

## Institute of Risk Management

### Solvency II Special Interest Group – Workshop 3

14<sup>th</sup> January 2010 9.30am-12pm, IRM Conference Room

Item	Details discussed and agreed
1	<p>Philip Whittingham took the chair. There were 29 people in attendance. The speakers were introduced. He made some introductory remarks about the topic regarding the importance of learning from Basel II implementations and the nature of the differences between industries and the similarities between regulatory frameworks.</p> <p>Philip also commended the Solvency II Expert Group meeting which occurred on 13/01/2010 in IRM Offices and encouraged IRM to get involved in this LinkedIn network.</p>
2	<p>Jonathan Groves presented back the findings of the second SIG survey. 19 SIG members responded. The key messages are presented on the website but summarised as follows:</p> <ul style="list-style-type: none"><li>- 70% thought it was possible to learn from Basel II for Solvency II but clearly only selectively</li><li>- 63% highlighted the importance of data management and data cleansing as a key learning point</li><li>- 53% saw management of risk as a key challenge</li><li>- How to manage, steering and coordinate such a large programme was seen as a common challenge. Most (77%) identified the need for an overall sponsor as key.</li><li>- Resourcing is a key challenge, 58% saying resources were constrained and difficult to secure</li></ul> <p>Jonathan finally encouraged all SIG members to take part in the 3<sup>rd</sup> survey on the ORSA which is available for completion until 15<sup>th</sup> February 2010 as per email sent to all members.</p> <p>Thanks to Ian Fraser at the IRM for managing the online survey process.</p>
3.	<p>Scott Vincent from Parker Fitzgerald spoke about his experience of programme management and Basel II programme resourcing at a range of banks including RBS, Barclays and Macquarie.</p> <p>He highlighted 4 topics which are outlined in his slides available on the webpage.</p> <p>(a) Programme Structure</p>

	<p>Beware of blurred boundaries and lack of clear ownership  Do not focus at steering group level on track ‘What’, but more on ‘How’  Need to look for efficient programme governance.  Look for a central Design Authority to control scope and plan  Need to develop good Steering Group disciplines to have efficient governance.  One major failing was not linking the implementation to the business’s strategy</p> <p>(b) Data Quality  Don’t under estimate the size of the data quality issues.  Existing processes and data may not be robust.  Information quality and a strong remediation programme was a competitive advantage to certain banks.  This can have a material impact on capital requirements.  Data cleansing is a business not a programme responsibility</p> <p>(c ) Technology Strategy  Many banks made huge technology investments but not always wisely  Enterprise and IT architecture redesigns were undertaken but scope and cost under estimated.  Take the long-term view about architecture and look for scalability to allow for mergers  Data availability and MI will drive demand for more efficient reporting  Need to be clear about whether taking a centralised or federated approach</p> <p>(d) Resources  Retaining and attracting talent was a key issue – need to avoid the recruitment merry-go-round  Big 4 had ‘hoovered up’ a lot of the best resource and the demand cranked up quickly  Insurers and banks are now competing for the same resources  Retention strategies are needed for the programme team, both permanent and contract staff  Change managers are a skill set needed and are valuable, in addition to risk or actuarial experts  Culture change is key and so how the programme is managed is important</p>
4.	<p>Laurie Meyers recently having joined the FSA spoke in a personal capacity about her experiences as RBS Global Basel II implementation director.</p> <p>(1) Programme Governance and Resources</p> <p>This was a very complex task  Without executive support and strong programme governance in place the Business Units won’t mobilise and take it seriously  Don’t under-resource the programme, it won’t work  Need a mix of skills within the programme</p>

	<p>IT function must be engaged fully within the programme. There needs to be one person accountable for IT Architecture and Delivery and ideally on the Steering Group.</p> <p>IT Governance and interactions are key to these types of programmes. There is a heavy emphasis on data and systems, but integration and embedding with business is the challenge.</p> <p>(2) Steering Group</p> <p>Their key role is ‘decision making’ not tracking progress There are lots of choices and decisions which they need to be pro-actively guided through Bring out the pro’s and con’s, don’t assume they understand all the issues Think about the Use Test from the very beginning BU’s will only come on board if they see the Executives are serious of this programme</p> <p>(3) Data Management</p> <p>To much emphasis on models and Pillar 1, the key issues with Basel II were with the underlying data It represented a massive change in how data was deployed and used Cultural aspects of data management change are significant Governance is needed to bring data and systems issues together</p> <p>(4) Involving other functions</p> <p>Finance and Risk need to work more closely together There needs to be clarity of roles to avoid issues Need to think about to self-assess completion before regulatory submission. Banks who sat on FSA and BBA committees were a lot better prepared than those that did not. Speak regularly to the FSA and develop a close relationship</p>
5.	<p>Simon Baker spoke about his experiences as Lloyds TSB Basel II Programme Director (2001-2008). He had previously been the Head of Risk Policy before taking this role and is now a consultant.</p> <p>Simon build on the previous 2 presentations in his remarks. Pressure on internal resources and budgets is a major challenge. Expect competition from other programmes for air space and resources. The challenge is to move the perception of the risk function from ‘barrier to doing business’ to ‘business enabler / value adder’ (do better business) Good sponsor selection is key early on. They had Deputy Group CEO and this was vital to setting off in the right direction Gap analysis / Diagnostic early on is useful to justify securing of resources They built a programme team up to a peak of 50 people and then gradually embedded people and processes in BU’s.</p>

	<p>It is important to embed each element to ensure ownership is taken and to address the Use Test          Visibility of business intelligence is key.          Don't assume the senior management in BU's understand or 'get it', they need to be educated and communicated with          Effort on internal communications should not be under-estimated          Need an open and continuous dialogue with regulators          Need professional change and programme management resources. Cannot be done by subject matter experts.          Training programmes are important and time consuming          Engaging IT function and keeping them on board is a major challenge.</p>
6.	<p>There were a wide range of questions, some of the topics discussed included:</p> <p><u>Where Banks better prepared at the start of the process than insurers?</u>          Main challenge was there we diverse practices and no industry wide standards around economic capital models          Banks often had disjointed approaches and federated structures          Training and validation around models was a key area to address</p> <p><u>Did Banks deliver their original Visions for Basel II?</u>          Need to step back at the start and think about the 'end game'          Consider the 'use test' early          Need a clear business case and benefits/ objectives          Track delivery of benefits case is important to getting there          Build in contingency for issues, hard to go back for more later          Need a post implementation review to learn the lessons          Think about tracking the benefits against the 'do nothing' option</p> <p><u>What were the benefits in retrospect of Basel II?</u>          More granular risk and finance data          Aligning capital and risk management processes          Heighten focus on risk management</p> <p><u>Was Basel II a sound model?</u>          It was fundamentally sound in principle but due to legislative compromises on launch was never completed as has been demonstrated by financial crisis          It provided for transparency, clear limits to risk appetites, linked risk to business strategy, sought good data, but not ideally implemented          The job is not finished          FSA seems to have learnt, their thematic review around data management is being implemented earlier in Solvency II cycle than with Basel II.</p> <p>How to / When to get Executive to 'tipping point' of acceptance?          Use Performance Management to influence BU's management balanced scorecards          Use competitive benchmarking to demonstrate value          Careful stakeholder analysis/ management across senior management important</p>

	<p>Manage the Steering Group dynamics from the outset with selection of membership</p> <p><u>Ethics and Behaviours aspects of Basel II?</u>  The importance of governance and accountability cannot be over stated. Executives need to own risk and risk management  Need to develop risk appetites and effective reporting and escalation to drive behaviours  Basel framework failed in terms of financial crisis where stress testing was not completed in sufficiently holistic manner, there was a failure to embed and involve BU management, Boards did not deliver their governance / fiduciary roles</p> <p><u>Emphasis on Operational Risk</u>  Banks went for sophisticated approaches for credit risk modelling but many did not prioritise operational risk. Those that did generally improved their control environment. This was not justified in terms of capital relief but did improve control environment and had a significant impact on culture change.</p> <p><u>Group Supervision</u>  Many Groups struggled in banking sector with dealing with expectations of multiple regulators. The issue was less about scope and expectations but about the timing of implementation. This is still an issue with US parent organisations where head office does not ‘get it’.</p>
7.	Phil Whittingham thanked all the speakers for their input.
8.	Alex Hindson reiterated that non-members of the SIG who had attended 2 meetings would be actively approached to join and we encouraged them to do so. Please pass on information about the SIG to colleagues and contacts.
9..	Next meeting – 16 <sup>th</sup> February 2010, 9.30am to 12noon at IRM Offices. A dial in facility will be provided as before Book early to attend as spaces are limited to 45.

Minutes taken by Alex Hindson  
January 2010