



Altus

clear thinking for Financial Services

Delivering Solvency II Through Processes

With much of the focus to date having been on risk models and IT system changes for Pillar 1, many Solvency II programmes are in danger of suffering from that all too common syndrome of the tail wagging the dog. The unpleasant reality is, if your Solvency II compliance programme is undertaken purely by your Actuarial and IT departments, then you are destined to fail. The consequences of that are unthinkable. so lets consider what needs to be done.

The three Pillars of the Solvency II regulations require companies to define their own risk profile and demonstrate that they have in place both sufficient capital and the appropriate governance and risk management processes to run the business. While many companies have invested large amounts of time and money in risk modelling and infrastructure for Pillar 1, the number who have invested significantly in embedding the correct processes throughout the business for Pillar 2 is far smaller. Both will be essential to achieve Pillar 3, reporting and disclosing information, as well as overall compliance in the eyes of the regulator.

To meet Pillar 2 requirements insurance companies will have to make significant changes to their Processes, requiring a major re-design of statutory and regulatory solvency reporting processes.

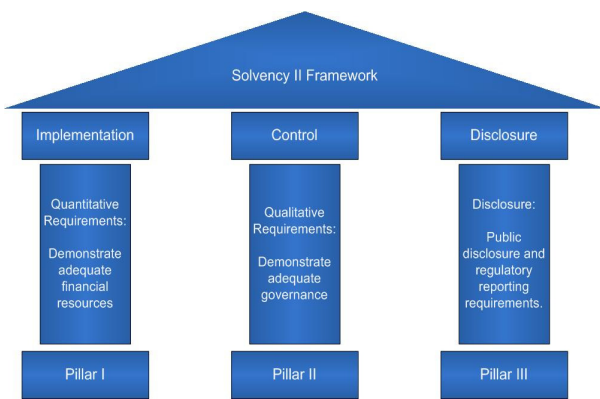
Preparing for Solvency II can be daunting, however Altus has a systematic, structured and practical approach to support and help your programme. Our methods can identify the impacted areas of your firm and then drive both cultural and process change to delivering the all important Solvency II regulatory compliance for your business, as well as efficiency savings from process improvement on the way.



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The Issue

All three Pillars of Solvency II regulation must be balanced to achieve compliance. As with a real building, if too much effort is put into one pillar to the detriment of the others the chances are that what you end up with will be structurally unsound.



The Solvency II Framework

Much of the energy spent on Solvency II to date has focused on Pillar 1's capital adequacy risk modeling, but Pillar 2 and embedding the use of these models in running the company, has still to be tackled.

Simply acknowledging that process is the motor of your programme is not enough; you need to know what the key processes are, how they need to change, where the gaps are and how they fit together to provide compliance.

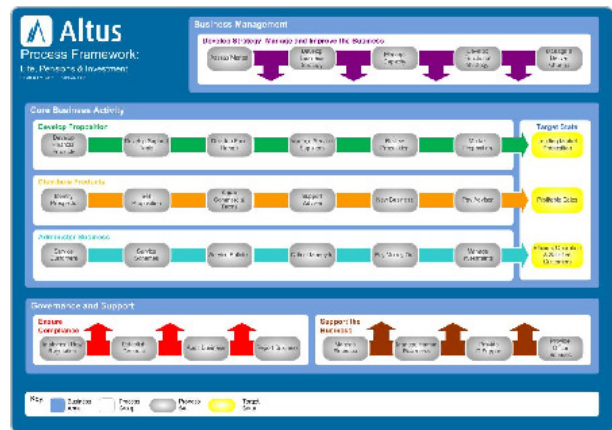
The Altus Approach

Our approach brings a clear focus on Solvency II Pillar 2 requirements covering a range of existing processes, such as actuarial, risk and finance, decision making and new processes concerning ORSA (Own Risk and Solvency Assessment), reporting and disclosure.

Taking your inventory of existing business processes and the Altus Industry Process Reference Model, containing over 250 end to end processes, we produce a tailored view of your company. Structuring the processes into a

clear, logical process hierarchy, which you can be confident covers your entire business.

We can then conduct an impact analysis of the Solvency II Pillar 2 regulatory requirements across your business. We present this analysis overlaying the framework, shining a spotlight on the affected areas.



Altus Industry Process Reference Model

Having identified the hotspots, we tackle them systematically by business activity.

We look at how each one is carried out currently and identify what triggers and what terminates it. Having bounded the activity, we then explore the processes in more detail with the experts who understand them.



Process Improvement Cycle

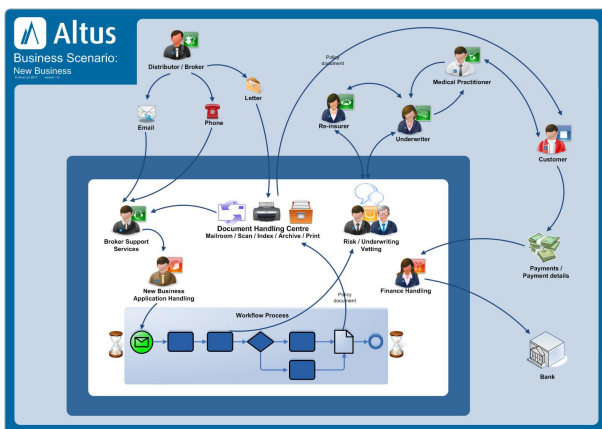
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The Altus Approach (cont.)

We address the essential business elements of your process rather than the system and technology details by engaging with business representatives and focussing on clear separation between the logic of WHAT a process does over HOW it is physically implemented.

At Altus we make a clear distinction between logical and physical process maps and we use it to ensure the right kind of analysis is applied to the right kind of problem.

Drilling down into these areas we use business scenario models to provide a visual way to explore the related processes and to determine the existing processes that need modification and identifying any gaps that need to be filled.

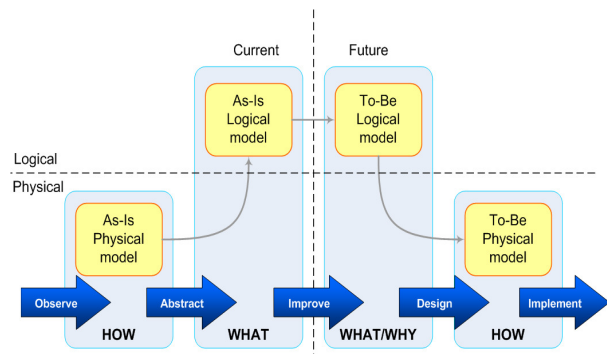


Example Business Scenario Diagram

The next stage is to take a step back from the physical detail and to capture the underlying business logic of what is being done. Using the seasoned application of analysis skills to sift out the 'noise' around how a process is performed - the forms used, the people, the systems, etc. The result is a clear picture of the overall shape of a process which makes it much easier to understand and to ask questions about its rationale.

The benefit of a logical view of the processes comes when you consider the To-Be state; it provides the ideal overview against which to meet regulatory requirements,

as well as organisational and operational design principles. Providing an opportunity to improve the processes while making them compliant.



The 4 Step Modelling Process

The final stage in the lifecycle is to realise the new process physically, which will range from developing procedural documentation to working out how new or existing systems will be configured and implemented.

The Benefits

Just as no civil engineer would dream of modifying the foundations of a building without consulting the blueprints to understand the effect on other parts of the structure, neither should a Solvency II programme. But that's precisely the sort of tinkering that many well-meaning organisations engage in.

Without a coherent model of the whole business and its processes, the results of your Solvency II programme could be as unpredictable as the engineering example above, that simply isn't a risk that your organisation can take.

What Altus provides is a reliable, controlled method to establish the changes required for regulatory compliance of Pillar 2 within your business, which is essential for the success of your Solvency II programme and approval by the Regulator.




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Altus understand Financial Services - the products, the processes, the people and the systems that make the whole thing tick. With years of experience in complex change programmes, we understand that successful solutions begin with the business.

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