

## Capital adequacy – holdings

How to achieve greater clarity and accuracy with measurable return on investment

Many insurance companies have net excess capital holdings. These holdings are used to cover existing policies and could be released to invest elsewhere. The difficulty is in being able to calculate easily exactly how much excess capital they hold.

Historically, long-term insurance products can be particularly problematic for insurance companies when considering the levels of capital holdings that are necessary.

For example, a life insurance company can be engaged over many years from the first to the final premium. This historical data is often kept on large scale legacy systems working across major platforms. Increasingly, the number of factors taken into account when underwriting has become more complex and multi-dimensional, in order to increase the accuracy in probability calculation.

There is a realisation that over time, a variety of calculations may now be outside actuarial tolerances and this is often proved through sampling. Time also amplifies these defects in the calculations. What was initially a small variation, over time, is multiplied many times over.

So, apart from manually recalculating all of these policies which will take time and effort and tie up experienced staff, what can be done?

Capita is a strategic partner to the insurance industry. We can enable you to release capital held against unknown risk by helping you to identify, quantify and manage risk through automation techniques. We know that the scale of capital holdings is significant. Though the actual return from automation will be different for each company, in similar situations where we have been engaged we have achieved initial payback within three to six months and a ROI in a factor of around six over a longer period of time. Also, additional payback can obviously be achieved by reinvesting the capital released.

We have developed an automation framework which can be used in situations where large amounts of data need to be tested for consistency and accuracy. It is flexible and easy to keep up to date and provides a consistent way of handling repetitive tasks on an ongoing basis. More data driven tests can be run with greater accuracy, in less time with fewer resources.

Risk management and actuarial departments will bear responsibility for ensuring that the right processes are in place to manage capital adequacy. However, their skills are often in short supply so need to be leveraged to get the best results for the company. This is both in terms of identifying if capital can be released and also improving the organisation's understanding of its risk profile.

We work with actuaries who identify the algorithms that need to be applied to the policies. We then apply these calculations to each of the policies to be tested and run the tests through our automation framework with an agreed percentage-based tolerance. We report on the outputs and the organisation can then assess its position with a full audit trail available to them.

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