

Opportunities offered by Solvency II

Controlling Insurance Companies on a Risk Basis

The successful control of insurance companies is currently a key industry topic due to new legal requirements. Areas such as financial accounting, business planning, and risk-adjusted control are changing rapidly. The impact of Solvency II, in particular, places higher demands on processes, reporting, and IT. So what optimization potential is still slumbering in the insurance industry?

Solvency II will regulate the insurance supervisory law uniformly throughout Europe. Venture capital needs will then be oriented toward the risk that insurance companies actually undertake and the risks of their own operations. This changes the financial supervision of insurance companies from a quantitative procedure to a qualitative assessment. The German Federal Financial Supervisory Authority (BaFin) has developed a new risk matrix for insurance supervision this year. When applied to insurance companies in Germany, this 12-field risk matrix shows that about 57 percent have high or medium-high business quality. But nearly one quarter of all insurers have only a medium-low or even low quality. This demonstrates just how great the need for risk-based company control is under Solvency II.

Solvency II – impact on IT

Solvency II impacts more than an insurer's controlling, actuarial, and accounting activities – as a study carried out by the international information provider, Datamonitor, clearly shows. IT departments, in particular, are called on to provide up-to-date and high-quality data. If insurance companies want to implement Solvency II successfully, they will require IT systems that are economic, flexible, and integrated to support future processes.

A preliminary analysis can be used to show the optimization potential in individual cases. SAP Consulting and the Business Consulting provide a Solvency II readiness check service for this purpose. This service includes an evaluation of the current Solvency II activities within an insurance company. The strengths and weaknesses profile identifies the areas in which targeted Solvency II activities should be carried out.

Traditionally, German insurance companies focus strongly on the first pillar (minimum capital requirement/solvency capital) of the Solvency II model, using the current German Insurance Association (GDV) model or company-specific refinements. The Solvency II readiness check concentrates mainly on the remaining pillars: internal and external checking procedures, and publicity requirements and transparency.

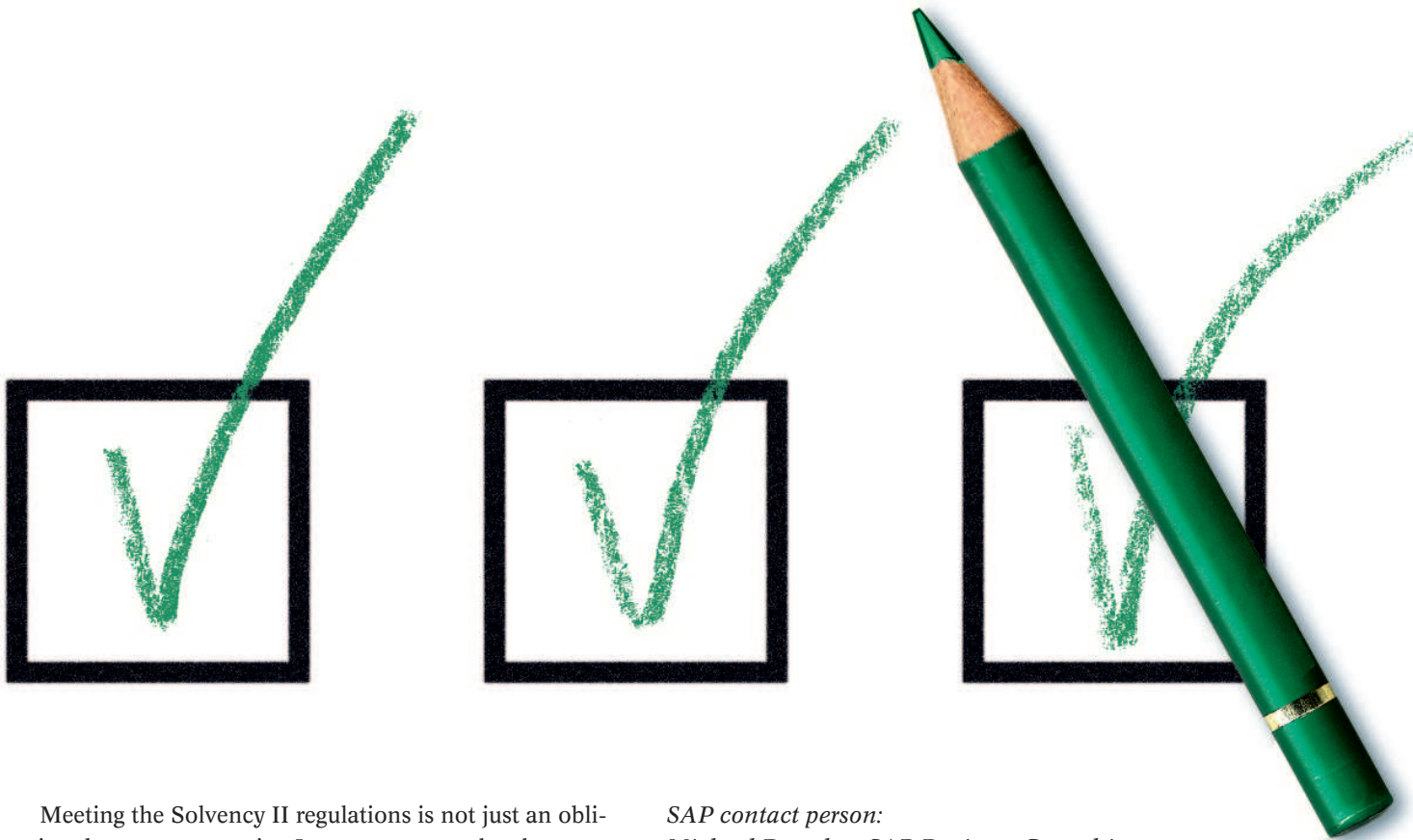
Assignment of the elements of the Solvency II readiness check to the three pillars of the Solvency II model

Based on the analysis and the strengths and weaknesses profile, a proposal is made for realizing existing optimization potential. Following pure Solvency II activities, it is then just a small step for a company to achieve risk-based business planning and control.

The goal is then to simplify company planning processes. An evaluation, as part of a quick check, identifies the advantages and disadvantages of the planning cycles in the company. The procedure is analyzed during the planning and the data acquisition, within reconciliation processes, and during consolidations. In addition, there is also an assessment of existing planning tools, the different groups involved, and the planning process triggers. As a result of this, recommendations are made for improving the planning processes.

Individual approaches required

There is no standard approach that applies to all insurance companies. The individual features of a company determine the path it must take to reach its goals. Three common methods are: Better Budgeting, Beyond Budgeting developed by the Consortium for Advanced Manufacturing International, and Advanced Budgeting from Horvath & Partners.



Meeting the Solvency II regulations is not just an obligation, but an opportunity: Insurers can use the chance to establish company-wide control to target business risks. They thus gain a favorable starting position versus their competition. The results of rating agencies, showing how economically and qualitatively insurance companies work, will influence the purchasing decisions of insurance customers even more strongly in the future. Insurance companies that score well in this field have clear advantages.

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Readiness check process flow

- **Assessing the existing risk model**
Which model (classic GDV model, modified GDV model, or internally developed model) is used? Are stress tests performed regularly in line with the criteria of the German Federal Financial Supervisory Authority (BaFin)?
- **Analyzing the risk organization**
Is there an official and active solvency/risk organization? What does this organization look like? What do the communication lines look like?
- **Depicting the existing/planned processes**
What are the triggers for the processes? Are the processes known to all involved? What do the escalation paths look like? How quickly can the company respond to changes?
- **Analyzing the data topic**
Is all data available with an adequate quality? Can the data be collected quickly and easily? Are there standardized data structures? Can the data be generated in parallel with the information for end-of-quarter or year-end closing?
- **Analyzing the system support**
Which evaluation tools are available? Can ad hoc reports be carried out easily? Can important key figures be called up quickly and in an up-to-date version (KPI cockpit)? Are any drill-down options available? Are the evaluation and processing systems interlinked, or are there integration gaps?

To ensure that a well-rounded result is produced, the analyses are evaluated both from the classic three-pillar viewpoint and from the perspective of other dimensions (such as organization and processes).