



SOLVENCY 2

The client A UK headquartered General Insurance Company.

The challenge The initial work on preparing the operational risk schedule in preparation for Solvency 2 in December 2012 had produced a set of risks that would have a total capital requirement of more than 20% of the overall economic capital requirement.

How we helped the client reduce the capital requirement for operational risks by more than 50% and helped them put in place a plan to reduce it further.

The response Liz Taylor Risk Consulting agreed with the client that at the outset, all work would be subject to an audit trail so that there was full transparency for the supervisory requirement of Solvency 2.

We worked with the team initially looking at what had been done previously and how they had arrived at the current set of operational risks based on own experience and external experience. We used scenario setting and projections that were then adjusted using correlations and other actuarial devices. Several senior managers had been involved in developing the scenarios, and it was important to value the work that had been done to date at the same time as correcting some areas.

We ran some workshops with senior and middle management, having completed analysis, and found that there were some duplications of scenarios as well as some gaps. All the risks were subjected to a thorough analysis of the causes and consequences and current controls for each of the causes and consequences were identified and evaluated in terms of effectiveness. Further training was provided on ranking risks and evaluating them, and, in the light of the control environment the risks were re-evaluated and re-ranked. New values for those risks were then calculated.

Further work was then conducted to identify more controls that could be implemented to further reduce the economic capital requirement for the risks.

The results were presented to senior management who were given the opportunity to thoroughly scrutinise the work conducted and add more depth to the analysis. The ownership of risks and of controls was agreed with senior management and a communication programme agreed and implemented for all risk and control owners.

The outcome The overall economic capital requirement for operational risks is now 50% less than it was at the outset, and is on track to reduce further. All control activities are now built into the business planning and performance management programme so that individual progress in managing risks is reflected in the individual's performance plan and evaluated as part of the performance development programme. The senior management team feels more confident in the way in which they use risk management as well as having confidence in the overall enterprise risk management programme.

Key points

- 50% reduction in operational risks "cost"
- Programme in place to reduce it further
- Confidence and transparency in risk process in place