With so much paperwork being generated in different parts of the organisation, it's also important to make sure there is proper coordination and a consistent look and feel for the documentation.

While there will be further evidence and records that will need to be produced from scratch, making best use of what you already have will help to target resources more effectively. One useful way of focusing the production effort is to validate your model as it's being developed. Validating as you go will give you a clearer idea of what evidence is required and when you can safely stop and move on to something else. If you wait until later, it will be less evident what you've done and why, and you'll end up having to produce extra documentation just to make sure you have enough. This approach also helps to identify areas where no additional evidence is needed other than making sure the processes are auditable. For example, you could validate much of the parameterisation of the model by giving evidence of the internal peer-review, challenge and sign-off processes, rather than creating additional documentation to justify assumptions that have already been subject to internal review. A key challenge that could greatly cut the workload is to ask whether it's really necessary to create a 100-page document, when a 10-page document (backed up by auditable processes) might be equally acceptable. Smaller documents take less time to create, less time to review and less time to sign-off, as well as being easier to update and maintain in the future.

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Maintenance and management

The ongoing issue is maintenance, which includes oversight, control and organisation of the documentation. Once Solvency II is up and running, you'll still face the challenge of keeping the relevant documentation up to date and cross-referencing it with other business records and policy developments as necessary. For example, you might alter your underwriting limits or adjust your risk appetite to allow you to take advantage of a new market opening. These changes should be reflected in the documentation that's presented to supervisors to comply with the model change standards; otherwise the organisation risks regulatory push-back, as models and business practices get out of sync.

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Making this process efficient and effective requires a central library of documentation that combines business records such as accounts and board minutes with the paperwork needed for Solvency II compliance, along with the people and resources to maintain this (see Figure 2). If your company decides to set up an operation in Vietnam, for example, the librarian can bring together the board minutes showing how the risks were discussed and the risk analysis that supported this, and then make sure the Solvency II paperwork is updated accordingly. Document management tools are essential to facilitate this. It can also be useful to set up an intranet facility

to make sure that relevant decisions and changes in the risk appetite/profile are tracked and recorded within the central repository.

Benefits for the business

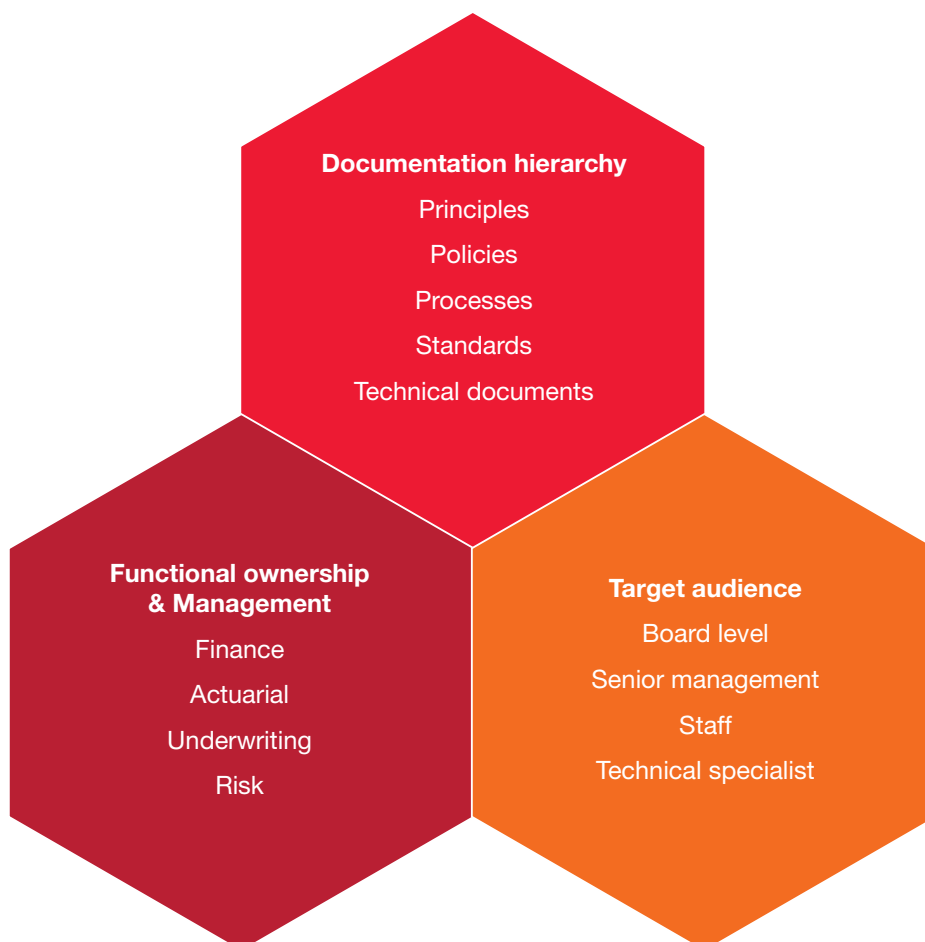
Documentation is often synonymous with red tape. In fact there could be valuable business benefits in anchoring risk analysis, risk management and business planning in a more systematic, controlled and comprehensive approach to documentation. Good record-keeping makes it easier to track, evaluate and validate model outputs and will therefore help to enhance their credibility within the business. Solid documentation can also help to assure supervisors that Solvency II compliance and the effective risk understanding and control that underpins this are well embedded within the business. The result is likely to be swifter and more straightforward supervisory approval in the lead up to the implementation deadline and less intense supervision thereafter.

Solid foundation of documentation

Just because something is written down does not make it right, but the discipline of documentation does reduce the risk that it's completely wrong. Systematic record-keeping and clear documentation will not only allow you to demonstrate that your business meets specific requirements under Solvency II, but will also show that your organisation is subject to a robust overall framework of governance and control. In short, the public face you present will be one that inspires confidence.

While there's a lot of paperwork required, less is still more. It's important to articulate the case you want to present to your supervisor and to review what evidence is needed to make this convincing. It will also be important to develop a sustainable framework for managing this important documentation, which makes it accessible to those who need it, keeps it under control and allows you to maintain it beyond day one compliance.

Figure 2: Building documentation into business as usual



Giving you the edge

PwC is helping a range of insurers get to grips with the practicalities of Solvency II implementation. If you would like to know more about meeting the documentation demands of Solvency II, please contact:



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