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Getting the information out

If you thought data was something you could hold close and manage according to your own needs alone, the industry's regulators will make you think again.

The flipside of the need to maintain information security is the need to enable information sharing.

With regulatory requirements on companies continuing to increase, the ability to share relevant data in a safe, timely and cost-effective manner is becoming ever-more important.

Compliance is one of the costs of doing business. However, compliance can also be an ally in business improvement.

As colleagues begin to appreciate the costs of complying with regulators on a case-by-case basis, they begin to understand the value of standardised data.

If you are going to be reporting more or less the same groups of information multiple times to multiple bodies, it makes sense to adopt formats and procedures that enable you to act once only.

The compliance driver reaches back into the organisation, encouraging the use of standards throughout the information systems landscape.

The benefits multiply across the business with time saved, costs reduced and opportunities for innovation unleashed. ■

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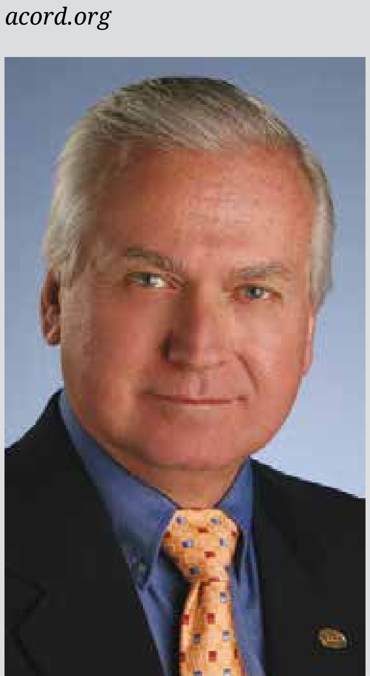

Emerging regulatory requests increase company reporting requirements

In the US, the Federal Reserve Board now has consolidated supervisory authority over nearly one-third of US insurance premium

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Insurance reform is moving from the development stage to the implementation stage. The priority for the next few years will therefore be on the reporting and analysis of data embedded in those reform packages.

This reporting will not just cover capital issues, but will include corporate governance and risk management, at both the legal entity and group level. And reporting will extend beyond traditional regulators to regional and internal bodies, requiring duplicate reporting until the systems are co-ordinated.

Responding to reform

For several years, the insurance industry has been focused on the political development of major revisions to solvency systems in Europe, the US and other countries. Much of this reform was stimulated by the recent financial crisis, although the European reforms originated because of earlier problems.

In Europe there has been a sweeping overhaul of the insurance solvency structure called Solvency II. This reform has been used as a model for changes in other jurisdictions, including Bermuda, Mexico, South Africa and Singapore.

In countries with existing risk capital regimes, such as the US and Australia, the changes have centred more on the group supervision aspects of insurance regulation. But we are at the end of the development stage and many of these new rules, including new reporting requirements, will come into effect in 2015.

Broader information requirements

One of the background factors influencing the development of these new solvency programmes has been the increased availability of information. Companies are using new analytical resources to evolve their management models. Now regulators want to use the same information as part of the regulatory assessment.

Almost all the new reform packages include additional reporting requirements, many of them quite detailed. Almost all include a review of internal planning models, requiring submission of a company's own risk and solvency assessment (Orsa), including stress tests.

Unpacking the Orsa

The Orsa includes detailed explanation and documentation of the risks to which a company is exposed and the risk mitigation procedures in place to respond to these exposures. Most Orsas also include a report on the stress tests performed on the company's capital and many eventually require certain fixed stresses.

The risks to be addressed in the Orsa extend beyond traditional insurance exposures to include liquidity, concentration and operation risk. The Orsa also focuses on the company's process for governance of its enterprise risk management, the link between compensation and risk management and the documentation of control systems.

Group supervision

The data reporting, solvency and governance reforms have also prompted a push for regulatory oversight of insurance groups as a whole. One of the weaknesses of insurance supervision was seen as a lack of oversight of the non-insurance aspects of the group and the dangers these can pose to the insurance policyholder and the financial system.

Even in the US, where legal entity supervision has been central to the regulatory system, the National Association of Insurance Commissioners (NAIC) is struggling with development of group supervision for its largest international writers at a minimum.

It seems likely the NAIC may also impose some form of group capital on these large insurers and conglomerates. This will mean information on non-insurance activities, especially unregulated activities, will have to be captured in Orsas and other reports.

Group supervision will create additional data reporting challenges because it requires incorporation of legacy systems, reconciliation of different accounting and capital standards and centralised validation of the information.

Some of these issues have already arisen as colleges of supervisors are created for international groups. Developing comparability of the data has been a major challenge and is the basis for much regulatory discussion at the moment.

New regulatory authorities

In addition, we are seeing in the emergence of regional, and even global, regulatory players.

In the US, the Federal Reserve Board now has consolidated supervisory authority over nearly one-third of the US insurance premium and this percentage may increase if other companies are designated as systemically relevant. The Federal Insurance Office (FIO) is empowered to set insurance policy in circumstances of market distress or lack of uniformity.

In Europe Eiopa has extensive authority to enforce co-ordination of the Solvency II regime. Both Eiopa and FIO have data collection responsibility.

On the international level, the International Association of Insurance Supervisors (IAIS) has been under pressure to develop a global insurance database.

As an industry association, the IAIS cannot collect detailed information, but it has been working with the Bank of International Settlements to collect data for the assessment of systemic insurers and for its own field-testing.

In the meantime, the Organisation for Economic Co-operation and Development is looking to expand and improve its own economic insurance data to meet the international needs.

Public disclosure

Added to this regulatory reporting will be new demands for public disclosure, including, in some jurisdictions, information on capital requirements, reinsurance arrangements and profits. International accounting standards changes will also significantly increase disclosure requirements, especially in cases of management discretion.

All this leads to increased pressure to produce reliable and accurate numbers on a rapid timescale. Companies should examine their future overall financial and risk reporting capabilities. Looking at comprehensive needs, rather than just compliance with the new laws, should lead to enhancements of quality, timeliness and relevance of reporting. ■

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