LV= CASE STUDY

DATA CHALLENGES IN IMPLEMENTING A SOLVENCY II INTERNAL MODEL, WITH A PARTICULAR FOCUS ON END USER COMPUTING

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Speaker and Objective

- An independent consultant, specialising in Programme and Project Management, with a particular focus on Data

- Provided services to LV= to assist them develop and implement their approach to Solvency II Data

- The objective of this presentation is to outline how LV= has gone about its approach to data management under Solvency II, both in general and for the particular challenges presented by End-User Computing applications (EUCs)

- Please note: LV= has approved the contents of this slide pack, however, the views and opinions expressed by the presenter are given in a private capacity and do not necessarily represent those of LV=. LV= commercially confidential or sensitive information, including in relation to customers and members of staff, cannot be discussed or disclosed during or outside of this presentation.
Topics

• Solvency II: Regulation, best practice and demands

• LV= approach to Internal Model Data challenges

• LV= approach to End User Computing management
SII: Regulation and Best Practice

• Solvency II has the formal objective of introducing a rigorous regulatory regime around the governance of capital across the European insurance industry
• It also provides central and local regulators with an ideal vehicle through which to strengthen the adoption of best practice across the industry
• A major theme of regulator concern is the management of data used in key business processes, particularly the Internal Model where used
• In the UK the FSA emphasised this theme through their introduction of the SII Data Audit
SII demands of Data in the IM

• Data Quality
  • “Complete, Accurate and Appropriate”
  • formal Data Policy
  • expectation that all IM data processing comes under identical strictures (based upon an assessment of risk)

• Data Directory
  • mandatory facility to provide the business with information helping it to understand and manage the data used in its IM
LV= background

- Operates a wide range of products in both the Life and General insurance markets

- Variety of administration and support systems, many based upon different platforms

- Having no US presence, LV= did not undergo the process and systems reviews required by the Sarbanes-Oxley Act of 2002
Data Challenges re the SII IM

- Defining the boundaries and components of the Internal Model
- Identifying all the data used and the associated processing
- Understanding the material effects of each data element
- Impacts of increased formal controls around IM data, both micro and macro
- Migration of certain functions from EUC basis
Response - analysis

• Business analysis to identify and catalogue the IM data and the applications and processes which operate upon it

• Risk-based assessment to establish appropriate controls to apply in each case

• Identification of potential areas for improvement
Response - changes

• Arising out of both the SII IM analysis and other business initiatives, LV= has:
  • developed a comprehensive response around Data Quality
  • carried out substantial work upon its Data Directory
  • implemented a new EUC management framework
  • introduced improvements to some of its systems architectures
Definition and scope of EUCs

• LV= defines an EUC as being “A computer-based application which is not under the formal operational control of IT”

• This therefore extends beyond spreadsheets

• Analysis of the Internal Model has identified EUCs in use in most areas
EUC pros and cons - generic

• Pros:
  • quick, low-cost and widely-distributed capability for end-users to create variable-complexity models of information for analysis/reporting purposes

• Cons:
  • the most common platform, the spreadsheet, is not designed for the mass repetitive processing of data
  • many EUC platforms do not enforce version control or an SDLC
  • tend to be designed, developed and operated by people without specialist skills in these disciplines
  • their apparent ‘pros’ tend to result in them becoming part of the permanent operational landscape, despite often poor suitability
LV= EUC status: Historic

- A non-SII internal review in 2010 reported:
  - a number of localised processes in place to manage business-critical EUCs
  - a wide variation in requirements, compunction to comply and adherence

- It concluded that to help address the business risks inherent in the use of EUCs, a more coherent and enforced approach was required

- The data quality requirements of SII reinforced this need, and a project was formed to address it
Scoping and response

• A scan of the LV= network reported over one million files with an extension considered to be an EUC application
• A risk-based approach was adopted, partly because it is simply impractical to review every one individually
• Central principles of new approach:
  • only ‘active’ EUCs are in scope
  • adopts a High/Medium/Low Categorisation, based upon the risk to the business IF the EUC malfunctions
  • categorisation is by owner inspection, since no reliable systematic solution could be identified
  • applies Group-wide
Elements of new approach

• Group EUC Management Policy
• Key role of EUC Auditor
• Register of all High and Medium EUCs
• EUC Control Template
• EUC Management Tool
• Online training module and guideline documentation
EUC Policy

- Applies across whole LV= Group
- Accountable owner is the Group Financial Controller
- Sets out the guidelines for H/M/L categorisation
- Defines a comprehensive set of controls required to be operated upon all ‘active’ High and Medium-category EUCs
- Defines a new formal role, that of EUC Auditor
EUC Template

• An Excel worksheet embedded into every High and Medium-Category EUC, thus keeping the key control information with the EUC itself

• Records compliance with Policy controls and other key information

• Non-Excel EUCs adopt a proxy approach
EUC Management Tool

- Provides a central EUC Register
- Comprehensive filter-based monitoring and reporting
- Business owner registration via a simple browser-based facility
- Tracks changes to template and spreadsheet across versions
- Non-Excel EUCs are registered via their proxy spreadsheet
- In-depth analysis features to assist in spreadsheet design, development and incident resolution
Phasing

- H1 2011: EUC Policy, Template, Local registers and online training developed
- June 2011: New process and phase-1 tools successfully piloted in Finance
- July 2011: Policy approved and put into force. Business given 15 months to become compliant, using local registers
- Q3 2012: Policy and facilities reviewed and refined after one year’s use, including the agreement to adopt a 3rd-party tool
- Q4 2012: 3rd-party tool selected: Finsbury Spreadsheet Workbench
- H1 2013: Finsbury tool configured and implemented, with associated enhancements to EUC Template and Policy
- H2 2013: Phased roll-out of revised facilities across LV= Group
LV= is continuing its programme of work to enhance the key systems used for financial reporting, with Solvency II being one of the primary drivers.

It has already implemented a mandatory Group-wide formal approach for the management of EUC applications. This includes a centralised tool-based Register providing comprehensive monitoring, reporting and analysis capabilities.
Questions ?