Bring top line growth and cost reduction to your businesses thanks to Solvency II
Challenges faced by the insurance industry

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Now more than ever, insurance companies are facing a variety of forces that make it difficult for them to compete in the global marketplace. These forces include slow industry growth, commoditised product offerings, pricing pressure from low-cost competitors, shifting channels for customer interactions, increased marketing spending, and demand for customer transparency. Insurers need to take action now by positioning for growth, optimising business processes, and managing risk.

To proactively combat these challenges, analytics and information management have emerged as major competitive advantages. **Insurers have gained competitive advantage by learning to use analytics to extract business value from data captured across the value chain:**

Shifting channels for interactions

Increased marketing spending

Pricing pressure from low cost insurers

Regulatory pressures

Slow industry growth

Commoditised product offerings

Insurers must leverage data to compete in the marketplace
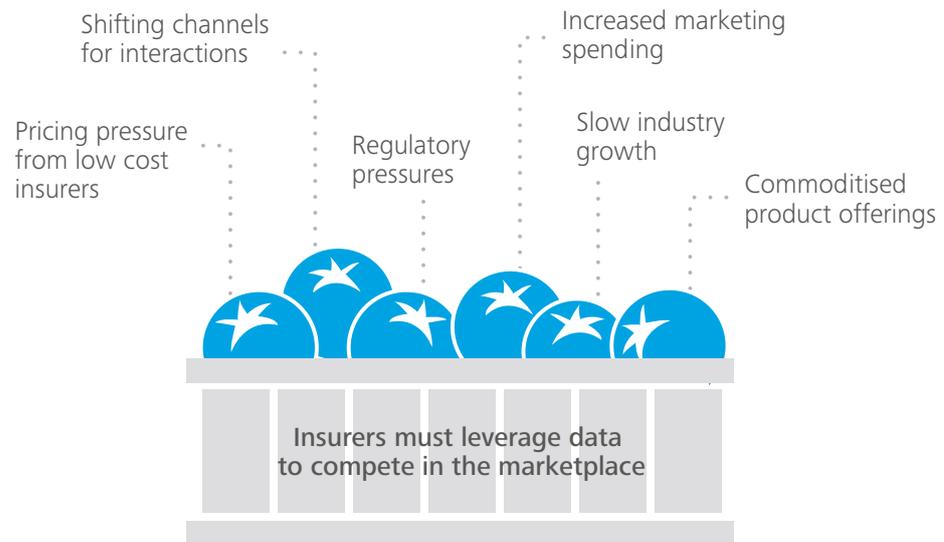
1. Underwriting

- Better segmentation of loss risks
- Optimise underwriting categories through better measures
- Increased underwriting efficiency

2. Marketing (lead generation/cross sell)

- Movement beyond traditional, likely to buy models
- Reduce marketing expenses by eliminating offers to those who will be adversely affected by the underwriting decision
- Improvement in loss exposure by selling only to best risks

3. Customer retention

- Identify compounding components of at-risk customers
- Develop, deploy data-driven intervention strategies
- Improved profitability through focusing retention efforts on the best risks

4. Product development

- Develop new, innovative and price-conscious products for selected populations

5. Customer lifetime value

- Deeper understanding of the lifetime value of customers
- Develop an aggregate present value of future profits for all customers across all product lines

6. Producer recruitment

- Analytic rigour applied to subjective process
- Rules-based candidate prioritisation

Despite an abundance of data, most companies are not well-positioned to translate their data into valuable insights.

- Instead of treating information as a strategic asset, many insurers maintain data in separate silos to support their underwriting, claims, billing, and other business functions

- Multiple versions of customer information and disparate data sources may be required to create a coherent, 360° view of the customer

- Disagreements between the business and IT on data definitions can create unwarranted complexities

- Often actuaries and risk managers use a mix of IT extracts from heterogeneous operational systems and various business-managed end-user computing files, causing reconciliation challenges, heavy headaches and lots of other issues. Furthermore, many manual adjustments are performed, often in a decentralised form causing significant losses of traceability. Data quality checks—when performed—are usually informal and data are not stored in consistent sets, making the reuse of a given input set extremely challenging

Finally, we all know how it might be challenging to start such a project in the current economic environment. But that is the case if you only look at the problem from a narrow perspective.

How to address these challenges leveraging on Solvency II investments

The insurance industry has, in recent years, been under the mounting pressure of regulations such as Solvency II. In a nutshell, Solvency II impacts on the way in which insurance companies manage their risks. It is a stringent regulation and has numerous repercussions on all company areas, e.g. capital, governance, processes, and systems. Consequently, data is an important and transverse topic in Solvency II. Furthermore, data is directly targeted by the Solvency II regulation as data are required to be accurate, complete, and appropriate, not to mention traceable. Unarguably, this is easier said than done. Especially since regulators will most likely take strict and severe sanctions. For instance, insufficient data quality will result in the insurer being forced to build and maintain additional capital in order to cover and build up a margin for potential errors in capital requirement calculations. As a result, prerequisites for meeting the Solvency II requirements are data governance and data control.

In order to comply with these requirements, different sophistication or maturity levels can be adopted:

Enterprise data warehouse

Reengineering processing auditability and traceability throughout a DWH architecture designed using a standard data enterprise model

4

Solvency II central repository

Reengineering of the process with automation of the quality processing auditability and traceability throughout a central repository architecture designed using the existing files layout

3

Document management approach

Reengineering of the process with manual operations for quality and automation of the file traceability and storage

2

1

Process approach

Reengineering of the process by adding manual operations (Quality check, Traceability, auditability)

Many companies have chosen to respond to it with a Solvency II specific solution (level 3 or below) without looking more broadly at how to benefit the enterprise and make a business case.

Indeed, architectures based on an enterprise data warehouse bring many benefits compared with the additional marginal costs they require:

- **For business lines**, because documented, audited, and high-quality data will be available for business intelligence, performance management and advanced analytics. This set-up will enable the typical ratio to be inverted, meaning that 80% of time is spent in data collection vs 20% remaining time in data exploitation

- **For actuaries and risk managers**, because the data required for Solvency II will be used on an operational basis. This will imply a step-up in quality thanks to the continuous quality monitoring and issue fixing. It will therefore shorten the closing timeline and let actuaries and risk managers focus on their core business instead of collecting data, fixing data quality issues, and documenting all adjustments carried out because of lack of data or of data quality

- **For IT**, because it will reduce the numerous and repeated requests for data extracts from all departments. It will also enable the decommissioning of old data extraction processes and therefore allow companies to reduce their technological debt

For insurance executives, it may be easy to believe that if something can be done with analytics, their organisation has probably already done it. After all, insurers are the original pioneers of analytics. But analytics expands beyond the walls of actuarial and pricing and is now playing strategic roles in risk management, marketing, product development, distribution, claims, and customer service. Finally, the industry now has access to the tools, technologies, and processes to make it all happen with Solvency II as an enabler.

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