CASE STUDY

Solvency II Compliance Improves Risk Management and Reduces Total Cost of Ownership (TCO)

Abstract

Infosys partnered with a European specialist risk insurance leader with operations across the globe, to roll-out a comprehensive Solvency II solution ensuring 100% compliance with the European Union's S2 directive. The implementation was completed well before the stipulated date ensuring reduced total cost of ownership (TCO), thereby generating considerable cost savings.

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Client Details

The client is a corporate and specialist risk insurance leader and covers businesses across the world in the marine, aviation, and corporate insurance segments. With over 4000 employees, the client operates across the globe with a strong presence in Europe.

Business Context

The European Union's Solvency II (S2) directive was introduced to ensure better regulation of risk management practices. Through a risk-based framework the directive defines capital requirements for the insurance industry to minimize risk of insolvency.

The company began its S2 initiative in 2008, making significant progress on its internal model and governance structures. The stated goals for 2012-2013 were to initiate Internet Message Access Protocol (IMAP), implement Pillar III requirements, and finalize governance and controls for internal model data. To achieve this, they needed to:

- Develop and implement a market value balance sheet (MVBS) with the necessary tools to allocate premiums and claims-related data, and post these to a newly created Solvency II ledger
- Develop or enhance three Cognos reports
- Implement an actuarial data platform (ADP)

The insurance company was using an Excel-based, tactical solution as the reconciliation tool for generating MVBS; this was unable to deliver MVBS data using the group template. The client also needed a separate performance track to investigate and fine-tune the overall performance of the infrastructure including SAP Financial Accounting (FI), Advanced Business Application Programming (ABAP), and Basis.

In the long run, the client wanted a fully automated Solvency II solution with checks and balances as mandated by the European Insurance and Occupational Pensions Authority (EIOPA). Such a solution required insurance-specific tools to allocate premiums and claims-related data. Under the looming January 2014 implementation deadline, the client was looking for an IT solution that would meet their stated goals and ensure regulatory compliance through automatic and manual processes.

Infosys Solution

Infosys architected a comprehensive solution covering all phases using an outcome-based model that included overall program management, change management, and end-user training.

We deployed an S2-compliant solution that hosted a non-leading ledger along with a separate accounting principle and new financial statement versions to ensure superior MVBS reporting. We also helped define a separate depreciation area to report MVBS-related depreciation separately. We replaced the existing reconciliation tool with a 'Non Leading Ledger' in the SAP / FI environment, ensuring that MVBS is generated through non-leading ledger values. Our solution also included performance tuning of the existing SAP system.

We developed best-in-class ABAP tools such as counterparty default (CPD) adjustment, Market Value Margin (MVM), discounting, and incurred but not reported (IBNR2) tools. These tools ensure that quantifiable risks and losses for the insurance and reinsurance businesses are reported through a newly created ledger that feeds into the client's group MVBS for Solvency II reporting.

- The IBNR Allocation Cycle 2 allocates IBNRs on two new dimensions – trading partner and country of risk.
- The CPD tool calculates the counterparty default adjustment, which is an estimate for expected losses that is based on the probability that the reinsurer is unable to pay.
- The MVM tool calculates the Market Value Margin amount required to meet the client's insurance obligations.
- The discounting tool transforms the discount data from the actuarial data so that it contains all the relevant system dimensions.

An actuarial data platform (ADP) was developed and implemented to ensure compliance with Solvency II for actuarial data quality and data process transparency requirements. The platform serves as a single data hub for internal actuarial calculations, providing consistent reference data across the entire actuarial landscape. Further, it streamlines data processing in the actuarial function and improves process efficiency.

Technology Scope

SAP ECC (Enterprise Central Component), SAP BW (Business Warehouse)

Challenges

We commenced our association on this critical client project at a challenging time with the previous vendor being offboarded during the realization phase. Owing to the criticality of the solution, we undertook a rapid learning initiative to understand and take over the development for MVBS and the ADP platform.

On the technical front, we needed to understand the functioning of the existing non-SAP feeder systems in order to integrate data feeds from these into the new solution. To meet client requirements, the S2 tools needed to be developed on SAP and ABAP technologies, which involved extensive customization. Further, the testing of SAP and non-SAP objects was administrated by an external vendor, adding to the existing project management challenges and complexities. Our robust project management processes helped us overcome this challenge.

Benefits

The Infosys implementation of the S2 project helped the insurance major become 100% Solvency II-compliant. Coupled with past experience and successes with similar project implementations, our Global Delivery Model (GDM) reduced TCO, thereby generating considerable cost savings.

We completed the project implementation on time enabling the insurer to roll out the solution well before the stipulated date. Our unique risk management expertise empowered our client to proactively identify and address possible risks. Further, the implementation enabled smooth transition with quick turnaround time, eliminating any business risk for the insurance company.

For more information, contact askus@infosys.com

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