



The Actuarial Profession

making financial sense of the future

Life conference and exhibition 2010

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Practical challenges of implementing the documentation test

7-9 November 2010

Agenda

- Background to Royal London and Solvency II programme
- Solvency II documentation requirements
- Case study: Royal London
- How other companies have met the challenges

Challenges of implementing Solvency II documentation requirements

How to embed requirements into the project

Scope

Structure

Maintenance and consistency

Storage

Background on Royal London



Insurance Company Life Funds (above £1,000m) award – IPD/IPF UK Property Investment Awards 2009

5-Star Award, Financial Adviser Service Awards
Best Protection Service, Moneyfacts Investment, Life & Pensions
'eee'-excellence rating
Scottish and UK National Training Awards, Winner
Employer of the Year, National Business Awards for Scotland



Innovation in Customer Focus and Best New Innovation, Scottish Financial Enterprise, Innovators Awards
Pension Provider of the Year, Bankhall
Most Improved Life and Pensions Company, Financial Adviser Service Awards
5-Star Award, Financial Adviser Service Awards
Best Group Pension Provider, Moneyfacts Investment, Life & Pensions

Best Critical Illness Provider, in the Moneyfacts Investment, Life & Pensions Awards



Best Trust and Estate Planning Product Range (Middle East) at the International Advisers International Life 2009 Awards



Citywire AAA Rating Service, TCF Award

Background on Royal London - offices

- Edinburgh - 1108
- Glasgow - 175
- Wilmslow - 778
- Isle of Man - 170
- London- 160
- Bath - 131
- Other – 284

Reading / Channel Isles /Dubai
& Hong Kong /Lebanon



Royal London's Solvency II programme

Background

- The programme was established in January 2009 as an Enterprise Risk Management (ERM) project, with an associated objective being to achieve internal model approval under Solvency II
- There are 10 distinct work streams each having a broad mix of employees drawn from the various group entities including actuarial, finance and risk and compliance
- The organisation and design of the programme has directly allocated Board executive responsibility across all work streams
- External support, advice and challenge is provided by Deloitte through weekly representation at the operating model work stream and formal quarterly reviews on the project as a whole provided to the steering group
- The firm submitted its pre-application pack at the end of May 2010 and entered the application phase in August

Documentation Standard

Article 125

- Insurance and reinsurance undertakings shall document the **design and operational details** of their internal model
- The documentation shall demonstrate **compliance** with Articles 120 to 124
- The documentation shall provide a detailed outline of the **theory, assumptions, and mathematical and empirical basis** underlying the internal model
- The documentation shall indicate any circumstances under which the internal model does **not work** effectively
- Insurance and reinsurance undertakings shall document **all major changes** to their internal model, as set out in Article 113

Articles 120-124

- Use Test
- Statistical Quality Standards
- Calibration Standards
- Profit and Loss Attribution
- Validation Standards

Article 113

- Policy for changing full and partial internal model
- Subject to Supervisory Approval as laid down in Article 110

Guidance on the documentation standard

In particular:

- Documentation should be sufficiently detailed to allow a **knowledgeable independent third party** to be able to **understand** the reasoning, design and operational details of the internal model and to be able to **judge** its reliability and appropriateness and whether it complies with the requirements of the other 5 standards
- In addition it should be **detailed and comprehensive enough** that the knowledgeable third party could **in principle** construct an independent model producing consistent results given the same data and parameters

Challenges faced around documentation

External

- Volume of guidance and standards from UK and EU regulatory and governance bodies
- Standards continue to evolve as 2012 approaches
- Limited prescription set out by guidance issued to date
- Lack of understanding of what the Regulators expect to see
- Variance in expectations across the EU

Challenges faced around documentation

Internal

- Never popular – nobody likes documenting things
- Who has the skills to do it well?
- Where do you start?
- What do you include?
- How far back do you go?
- How do you keep it alive?
- Little time to do it and no standard template
- Who will look after it in the long term?
- Where do you store it?

How did Royal London get started?

From the beginning

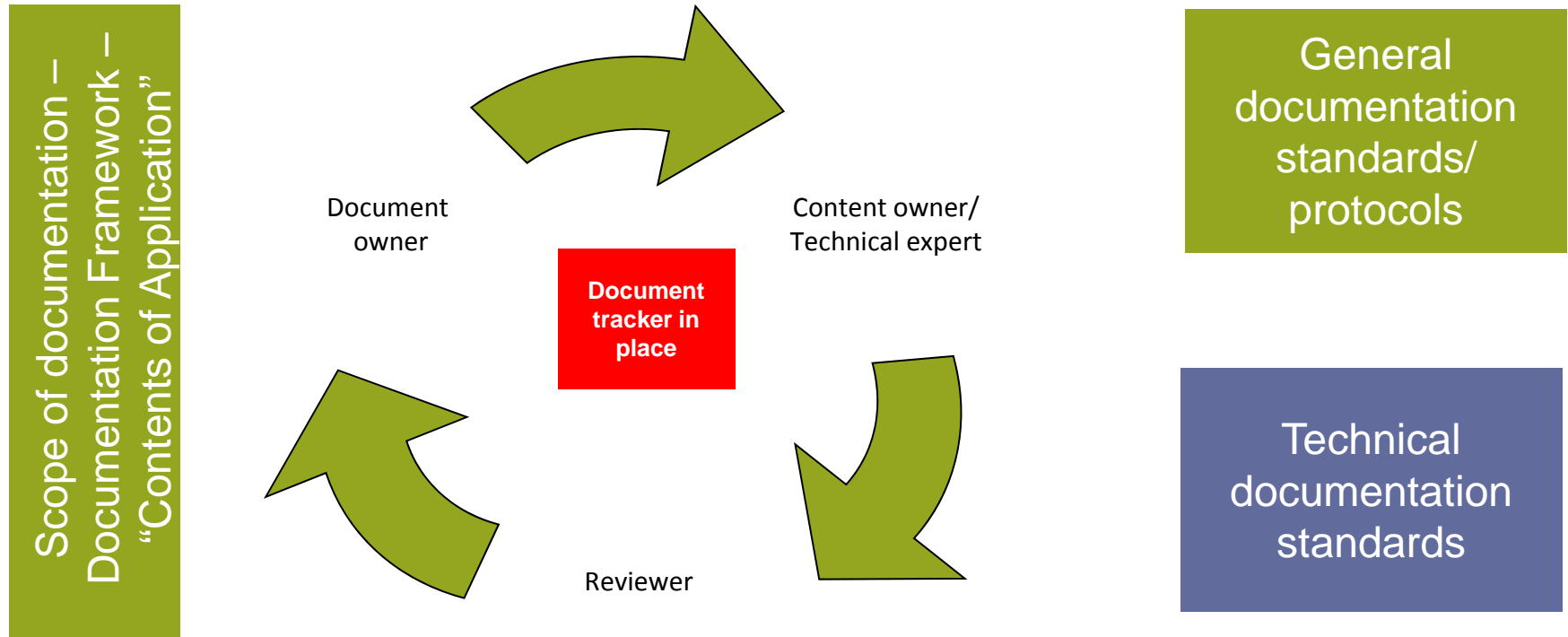
- Sponsorship from the Board downwards
- Made a key component of the programme
- Strong governance approach already in place around policies and procedures
- Due diligence opportunities to see other approaches
- Factoring in ideas from external networks

And later

- Being flexible, willing to adopt and adapt the documentation framework
- Being humble and willing to seek external support and ideas

Implementing an approach in Royal London

Programme Office/ Documentation lead → Work stream implementation



What have we done to track development

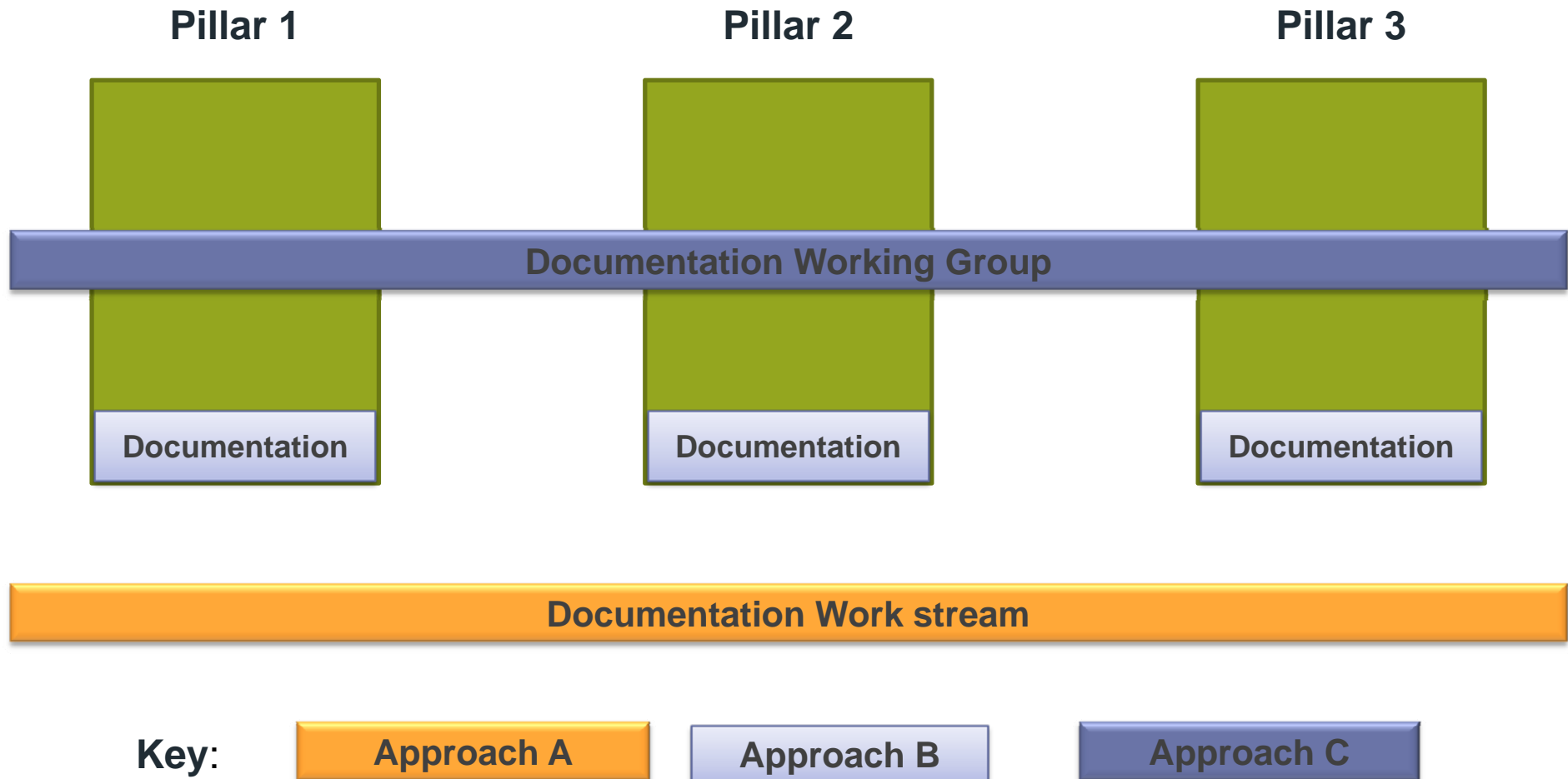
Steps taken

- Document tracker set up with much of the material incorporated into the Contents of Application
 - Current state, current owner, future owner set out along with document location and delivery date (if not in place)
- Key documents all deliverables within the Programme and progress monitored by Programme Manager
- Formal review at programme meetings twice a month with manager responsible for development flagging issues
- Third party challenge on progress by Deloitte

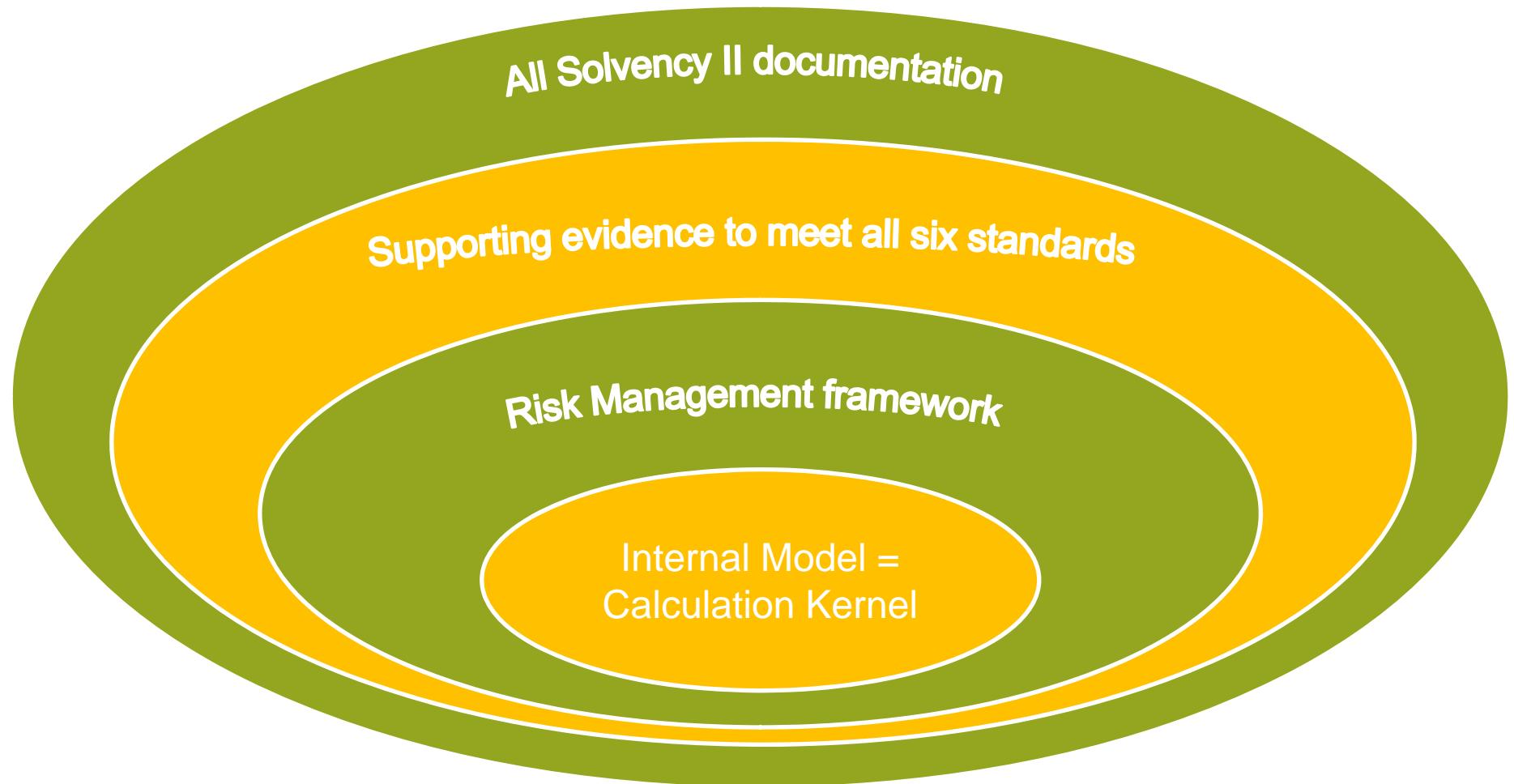
Where are we on documentation?

- Document naming convention established be it for policy, procedure, committee, methodology
- Templates / skeleton structures to support common language
- Owners identified for key documents – Approved Persons for significant ones
- Approval process established aligned to governance structure
- Version and review history recorded and review cycle established
- Hyperlinks embedded in material so items can be found easily
- Recognition that TAS and IASB are producing forms of standardisation around modelling, data and reporting which need to be incorporated

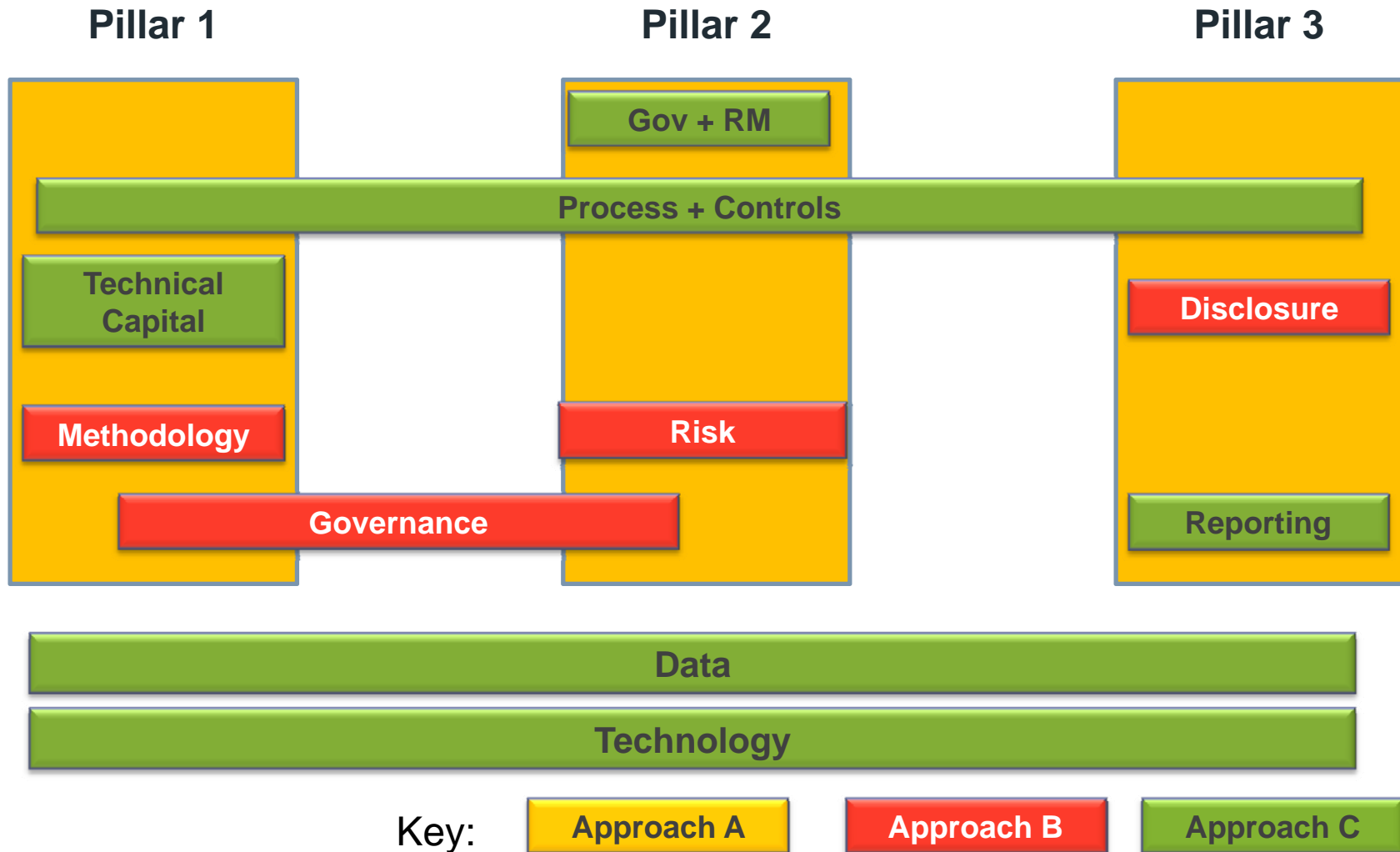
Different approaches to embedding requirements into the project



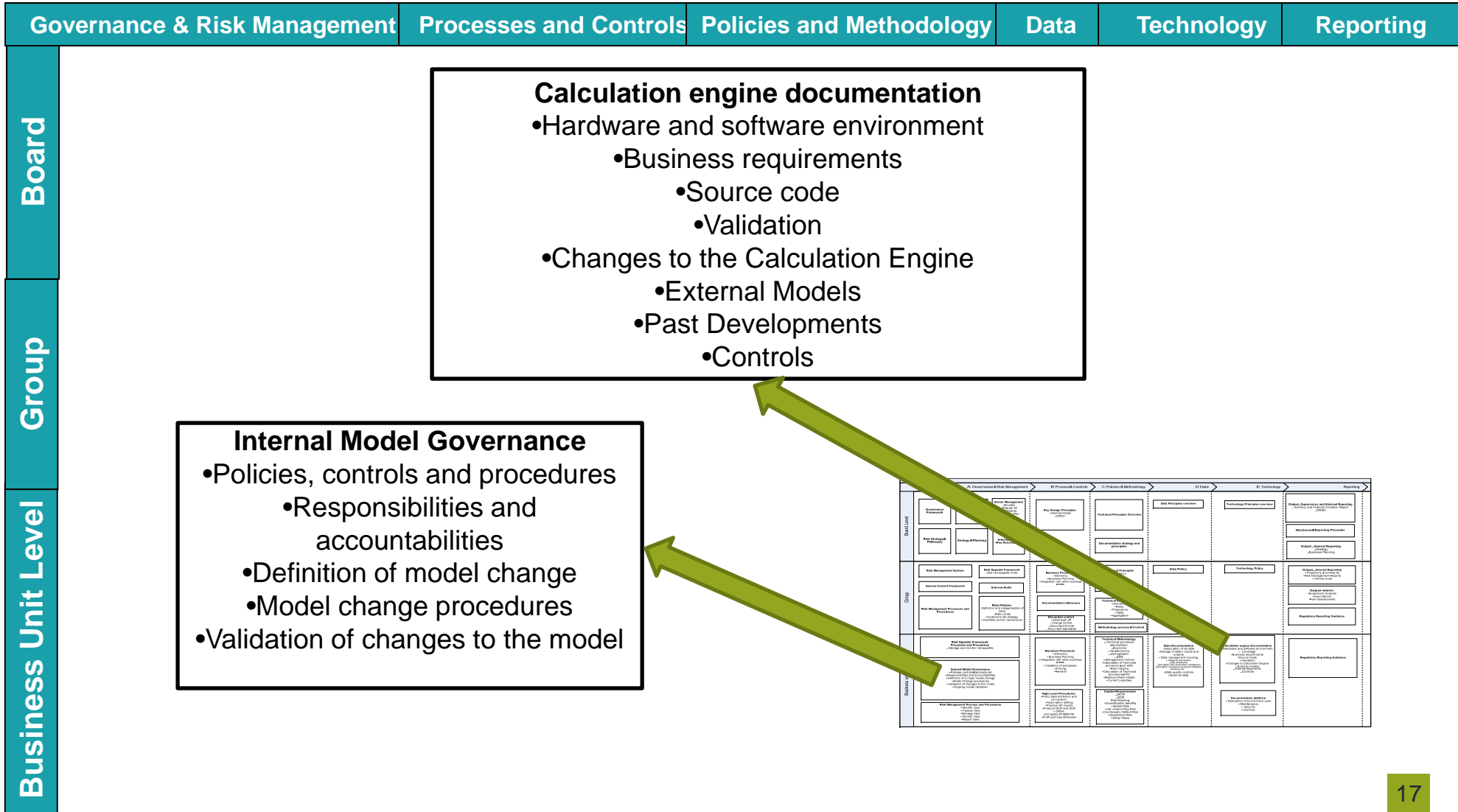
Scope of documentation for Solvency II



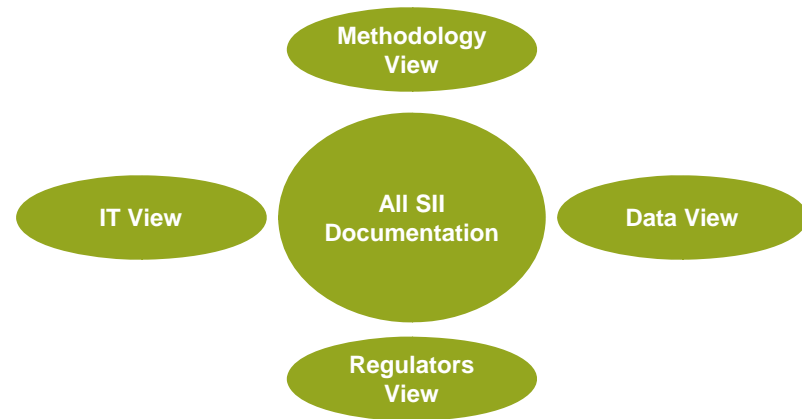
Categories of documentation



Royal London Documentation Framework

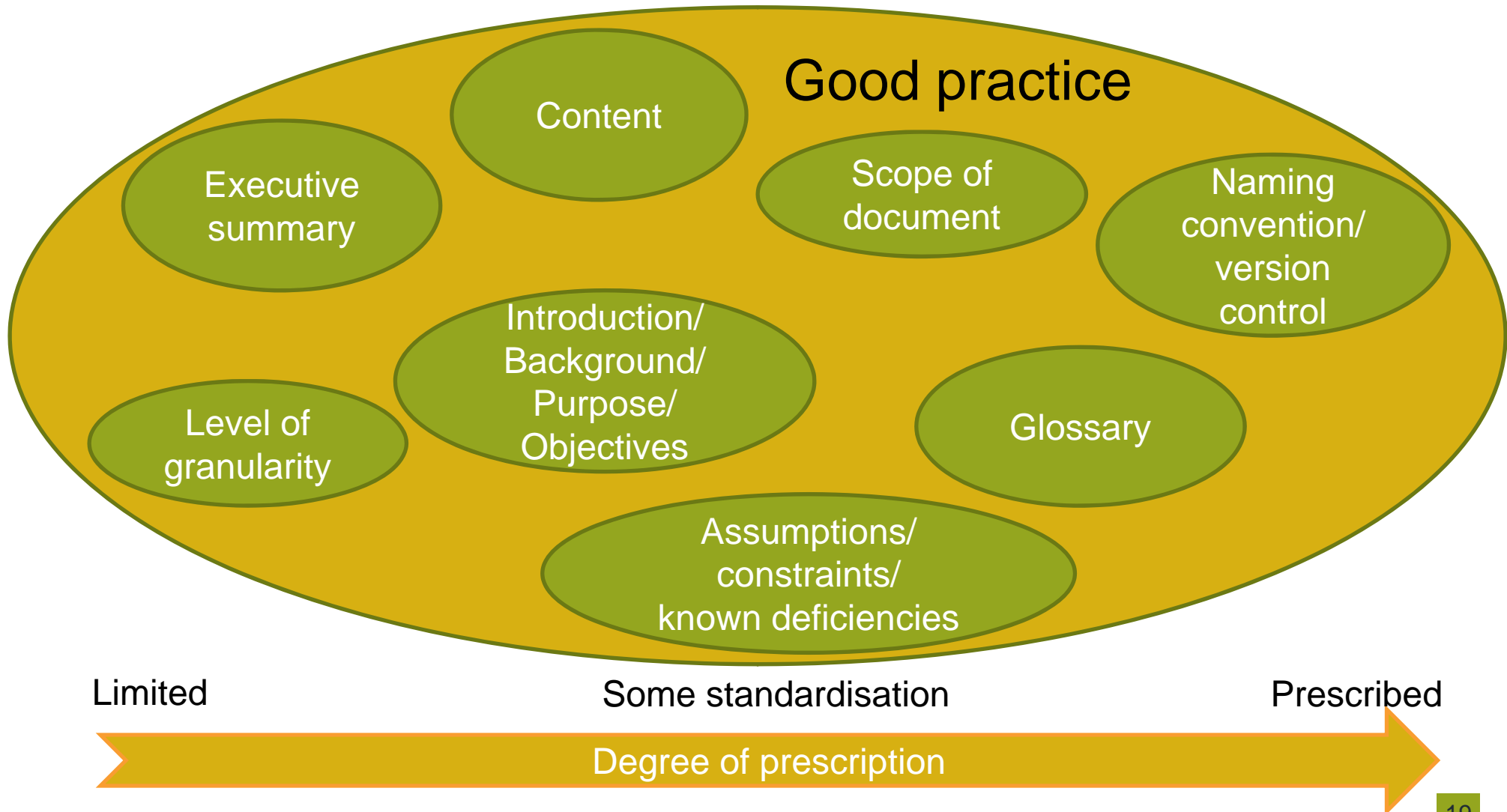


Granularity of documentation



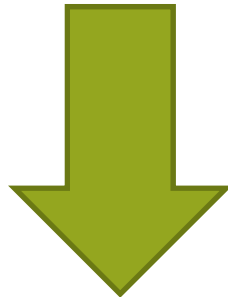
	Data	Systems	Risk	Method	Governance	Reporting
Board						
Group						
Region						
BU						

Documentation guidelines/standards



Keeping documentation up to date

Top Down



**Documentation
maintenance**



Bottom up

How is Royal London maintaining its documentation approach?

Good governance

- Roles defined for document lead and content manager
- Ownership for approach embedded in Risk Management Function
- Company Secretarial will maintain review process
- Annual review cycle
- Ownership of key documents spread across a range of Approved Persons
- Refining the assurance approach around core methodologies
- Regular auditing and upwards feedback to Audit Committee

How do you meet the challenges around documentation storage

General Considerations:

- Different technology platforms available
- Implementation and maintenance costs
- Ease of implementation and maintenance
- Timeframes involved
- Risks of different options

Functionality may require:

- Version control
- Audit trail
- Access control
- Ease of use
- Workflow

How are others proposing to store the documents and how will they share with the Regulator?

- Network drives
- Intranet
- eRooms
- Sharepoint
- Pdf
- Hard copies

Finally – Lots of reasons not to get on with it

- “Requirements are not finalised, no point starting yet”
- “How can you document something that is not designed or built yet?”
- “Show me what good documentation looks like and then I will write some”
- “No resources to do it”
- “Guidance may change and impact requirements”
- “More important stuff to do”
- “I cannot start until you give me a template”

The benefits around documentation

Internal

- Gives confidence from the Board downwards that the model upon which it is basing its business decisions is sound
- Provides clarity around approach and ownership
- Mitigates key person risk

External

- Supports the application around the internal model
- Gives confidence to supervisors of appropriateness and reliability of the internal model on an ongoing basis
- Useful as evidence to third parties about the strength of the approach

“If you cannot prove you do it – you don’t do it!”