

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

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This update shows how companies that are using our Milliman Solvency II Readiness Assessment Tool are faring in meeting the key requirements and approaching deadlines of Solvency II. Some important remaining challenges are also highlighted.

INTRODUCTION

Eleven of the Irish life insurance companies using Milliman's Solvency II Readiness Assessment Tool shared their current levels of preparedness for Solvency II with us. The results have been consolidated and compared to the previous survey to help gauge how companies' level of readiness is developing, and to highlight the challenges that remain to be addressed.

The average scores for the key areas of Solvency II are set out in the table in Figure 1 below along with a comparison to the average scores from our first survey. Some changes in scores are due to the different companies participating so care should be taken when interpreting the results.

In general, companies' readiness is increasing across each of the three Pillars of Solvency II. However, with less than twelve months remaining until Solvency II goes live, the survey indicates that a significant effort is needed to close the gap, particularly in the area of Pillar 3 reporting.

PILLAR 1 SURVEY RESULTS

Companies continue to make steady progress towards meeting the Pillar 1 requirements, with average scores ranging from 3.0 to 3.9 out of 5 (where 5 out of 5 represents 100% ready). Particular challenges identified by companies include:

Assets & Liabilities

- Developing appropriate methods for the valuation of assets and liabilities where there is no appropriate market price.
- Reviewing the approach to the valuation of reinsurance assets.
- Ongoing documentation of procedures for the valuation of assets and liabilities.

Technical Provisions

- Improving / developing controls and documentation for the calculation of technical provisions.
- Interpretation and implementation of contract boundaries in Technical Provisions, and related impact on expense assumptions.
- Independent validation of the calculation of Technical Provisions.

Data Quality

- Improving controls around data quality, including updating / developing a data policy and directory, and a formal system of data quality assessment.

Assumptions

- Demonstrating the credibility of data used in deriving the assumptions for the calculation of the Technical Provisions.
- Allowance for, and validation of, assumed management actions.

Capital Requirements

- Developing methods to monitor Own Fund and Capital requirements on an on-going basis.
- Processes to monitor whether the risk profile has deviated from the assumptions underlying the Solvency Capital Requirement (SCR) calculation.
- Meeting the requirements of the look-through approach for investment funds for the calculation of the market risk SCR.
- Validation of the allowance for the loss absorbing capacity of deferred taxes.
- Independent validation of the SCR.

PILLAR 2 SURVEY RESULTS

Companies have shown solid progress on meeting the Pillar 2 requirements with average scores ranging from 3.4 to 4.2 out of 5. A significant improvement was shown in the ORSA / FLAOR (Forward-Looking Assessment of Own Risk, which is the name for the ORSA during the Preparatory Phase). This reflects that there has been a significant focus in recent months as companies were required to submit their first FLAOR to the CBI in 2014.

There were smaller advances in the areas of both the System of Governance and the Risk Management System.

Particular issues still needing attention include:

Governance

- Development of written policies pertaining to Internal Control and Capital Management .
- Updating and testing of Business Continuity Plans.

Risk Management Systems

- Improving procedures and policies such as: asset-liability management (including assessing the impact of the various interest rate adjustments); and liquidity and concentration risk management.
- Ensuring that the Prudent Person Principle requirements are met.
- Compliance with requirements relating to loss making products from different homogeneous risk groups, and the calculation of expected profits in future premiums ('EPIFP').

ORSA / FLAOR

The average score for the ORSA / FLAOR has increased from 2.7 to 3.4. However a wide range of issues remaining were identified including:

- Demonstrating Board input, challenge and understanding of the ORSA process and results.
- Improving / developing documentation of both the ORSA process, and the Internal Report that communicates the results and conclusions of the ORSA.
- Demonstrating continuous compliance with technical provisions and capital requirements.
- Assessing the appropriateness of the company's risk profile relative to the assumptions underlying the SCR.
- Independent validation of the methodology and assumptions used.

We note that many companies in the survey are currently using risk drivers, rather than a full calculation, for projecting future capital requirements.

PILLAR 3 SURVEY RESULTS

The Pillar 3 reporting and disclosure requirements remain as the area requiring most effort to meet the Solvency II regulations, with the average score ranging from 1.6 to 2.1. Although this is an improvement from the first survey (average scores ranged from 1.4 to 2.0) it underlines there is a significant amount of work still to be done this year.

SFCR & RSR

Few of the companies surveyed have prepared drafts of the Solvency and Financial Condition Report (SFCR) and Regular Supervisory Report (RSR).

For those who have started drafting, particular issues highlighted were:

- Describing the system of governance and assessment of its adequacy given the risk profile of the firm.
- Describing the company's Capital Management.

QRTs

Most companies have now started work to develop the quantitative reporting templates (QRTs), including carrying out data mapping exercises to assess where data will be obtained.

Particular challenges in obtaining the detailed data required for Pillar 3 reporting include asset information on: the look-through of investment funds; historical derivative trades; and return on investments.

Technological challenges were also identified in relation to the automation of reporting and XBRL tagging.

INTERNAL MODELS

Many internal model companies are focussed on completing the EIOPA IMAP Self-Assessment Template ('SAT') and we have therefore excluded internal model preparation from the survey results. Based on our work with internal model firms we note that the following challenges remain:

- Ensuring IMAP documentation is complete and can be mapped to the EIOPA SAT;
- Meeting the Use Test, both in terms of demonstrating the model is used in key business decisions, and ensuring adequate

Board training and preparation for the Use Test interviews.

- Linking the ORSA/FLAOR to the internal model.
- Ongoing model design and validation.

OTHER FINDINGS

Solvency II will have an impact on major strategic areas of the business. Most companies have considered the impact of Solvency II on areas such as Corporate Structure, Underwriting Policy and Capital Structure. Interestingly some companies do not currently plan to implement any material changes in these areas as a result of Solvency II.

Some companies have implemented Board and senior management training on Solvency II. However training needs were identified for employees not directly involved in Solvency II implementation to date.

CONCLUSIONS

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

Pillar 1 has seen good progress made but we expect there to be increased validation of calculations and also increased Board review and approval.

In relation to Pillar 2, the FLAOR reporting in 2014 has improved companies' readiness for the ORSA. However further work is required to refine the process, meet additional requirements, and improve documentation and validation of approach in 2015. Improvements in policies and procedures are needed in certain areas of the Systems of Governance and Risk Management, including addressing the Prudent Person Principle.

We expect that the main area of focus for companies over 2015 will be the development needed to meet Pillar 3 requirements. Companies have identified various challenges in preparing the new reports and disclosures and in the producing of the QRTs.

ABOUT THE TOOL

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

- 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 for the requirements, whereas a score of 1 identifies areas where no progress has been made.



Figure 1: Survey Results to Q4 2014

Solvency II Readiness Assessment Tool

Summary-Full Solvency II		Average Results from First Survey	Average Results from Second Survey	Change
Pillar 1	P1 - Assets and Liabilities	3.8	3.7	↓ -0.1
	P1 - Technical Provisions	3.0	3.7	↑ 0.7
	P1 - Data Quality	3.1	3.0	↓ -0.1
	P1 - Assumptions	3.6	3.7	↑ 0.1
	P1 - Own Funds	3.4	3.9	↑ 0.5
	P1 - Capital Requirements	3.6	3.6	→ 0.0
Pillar 2	P2 - Governance	4.0	4.2	↑ 0.2
	P2 - Risk Management System (RMS)	3.6	3.9	↑ 0.3
	P2 - Own Risk and Solvency Assessment (ORSA)	2.7	3.4	↑ 0.7
Pillar 3	P3 - Solvency and Financial Condition Report (SFCR)	1.4	1.6	↑ 0.2
	P3- Regular Supervisory Report (RSR)	1.4	1.6	↑ 0.2
	P3 - QRT - Annual Solo	1.9	2.1	↑ 0.2
	P3 - QRT- Quarterly Solo	2.0	2.1	↑ 0.1
Other	0 - Strategic Considerations	3.1	3.7	↑ 0.6

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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Milliman maintains a strong and growing presence in Europe with 250 professional consultants serving clients from offices in Amsterdam, Brussels, Bucharest, Dublin, Dusseldorf, London, Madrid, Milan, Munich, Paris, Stockholm, Warsaw, and Zurich.

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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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