

## Solvency II Getting to grips with the practicalities of implementation

We know that delivering compliance with Solvency II regulation is not negotiable. Solvency II is the biggest regulatory shake-up in the insurance market in living memory. When it comes into effect on 1 January 2013, firms that do not satisfy the FSA of their compliance will not be able to write new business.

The ability to ensure that processes, standards, reporting and evidencing use consistent and measurable criteria is paramount to achieving compliance. A complete quality assurance framework needs to be in place, and the governance process defined and enforced, to allow the organisation to manage the Solvency II process.

Getting to grips with complex theory is one thing but for Solvency II programmes, the practicality of making it happen in the most efficient and effective way is quite another challenge. It is a significant change programme including potentially, changes to the operational model, systems, processes and controls as well as aligning behaviours. However, improving the quality of the implementation itself can provide insurers with significant competitive advantage making sure that payback is achieved from their investment.

Capita believes that an effective and pragmatic quality assurance framework will support insurance companies in their compliance and reduce the risk of failure in a complex organisational environment.

Our programme and delivery framework comprises best practices in quality assurance including gap analysis to identify and communicate what is required as well as communicating and evidencing common processes. The second phase includes the practicalities of getting ready for implementation including common reporting templates and education. This is followed by ongoing governance, execution and evidencing.

### Organisational and operational challenges – compliance at a group level

Solvency II requires that firms show evidence that risk is underwritten at an aggregate level and not just within an individual business. This is particularly taxing for organisations that may have grown through acquisition and which are at different stages of maturity in the way they operate. These organisations often work in silos to a greater or lesser extent with little operational interaction. Some may not be directly involved in business which is impacted by Solvency II but will still need to demonstrate their compliance at a group level.

To ensure cooperation across a group of companies Solvency II must have aggregate level sponsorship and a collective vision and implementation process. It is not enough to report up to group from individual divisional silos. While these individual companies may vary from organisation to organisation, accountabilities and responsibilities need to be seen by all to be clearly allocated. This should be underpinned by strong communication channels across the programme both at a group level and with individual businesses.

### Using QA and governance techniques to drive through best practice

As with all change related programmes other challenges are the interaction between people, process and technology. All of these elements are important for Solvency II programmes. Clearly there are IT impacts, however this is only one dimension and we believe that these programmes should not be driven solely by IT but by a combination of group risk, PMO and release management utilising quality assurance and governance techniques which will help to drive best practice in this aspect.

Systems' testing is also one of the activities that insurance companies will be asked to evidence. By starting testing early in the development lifecycle over 50% of potential defects can be identified prior to development which has a tremendous impact on the ultimate quality. By clearly integrating the approaches of the business analysts and QA people at the requirements stage of the development lifecycle it is possible to reduce timescales and ensure that outcomes are properly linked to the requirements.

It may be tempting to start implementing the programme quickly, however, by starting in a more measured manner and putting effort in upfront will deliver substantial benefits through reduced risk, overall timescales and cost. Having a clear articulation and focus on the desired outcomes right from the start provides clear goals and objectives for the Solvency II programme to measure progress against.

Consistent planning and reporting across the board will make implementation much more effective. Also along the way, organisations that use quality gateways for their regulatory requirements implementation will not only ensure compliance but also will provide evidence for both internal audit and FSA purposes.

On a practical point we believe that particularly in Solvency II programmes with multiple and diverse divisions or workstreams, a lack of consistent standards for quality, process, documentation and templates could lead to an increased risk of not meeting the requirements in the timeframe.

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Solvency II lends itself to a risk-based approach to implementation. See Figure 1 below.

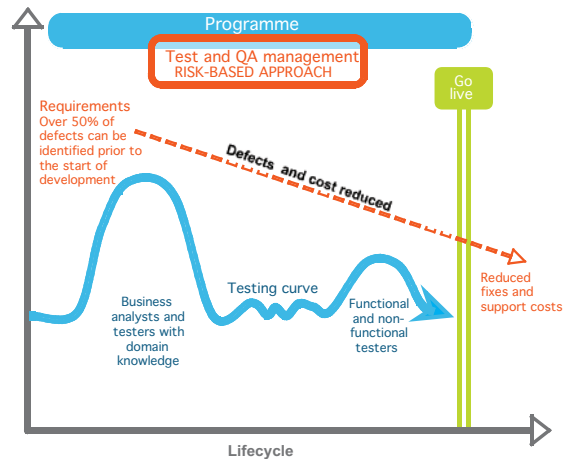


Figure 1

This makes sure that effort is directed at the areas with most risk attached and allows you to reduce your effort by as much as a third. In technology implementations this ultimately has the knock-on impact of reducing development and support costs further down the line and shortens the delivery lifecycle.

While the programme can be used as a means of implementing best practice to improve business operations overall, it is important that compliance itself is not compromised. Rather, having a clear understanding of what the minimum compliance requirement is allows you to develop options from an unambiguous base point and a risk-based approach supports this approach.

To manage a regulatory programme of this scale without a group-wide QA framework inevitably increases the risk of failure leading to potential non-compliance. If you haven't done so already, see how QA fits into your Solvency II programme, before it is too late.

