



QualityData AdvantageSM for Solvency II

Operationalizing Data Quality



The Solvency II Deadline is Coming Fast. Is Your Company Ready?

“Most respondents identified that data quality will be a significant challenge in the transition to Solvency II and therefore involve significant costs. It was also noted that developing documentation around existing and future actuarial models will be particularly challenging, with many respondents placing a great deal of importance on proportionality in this area.”

— Financial Services Authority,
Feedback Statement 09/1

With the Solvency II compliance deadline looming ahead, are you confident that your preparations for the new regulation are on track? Do these preparations include an assessment of the quality of the data processed for compliance and a program to achieve and maintain the requisite quality standard?

Does your Board have a data quality management program? Is it one that can be used to articulate and disclose both to regulators and the marketplace how risk management encapsulates your data and its quality? How confident are you about your data quality? Maybe 10%? Even 50%? At the same 99.5% confidence level you publically assert your solvency is sufficient?

While data quality has been a hot topic in the industry for years, operationalizing data quality—the implementation of a data quality strategy across departmental/organizational boundaries—continues to be a challenge for many FS organizations. By operationalizing data quality and implementing a risk management strategy for your data, your company can gain much more from a Solvency II project than compliant operations and mandatory reports. Solvency II presents an opportunity to improve the data quality infrastructure and produce strategic information assets for competitive advantage.

Solvency II Explained

Upcoming European Union (EU) legislation, Solvency II, will require that insurance companies implement a risk management system. Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. The fundamental purpose of this legislation is to protect policyholders and prevent a financial crisis in the European insurance industry.

The regime promotes risk-based, capital requirements formulated on the economic value of the total balance sheet. Insurers must implement sound economic risk management practices. Maybe this will ensure financial soundness of insurance companies and protect policyholders' interest. Maybe it will also increase competition in the EU insurance market. The intent is sound. Solvency II implementation is set for 1 November 2012 and rests on a three-pillar approach to risk management.

Solvency II should be viewed as the pathway to business transformation; an opportunity to integrate risk management and support better decision-making.

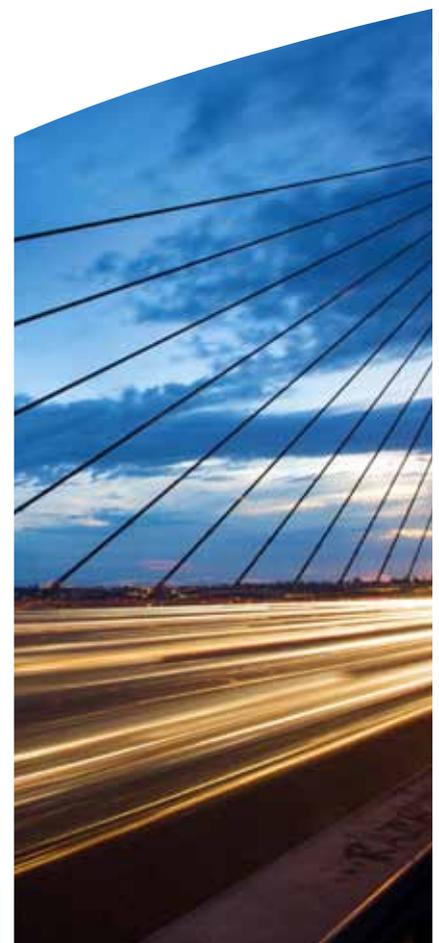
Quality Data Drives Quality Decisionmaking

Experience with Basel II compliance in the banking industry has taught us that aligning the Risk and Finance architectures delivers huge benefits—this doesn’t mean that Risk and Finance need to share the same database or platform. However, we have found that having a single “Data Model” is critical to success.

In addition, with Solvency II compliance, quality data will be paramount given the need for:

- Accuracy of economic capital computations and the ‘trustworthiness’ of management and regulatory reporting;
- Capital calculations require enterprise data, so you will need to unify and store data from all your business units and subdivisions;
- Adequate historical data is required for model validation purposes. An effective data sourcing strategy at the outset will avoid costly manual recovery at later stages.
- Risk and Finance data must be aligned to facilitate proper model back-testing.

Solvency II – A Tale of Three Pillars	
Pillar I – Quantitative Requirements	<p><i>Solvency Capital Requirement (SCR)</i> – a risk-based requirement and the key solvency control level. The SCR covers all the quantifiable risks an insurer or reinsurer faces and takes into account any risk mitigation techniques.</p> <p><i>Minimum Capital Requirement (MCR)</i> – a lower requirement whose breach triggers the ultimate supervisory intervention: the withdrawal of authorization.</p>
Pillar II – Qualitative Requirements	<p>Contains requirements on undertakings such as risk management and other supervisory activities. Insurance companies must proactively manage and integrate the risks determined under Pillar I into their operational processes.</p>
Pillar III – Transparency & Disclosure Requirements	<p>Covers supervisory reporting and disclosure to ensure market discipline and deals with the manner in which insurers report risks to regulators, policyholders and rating agencies.</p> <p>All insurers will be required to publish an annual report on their solvency and financial conditions.</p>



Capgemini's Approach to Solving the Data Problem Syndrome: Uncover the Weak Links

In delving into the “data problem”, our approach can help to uncover typical issues:

Typical Data Issues

- Incoherence between regional and global data and intra-region
- Inconsistent data standards across lines of business and asset/liability classes
- Opacity of data quality in the risk reports and capital calculation engines—‘garbage in, garbage out’
- Inadequate data controls, driven by inconsistent use of terminology
- Inaccurate risk measures
- Inability to guarantee correctness of valuation / risk models
- Manually intensive cleansing / fixing process
- Inadequate exception handling process
- Business logic unclear and hard-coded

Typical Governance Issues

- Incoherence between local and global data
- Incoherence between Actuarial, Risk Management and Finance data
- Incoherent data leads to inflexibility and errors as data ‘fixes’ are applied at Group level
- Inability to manage multiple stakeholder groups to deliver global consistency

Once you have uncovered your data “weak links”, facing data challenges head-on can help you to more quickly address these issues and strengthen your data quality position for Solvency II compliance.

Prepare for Some Potential Challenges

Working with financial institutions around the world, we have encountered some common challenges that insurers leading a Solvency II initiative should be prepared to address.

Executive-level understanding of risk

Executives must understand what major risks the business is facing and how those risks are being managed to allay concerns that regulators will not approve “internal models” without demonstrable quality.

Data availability and quality

Due to volume and complexity, data organization and planning typically represents a large percentage of a risk project’s cost. Data may not be readily available nor of good quality driving a lack of confidence in content of risk-management and /or financial reports and lack of real transparency in operational reporting processes.

Operational integration

Solvency II risk systems must be an integral part of an insurer’s daily management function to produce accurate, timely compliance reports for industry regulators all on a regular basis.

System accuracy, audit and control

Insurance companies must “recreate” results to regulators and demonstrate control over system security, change management capabilities and audit trails.

Multinational focus

Different languages, currencies and group supervision can present problems in multiple jurisdictions.

Operationalize Data Quality with Capgemini QualityData AdvantageSM

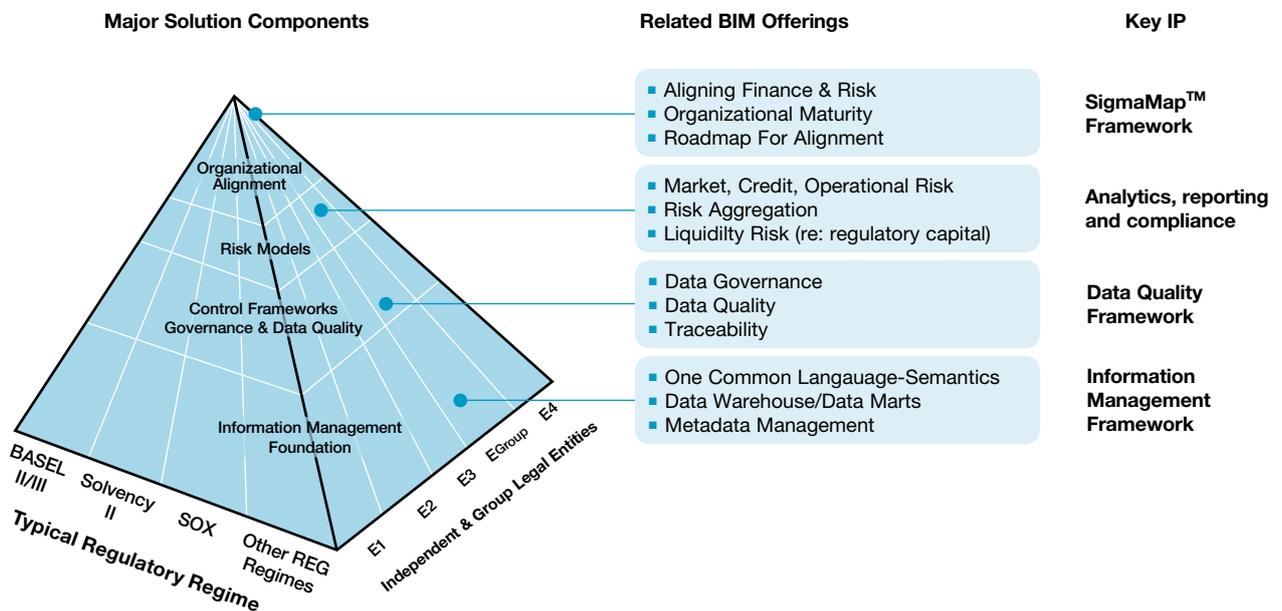
Capgemini can help you get a step ahead of the competition from start to end by plugging gaps in your Solvency II compliance using our proven **QualityData Advantage** solution. It's powerful. It's advanced. It's full of tools and flexible reporting frameworks, and it is also technology-systems independent.

Capgemini's QualityData Advantage is a best-practices solution for proactively managing and operationalizing data quality for strategic business advantage, as well as for compliance with today's banking, insurance and capital markets regulations. It's not just data quality—it's operationalized data quality.

Fundamental to the QualityData Advantage approach is acknowledgement that a successful data-quality initiative spans business and technology organizations; their individual operations, processes and applications. Improving—and *sustaining the improvement of*—data quality requires an ongoing program, not just periodic IT projects that apply data-profiling technologies.

The approach, methodologies, and tools comprising QualityData Advantage for Solvency II are designed to help insurers make fact-driven decisions that will improve data quality and governance, and consequently risk management and decision support.

The Capgemini Data Quality Pyramid: Building Blocks for an Integrated Data Quality Program



10 Capgemini Principles for an Operational Data Quality Program

1. Treat your data as a corporate asset
2. Know the meaning of your data
3. Control your data supply chain
4. Establish data quality accountabilities and responsibilities
5. Let data consumers define fit-for-purpose
6. Consider adjustments as data quality rule breaches
7. Don't incorporate data quality rules into application logic
8. Eliminate supply chain complexity wherever possible
9. Manage and organize your data domain knowledge
10. Monitor data quality across the entire data supply chain

It All Starts with Our People

With the extensive domain experience of over 400 risk professionals and 1,800 Business Intelligence specialists and best practices built in, you can address critical data quality issues faster and at a higher return on value. In addition to a global Risk Management and Compliance Center of Excellence, Capgemini has expertise delivering over 500 Risk & Compliance implementations.

Our Intellectual Property

We bring our market leading portfolio of Solvency II-specific tools that typically accelerate projects and reduce costs by 20%-40%, plus a standardized operational model that can be used across your organization beyond Solvency II for Human Resources and Customer Insights.

Our core capabilities with QualityData Advantage include data governance, integrated modeling, data acquisition framework, and data quality framework. In addition to our unparalleled risk and compliance expertise with our Sigma Map™ and ERM Maturity Framework, Capgemini has unmatched Intellectual Property. It includes proprietary tools for stress testing, loss forecasting, economic capital measurement, risk scorecards, RAROC algorithms. We are experts in fashioning data marts specially designed for risk management.

Our Track Record of Success with Basel Compliance

The Capgemini Solvency II offering applies data- management and change-enablement practices from practical experience helping banking industry clients achieve Basel II compliance. The Capgemini track record of success includes over 100 Basel projects in the last two years. We know how to team with your staff and help accelerate Solvency II initiatives.

Preparation is Everything

Careful and thorough preparation will put you at a great advantage as you make ready for Solvency II compliance in 2012. Capgemini's extensive experience with risk management and compliance projects has proven that a large part of the task at hand requires transparent, fully documented and auditable processes. One of the biggest challenges insurers face with Solvency II is not the capital requirements calculations, but the consistency and quality of data required to process these calculations.

IN PRACTICE: Capgemini has world class experience delivering Data Quality solutions for leading insurance and financial services firms

Solvency II program for largest multiline insurer in The Netherlands

Our client was required by regulators to implement Solvency II reporting at a group level by the end of 2010. To meet this deadline, our client needed to bring together disparate information from various divisions into a central data warehouse and reporting solution. Capgemini implemented a data quality program based on both industry and Capgemini proprietary best practices which helped the client map information from all divisions to a central model at the group level and establish requirements for the data warehouse, risk engines and Solvency II reporting.

Solvency II program for Insurance division of one of the largest financial services group in UK

To meet its Solvency II objectives, our client was struggling with the issue of obtaining group level quality data. Capgemini established a group level data quality program and provided Solvency II execution know-how and subject matter expertise, enabling our client to accelerate its program and reduce program costs.

Every journey begins with a first step. With Solvency II, that first step is assessing the quality of your financial data. By beginning now, you can gain competitive advantage by ensuring that your data quality meets the standard readiness of quality data for statistical analysis.

Be Our Guest

Join us for a complimentary QualityData Advantage Workshop for Solvency II to self-assess current data quality strengths and weaknesses in your financial information landscape. During this three hour workshop, we will jointly develop a data quality self-assessment score card that provides you with a reliable business case basis to achieve tangible data quality improvements.

Our goal is to interactively determine the negative impact of measurable data quality weaknesses on your business. How do these shortcomings increase risk, increase costs, decrease revenue, and lower confidence levels in your organization? At the end of this session, you'll have the answers.

To register for the workshop, mail us at businessinfo.fsgbu@capgemini.com.

To learn more about Capgemini's Data Quality and Business Information Services, visit us at www.capgemini.com/qualitydata or contact us at businessinfo.fsgbu@capgemini.com.





About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience™ is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and collaboration-

focused methods and tools. Capgemini utilizes a global delivery model called Rightshore® which aims to offer the right resources in the right location at competitive cost, helping businesses thrive through the power of collaboration.

Capgemini reported 2009 global revenues of EUR 8.4 billion and employs over 90,000 people worldwide.

More information about our services, offices and research is available at www.capgemini.com.