SAM focus

Helping insurers understand and manage change

Unpacking the data requirements under SAM

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Many insurers and reinsurers are focussing on the SAM data requirements mainly from a Pillar 1 perspective. There are however, critical data requirements across the SAM framework affecting all three pillars.

SAM data challenges

1. SAM has specific data management requirements to ensure the completeness, accuracy and appropriateness of data for risk calculations and capital requirements. There is also an added dimension around ensuring that data used is current and is reviewed at appropriate intervals.
2. Insurers and reinsurers (Insurers) will also need to source, manage, transform and disclose more information, in more granularity and in demanding timeframes.
3. Data is critical across all three pillars of the SAM framework and insurers will need to use various data management and data governance capabilities to overcome the SAM data requirements and challenges.
4. Insurers that rely heavily on spreadsheets, in particular in the finance and actuarial functions, will find it even more challenging to ensure and demonstrate data quality within their business functions.
5. Reliance on external data providers can compound the difficulties relating to data quality and governance. In particular many insurers are struggling to ensure that good quality asset information can be delivered by their asset data providers on time.
6. In many instances underwriting information is incomplete for SAM purposes, where the information is dependent on third parties, for example underwriting managers.

Pillar 1 challenges

7. Insurers can adopt the Standard Formula or alternatively have a range of options that grow in complexity: adopting user-specific parameters, developing a Partial Internal Model or a Full Internal Model.
8. These options may require a number of additional considerations, documentation burden and requirements including more stringent data governance and data quality requirements such as a data directory and a data policy.
9. New and more granular information will be required for the Solvency Capital Requirements (SCR) and Technical Provisions (TP) calculations.
10. Poor data quality can impact the integrity of the Pillar 1 calculations and the reliability of the numbers.
11. Insurers will need to evidence and demonstrate that data used for Pillar 1 calculations meets the data quality requirements. This includes having suitable procedures in place to monitor data quality and remediate issues appropriately.
12. Using approximations or assumptions where data is unavailable or unreliable is expected to increase capital requirements, e.g. using the default equity shocks where look through information is not available for investment funds.

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Pillar 2 challenges

13. Insurers will need to demonstrate that appropriate governance is in place and that their management structures have confidence in the data used for decision making.

14. Insurers must be able to explain the data used in the ORSA as well as controls that ensure completeness, accuracy and appropriateness of this data.

15. Generating and capturing data consistently for the purposes of monitoring risk exposures and events may prove challenging, especially for underwriting and market risk related data.

Pillar 3 challenges

16. More granular information will be required to complete the new Quantitative Reporting Templates (QRTs) as well as the public and private qualitative reporting requirements.

17. In addition, there is the added complexity and a challenge in demonstrating that data is auditable especially the linkage between data used in the models and the results of the numbers produced by the models.

18. Lessons learnt from European insurers under Solvency II have indicated that most insurers may have left it too late to determine the data impact of the Solvency II requirements, especially under Pillar 3. Many European insurers are struggling to complete the data sourcing for the QRTs in their preparations for the Solvency II go-live date.

What insurers should do next

19. Insurers do have a decision to make in terms of determining if they will treat the SAM data requirements as a 'compliance only' exercise or a strategic initiative (e.g. improvements to customer and underwriting data). This should be guided by the insurer's overall approach to SAM.

20. There are costs, benefits and corporate buy-in associated with either approach. Creating a robust data strategy up front will ensure that the appropriate amount of effort is invested into addressing the SAM requirements as well as to meet business' expectations.

21. The SAM legislation is still in draft and being developed in the form of position papers (PPs) or discussion documents (DDs), but the Solvency II guidance from EIOPA can be used to indicate the data challenges that will require time and effort. This could be augmented through guidance provided in PPs and DDs as well as the technical specifications in SA QIS 2.

22. The majority of insurers will have to perform an early assessment to determine what the guidance means in terms of ensuring adequate processes of data quality management are in place. This will entail either developing new or leveraging existing data management strategies, frameworks, processes and governance structures.

23. Insurers considering the development of capital requirement calculations beyond the Standard Formula should investigate whether they have sufficient data and data processes to support the requirements of developing an internal model.

24. Data quality is more than just obtaining the data. There are implications for processes, technology, roles and responsibilities, controls as well as ensuring appropriate documentation or evidence is in place or can be obtained. It is therefore important that insurers have a SAM data quality management framework.

25. Insurers should understand how and which data will get used, managed and transformed for SAM processes and where the key risks will lie. This will give an indication as to where key controls will be required.
26. Data quality management processes should be developed or enhanced to ensure that these controls can be monitored and that control failures can be identified and resolved, while ensuring supporting evidence is in place.
27. There is a need to work closely with internal and external audit to ensure that the data controls being put in place are pragmatic and fit for purpose.
28. Insurers should be aware of existing data issues and appropriate remediation projects should be put in place to close data gaps.
29. The SA QIS exercises can be used to refine insurer's actuarial models and ensure that the data required for the models can be sourced. These exercises can also be used to document how the data gathered to populate the QIS templates is obtained, is used and whether it is reliable.
30. Many insurers are already engaged with their data providers and initiating projects to change the way in which they receive and manage external information. Part of this also includes investment into new or enhancing existing data warehouse capabilities.
31. The data requirements for insurers go beyond SAM. Although IFRS 4 Phase II on insurance contracts have not been finalised yet it is likely that there will be some differences between the valuation basis of insurance contracts under SAM and IFRS. Insurers should therefore gain an understanding of the IFRS 4 Phase II proposals to ensure that the data requirements of both SAM and IFRS are addressed in their implementation programmes.

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The following link provides access to a range of thought leadership pieces produced by the firm on Solvency II.

http://www.pwc.com/gx/en/insurance/solvency-ii/index.jhtml