



When Two Worlds Collide: The Integration of Risk and Finance for Solvency II

WHITE PAPER

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IDC FINANCIAL INSIGHTS OPINION

The Solvency II Directive represents the most significant regulatory change in the insurance sector for over 30 years. Its impact will be felt in every facet of an insurer's business and within every operating process that supports that business. Indeed, such is the extent of the cultural and operational change required, there is an absolute necessity for insurers to instigate that change now in order to be properly equipped come the implementation date of January 2013.

The understanding is quite simple: Solvency II is overwhelmingly more than a simple "tick box" compliance exercise. Rather, it is a regulatory directive that will alter some of the traditional working practices of insurance companies of all shapes and sizes. Those that embrace this notion and the vision it encapsulates will reap the long-term benefits of industry leadership. Those that dismiss it will see not only their prosperity threatened but ultimately perhaps their very existence.

This paper aims to bring into focus some of those critical visionary elements of Solvency II. In many instances these have been pushed to the periphery in recent months by efforts simply to "comply". However, to emphasise the strategic benefit of Solvency II, they need to sit at the very heart of the debate.

A Compliance Opportunity

While it is understandable that many insurers are first and foremost concentrating their efforts purely on "getting some numbers out" — as evidenced by the recent Quantitative Impact Study (QIS) 5 initiative — experiences with Basel II in the banking industry suggest that such an approach often leads to duplication of effort and results in broader strategic opportunities being missed. One only has to consider that the banking industry is now faced with the cost of implementing Basel III, on top of the €25 billion spent on Basel II, to realise that the haphazard approach to tactical Basel II compliance fundamentally undermined its goals.

Moreover, a focus on rules driven compliance typically supports a prevailing attitude of complacency and conservatism. With every box ticked comes the reassurance of perceived regulatory approval and an

acceptance of prevailing business methods. What is critical about Solvency II is that in the long term the use test requirements demand that its principles for the better management of risk and capital be ingrained into business practices.

Compliance is therefore not simply about "getting the numbers out"; it's about demonstrating appropriate and sustainable risk management processes and, critically, having the appropriate systems in place to execute those processes routinely. In this sense, Solvency II represents an opportunity for the insurance industry to redefine the standing and role of risk management within the business. It provides a framework to better align risk, finance and the business and for strategic decision making to be founded on a greater awareness and understanding of risk.

This need to ingrain risk management into the business is underscored by the transparency requirements contained within Pillar III, which require that risk management processes be exposed to the market and to rating agencies. Given the influence of a poor rating on share price, the cost of capital and market perception, insurance companies can ill afford to fall foul of rating agency scrutiny.

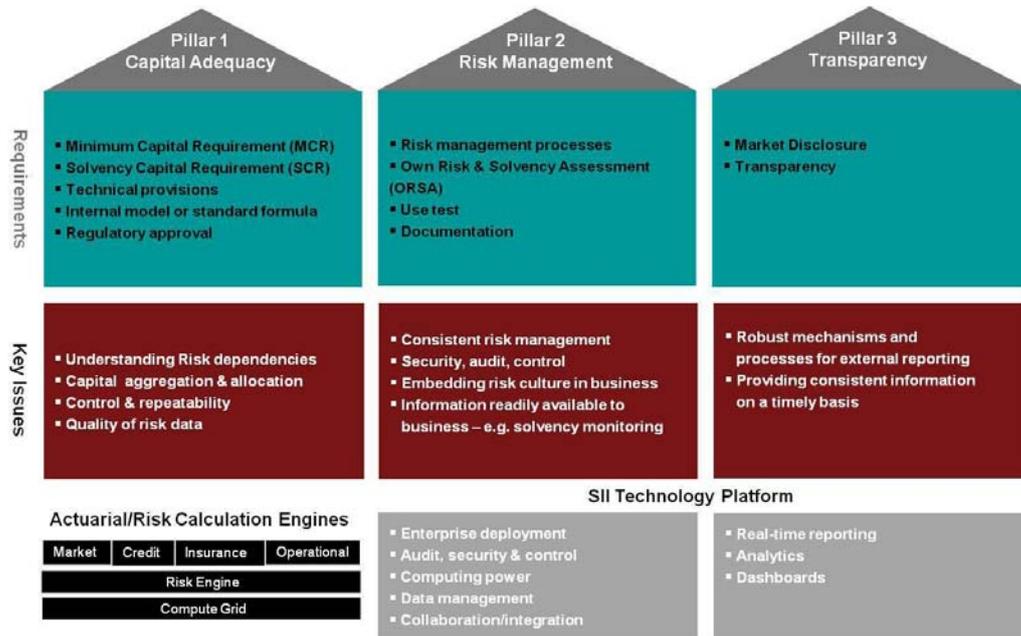
To that end, superior risk management practices need to be evidenced as integral to the operation of the business. Those that seize the opportunity to leverage risk management as a competitive advantage have nothing to fear from disclosure; those that neglect to reassess the value of risk management will be forced to run the gauntlet of market dissatisfaction.

Repositioning Risk Management

It's important to stress that Solvency II is not simply a reaction to the recent financial crisis — the essence of the framework has been in place for far too long for that to be the case. Nevertheless, what is apparent is that it addresses many of the fundamental weaknesses that came to the fore in the post-Lehman's market turmoil. Its intention is to establish a culture of inherent risk management at the centre of the business and to transform the role of the actuary, from being shrouded in complexity and entrenched in isolation, to become a critical facilitator of business awareness and opportunity. This goal is founded on three essential pillars of regulation.

FIGURE 1

The Three Pillar Requirements of Solvency II



Source: IDC Financial Insights, 2010

IDC Financial Insights believes the requirements held within these three pillars present insurers with an opportunity to employ risk management as a competitive differentiator moving forwards. To do this, the risk function has to evolve beyond its traditional boundaries. It has to be leveraged to create value as well as to cost-effectively protect the interests of policyholders, shareholders and other key stakeholders.

Under the Solvency II regime, effective risk management should be considered a matter of using the information derived from analytical risk assessment to make better strategic decisions and drive growth and profitability appropriately. In this way, risk management becomes a proactive, ongoing initiative tasked with creating value in addition to protecting assets and guarding against failure.

Risk information and the risk function must operate as a partner to the business, serving as an enabler rather than a barrier. That is not to say that risk should simply accede to the business. The goal should be to optimise risk information to identify strategic business opportunities within the parameters of the risk appetite of the organisation, as defined in the Own Risk Solvency Assessment (ORSA). Indeed, the ORSA is critical to the positioning of risk within the business in that it formally establishes the appetite for risk and the strategy for managing that appetite.

By optimising risk and capital management, insurers with effective and integrated risk system capabilities link risk and financial

profitability objectives. In this way they can improve strategic capital decisions and increase shareholder returns. Furthermore, they better coordinate risk measurement, capital allocation, performance assessment and management across the enterprise.

The Critical Challenges

Of course, no one is suggesting it is a straightforward task to reposition risk management this way. There are significant cultural and technological challenges in transitioning from a typically decentralised legacy risk environment to an enterprise risk model under Solvency II.

Fundamentally, IDC Financial Insights believes that this strategic undertaking revolves around five key elements. These are:

- **Collaborative risk management.** Risk management can no longer afford to be the sole domain of the actuary, reliant on desktop systems and manual "workarounds" for which the intellectual IP resides with one individual. Insurers looking to embed risk management within the enterprise to satisfy the demands of pillars II and III, need to work towards a more centralised framework that employs consistent processes. This framework has to be supported by enterprise systems that allow for the aggregation of data and reporting across all elements of the organisation. In this sense, we can define enterprise systems by stating that:

Within an enterprise system, all the interactions between participants in an overall process can work together in a fully connected environment.

- **Data quality and consistency.** Disparate data infrastructures and dependencies have created huge issues around the consistency of risk analysis for many insurers. The success of Solvency II initiatives will be very much defined by the success of efforts to rationalise data sources and employ consistent data standards across the organisation. Ultimately, the quality of the data underpinning the risk function will be critical in delivering relevant understanding to the business. The essence of the rationalisation effort will be to create a unified data platform, with common metadata, which engenders confidence in the output of risk and financial modelling.
- **Increased computational power.** The extreme market volatility seen in the wake of the collapse of Lehman Brothers vividly demonstrated why risk and financial analysis now needs to be conducted on a more timely basis. It is no longer sufficient for insurers to deploy business analytics and operational models on a weekly, monthly or even quarterly basis as they did in the past. The management of defined working capital needs to be conducted on a daily, or even intra-day, basis to deliver meaningful business insight and strategic advantage in putting that capital to work. Additional compute power is inevitably required to support this shift to a more dynamic operating environment.

- **Risk adjusted performance measures.** Insurers must seek to develop risk-based performance measures that help formalise the relationship between risk and return within the business. These measures must make sense across business lines, horizontally and vertically in order to ensure the relevance of risk analysis in helping to drive the identification of business opportunity.
- **Agile capital allocation.** Enhanced agility is necessitated in the capital allocation process, as increased capital requirements and scrutiny of economic capital processes come to demand the clear alignment of capital utilisation to strategic goals.

It is these five elements that will form the basis of the analysis delivered in this paper.

IN THIS WHITE PAPER

Solvency II places a clear emphasis on insurers to:

- Measure and meet performance objectives with appropriate adjustment for risk
- Build price, product and reinsurance strategies with a true understanding of risk exposure
- Better understand how financial performance is impacted by threats to liquidity, catastrophic events and capital adequacy

Generally, where insurers have been shown to have cultivated poor risk cultures and to have managed risk inappropriately, it is evident that relationships between risk, finance and lines of business have been inadequate. Access to meaningful cross-functional information has been limited and the information that has been available has lacked relevance and integrity.

This paper will therefore analyse the ways in which alignment can be improved and highlight how these improvements can help to redefine expectations in terms of strategic planning, capital allocation and performance management.

Insurers now face a stark choice in preparing for the onset of the Solvency II capital adequacy regime. They can either get on the front foot strategically and lead the way into the new business environment that awaits, or face the threat of being outperformed or even acquired by new and emerging competitors that have recognised and adapted to the imperatives of that new world.

SITUATION OVERVIEW

Collaborative Risk Management

Traditionally, the varying business functions within an insurer have tended to operate in relative isolation of one another. Nowhere has this been more evident than in respect of critical "support" functions such as risk and finance. However, with the advent of Solvency II, there is now a clear regulatory mandate in place to compel companies to adopt a more dynamic and integrated approach to the business as a whole and certainly with regard to the operation of risk management and financial planning.

Solvency II is undoubtedly a significant catalyst for change, with its strong emphasis on pervasive risk management and good governance. As already touched on, however, there are goals to be achieved that stretch beyond simple compliance to encompass wider business objectives and industry differentiation. These goals are to deliver real benefits by focusing on managing and understanding risk information in order to create value for the organisation as a whole and gain competitive advantage.

The essence of such benefits can be found in a stronger and more collaborative approach to risk management. Currently most insurers' actuarial and risk systems are desktop based and manually oriented. These systems and the intellectual property that governs them reside solely inside the actuary department, with little outside understanding or visibility of either the systems or the processes that support them.

In many instances, actuaries have been left to their own devices, with risk ownership bestowed on them by business functions with little interest in understanding the broader implications for the balance sheet. Indeed, in many cases actuaries have gradually taken on greater ownership of the business as a consequence of their enhanced awareness of risk-weighted business opportunities.

While such practices are actually a step in the right direction in terms of initiating risk-weighted business strategies, they have created a legacy of siloed technology and processes. This has left risk management isolated and shrouded in actuarial shorthand. There is little or no transparency and collaboration across the wider enterprise and an absolute dependency on individual actuaries to instil a responsible risk culture.

Enhanced Alignment of Risk and Finance

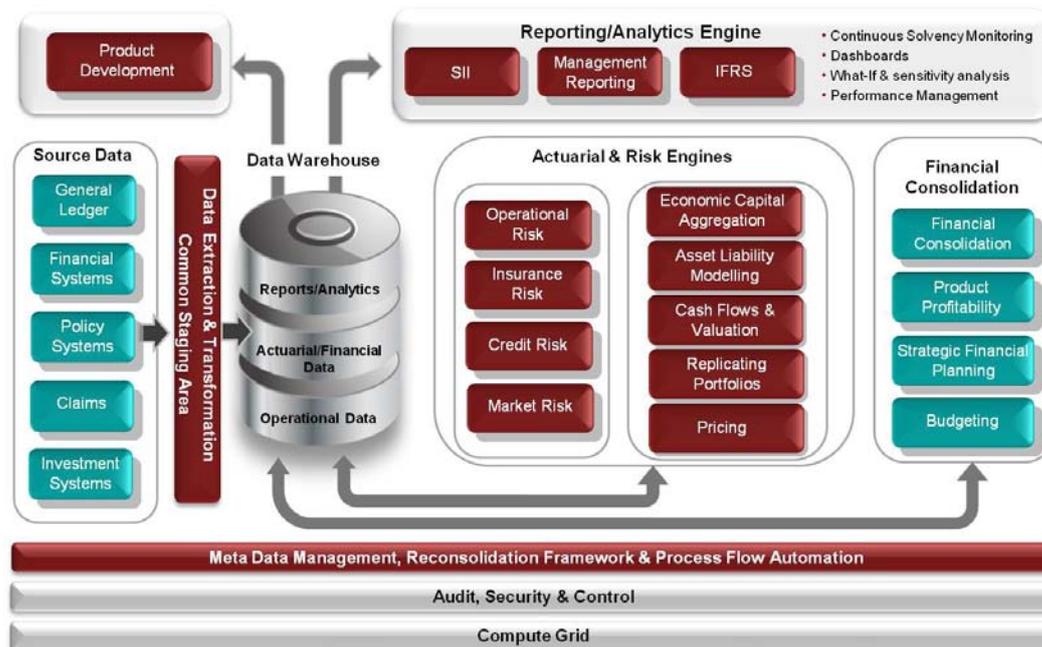
Solvency II demands that actuaries be brought to the very heart of operations, as risk and capital modelling become a pivotal part of the business. Over the next few years this will mean they need to work much more closely with some of their senior colleagues — particularly the CRO/CFO but also within the business. Although this represents a cultural change for both the company and the actuaries themselves, in the end both will benefit enormously.

Consequently insurers must seek to enhance and evolve their existing desktop and manual systems into some form of enterprise risk technology framework that facilitates greater collaboration across the organisation and more relevant dissemination of risk information. This is likely to take some time and will inevitably involve a degree of compromise. Thus the end game is to drive towards a full end-to-end enterprise risk management solution that can link with existing risk components to provide both immediate benefits and a long-term strategic platform to ultimately replace existing desktop systems.

Figure 2 illustrates a typical enterprise risk technology platform to which an insurer might aspire to in order to meet both the requirements of Solvency II and better risk management within the business. Any such platform essentially operates on an end-to-end basis from data through to capital modelling engines, on to results and reporting and, finally, making risk information broadly available to the enterprise as a whole.

This broad availability of risk information represents a critical step forward in the awareness and understanding of risk factors within the wider context of financial performance. To that end, Figure 2 highlights an important linkage between the evolving risk platform and core financial systems. This linkage represents an essential cog in the Solvency II wheel in integrating risk modelling with the balance sheet. Ultimately, this integration allows for a better representation of risk factors and their impact on the overall performance of the enterprise.

It is abundantly clear that in order to transition to this more integrated and collaborative risk function, there will have to be a move away from the current dependence on silos. Technology maturation will undoubtedly play a major part in this as well as in shaping the future of both actuarial modelling and risk management infrastructures.

FIGURE 2**Proposed Technology Infrastructure for Solvency II**

Source: IDC Financial Insights, 2010

Data Quality and Consistency

Another legacy of historically siloed actuarial and finance departments is a fundamental absence of strong risk and finance data governance. The path to Solvency II compliance and indeed a more dynamic, integrated and risk-aware enterprise is built on strictly defined data standards. These standards are required to engender confidence in the quality and consistency of the data that underpins risk analysis, as well as helping to drive a common understanding of risk data and its impact across the business.

The nature of large and diverse insurance companies is such that risk and modelling systems typically draw data from a whole host of other systems to feed into the underlying actuarial/risk models. Critically, the output of these models is only as good as the data input. Therefore underlying data quality is absolutely fundamental to a successful Solvency II programme, given that the risk models and measurement relies on the data provided.

Moreover, if risk and finance data is to be integrated to deliver meaningful business analysis and forward-looking forecasts, there is an absolute necessity for those data elements to be robust. If that data is inaccurate or inappropriate, the integrity of the models, the analysis and the relevance to the business is compromised.

Of course, enforcing strong data governance by creating a logical and functional enterprise data architecture is not a simple task. Large

insurers typically have complex operating and organisational structures, often with multiple subsidiaries scattered across the world. Data is extracted from numerous disparate sources and rolled up across various lines of business and functional areas.

In a Solvency II world where organisations are required to consolidate, store and track large amounts of data from across the entire group, some form of Solvency II datawarehouse or mart is critical. The role of this datawarehouse is not only to store all risk data but also the output from the actuarial modelling engines. Storing this modelling output in the warehouse means that certain group analyses such as aggregation and currency conversion can be undertaken as well as integrating actuarial and finance data.

Indeed, as previously set out in Figure 2, a Solvency II datawarehouse inevitably becomes the heart of the organisation's risk management infrastructure as a centralised repository for risk and financial management information and reporting. Ultimately, if introduced properly, it is this datawarehouse that drives the shift from decentralised, ad hoc risk management to centralised, cohesive enterprise risk awareness.

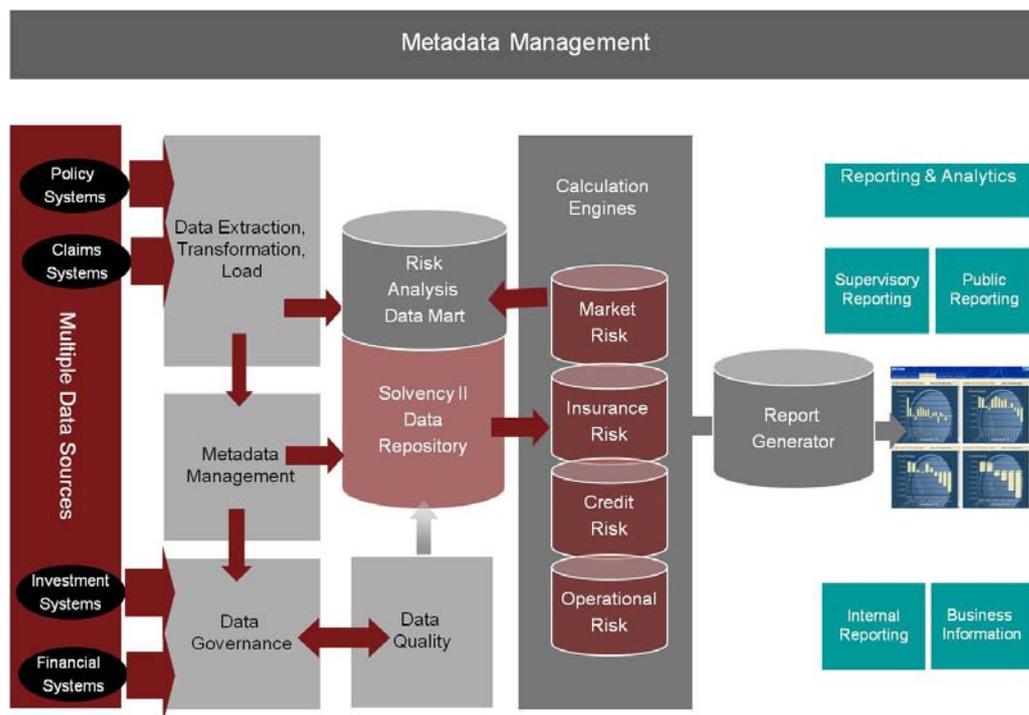
Audit, Security and Control

There are of course stringent audit, security and control processes demanded by Solvency II that impact data management within the wider context of the risk/actuarial environment. The directive demands that insurers do significantly more than simply store data — the transformation process must be transparent, documented and repeatable to stand up to audit enquiries.

Indeed, Solvency II determines that audit trails for data are as important as audit trails for models and assumptions. Incorrect data can obviously have a detrimental impact on the ultimate results produced by the models — so integrity is crucial. The quality of the incoming data should be systematically tested before running models. A large amount of time and resource can be wasted running a risk model against data that is incorrect.

Such an approach builds on the groundwork laid by SOX and various corporate governance initiatives. On a broader level, Solvency II compliance demands that insurers have the ability to reproduce risk model runs with exactly the same model, data, assumption sets and external inputs. The ability to implement security protocols, version controls, date stamps, and record authorities and approvals is also critical.

Figure 3 depicts a typical data architecture for Solvency II.

FIGURE 3**A Typical Data Architecture for Solvency II**

Source: IDC Financial Insights, 2010

Increased Compute Power

The immediate aftermath of the collapse of Lehman Brothers saw extreme volatility in the financial markets, the like of which hadn't been seen in a generation. Risk exposures were swinging wildly, with insurers literally in the money on their market positions one minute, then out of it the next.

Of course, with long dated policies, the technicalities of intra-day movements only held limited relevance, but such extreme market movements reinforced the prevailing regulatory belief that insurers should be better informed of their risk position on a day-to-day basis. This represents a marked shift for an industry more used to modelling risk factors on a monthly or even quarterly basis. Insurers are now tasked with delivering more timely and detailed risk analysis.

The advent of Solvency II formalises the demand for better informed risk-based decision making, which in turn is driving insurers to develop ever more complex, granular and accurate risk models. Insurers are seeking to build a variety of flexible financial models capable of performing a multitude of tasks. These range from calculating economic capital to measuring reserve uncertainty to optimising reinsurance programmes to performing asset/liability management and measuring risk-adjusted performance.

Unsurprisingly, these actuarial and risk models are highly complex entities involving multiple combinations of policy data, assumption sets and economic scenarios. Stochastic interactions coupled with the requirement to run tens or hundreds of thousands of scenarios means that desktop modelling systems do not have adequate computing power. Consequently insurers are required to turn towards high-performance grids to provide the capability to run risk models not only more quickly but also on a more frequent basis.

For all but the smallest insurers, desktop-based systems simply do not have the capacity to run such intensive calculations on a regular basis. The complexity of some stochastic insurance models is now so great the grids comprising several thousand compute cores are typically required for large-scale insurers. As models become even more complex with greater granularity and accuracy, so the demand for even more computing power will intensify.

That being the case, insurers must now develop an architectural roadmap that fully accounts for the need to support risk systems and models with a high-performance infrastructure. As the industry moves forward, so the benefit of time-sensitive analysis will become accentuated. Those able to quickly understand the impact of volatile markets and make strategic business decisions on the back of that understanding will achieve significant differentiation over the competition.

Risk-Adjusted Performance

Solvency II is fundamentally about calculating an insurer's capital requirement to meet their liabilities adjusted for the unique risks within their business. This is termed "risk adjusted" or "economic" capital. The majority of insurance companies have opted to model this internally (referred to as an "internal model") in order to ensure that capital allocation is relevant to the risks faced. (An internal model is one in which the economic capital calculations, although based on the CEIOPs regulations, are essentially adapted to reflect the unique risk structures, diversity and profile of the specific insurer. Most large insurers will adopt an internal model to take advantage of risk diversification benefits which should result in a smaller economic capital figure.) Internal modelling presents an opportunity to move beyond the standard model approach prescribed in the CEIOPs regulations and to seek advantage in areas such as:

- The deeper insight and understanding of risk within the business and its impact
- Improved product design and pricing
- Improved capital allocation through more accurate risk modelling
- Improved risk and financial information for business decision making and strategic purposes

- Minimisation of the cost of capital and reinsurance by making risk more transparent and measurable

Each of these goals relies on bringing the concept of risk adjusted performance management to the centre of their strategic planning. Fundamentally, this concept offers insurers the opportunity to formalise the process of risk and return, both on an enterprise and subsidiary level. In this way, risk appetite, economic capital measurements, capital allocation, remuneration and other performance incentives become linked in a transparent and overt manner.

A number of risk-adjusted performance measures have been introduced in recent years, including economic value added (EVA) and risk-adjusted return on capital (RAROC). However, the true value of these measures is determined by the quality and granularity of information.

As awareness of capital utilisation within individual business units becomes critical, so there is a need to enhance the granularity of the information delivered to those business units. No longer will it be sufficient for senior management alone to understand how capital is being put to work. It will become a fundamental requirement that underwriters, product developers and planners understand the capital implications of their decision making.

Agile Capital Allocation

The merits of the regulatory agenda have of course been endlessly debated, as will forever be the case where regulation has a material impact on the conduct of business operations. Nevertheless, what is absolutely clear is that as a consequence of Solvency II, insurers will have to become much smarter in their allocation of capital and in their alignment of capital to strategic goals. In effect they will need to ensure that their capital is "put to work" with optimal effectiveness. It is here that risk-based judgments become critical to revenue growth and effective financial performance.

As noted previously, economic capital has long been the preferred normalised measure of risk and will continue to be under Solvency II. As such it will underpin the strategic view of capital utilisation and financial management in the majority of insurance institutions. However, there are some critical considerations for insurers in applying economic capital, for in many instances capital is attributed retrospectively or judgementally rather than as part of a considered process that formally incorporates risk appetite into revenue and performance objectives.

Moreover, while insurers have developed methods to model various risks within risk types, products and lines of business, economic capital processes can begin to break down when different lines of business (e.g., property and casualty — also known as general insurance, health and life) and a broader array of risks are considered (e.g., operational risk, counterparty risk) and correlated. In turn, this

undermines the so-called "diversification benefit" of offsetting risk across a range of business units.

Ultimately, capital allocation needs to be supported by the ability to:

- Calculate and aggregate an insurer's economic capital from marginal risk distributions, loss functions and dependency structures
- Allocate capital by risk type at multiple levels of granularity, allowing for the group's legal structure
- Build on existing actuarial models to provide robust, constantly up-to-date economic capital reporting, aggregated consistently across life, property and casualty and asset management businesses
- Report capital requirements on both a standalone and fully diversified basis, and with full allocation of diversification benefits back to their sources
- Allow for user-definable reports and support full drill-down capabilities

It is here that the organisational, technological and data integration of the risk and finance disciplines becomes critically important. In order for the capital management process to accurately reflect the stated risk appetite of the institution and its diversified risks across the group, as set and defined in the ORSA, the two elements need to be tightly coupled and managed through the cycle. For capital and resource allocation to be strategically effective, risk appetite needs to be integrated alongside income, investment and expenditure in day-to-day management systems.

FUTURE OUTLOOK

The key impact of Solvency II over the longer term will be to drive insurers to replace their existing actuarial and risk desktop/manual systems with an integrated actuarial, risk and finance platform deployed on an enterprisewide basis. This will allow them to evolve into dynamic organisations that embrace risk without fear or recklessness and with full understanding of the implications of that risk on the financial position of the organisation.

The full benefits of this visionary approach are clearly long-term ones and as a consequence a major challenge will be to convince the business to invest in such a comprehensive programme when the immediate focus may be simply to achieve minimum compliance standards. Nevertheless, a business that can see beyond the simple number production of the compliance process will ultimately deliver long-term competitive differentiation.

Such differentiation is founded on an enterprise framework that encompasses the following:

- An integrated Solvency II/risk datawarehouse with built-in data management and quality tools providing a centralised repository for policy, assumption and scenario data and to store modelling results. This is critical to improve data quality which is at the heart of a Solvency II project, and data must be accurate, complete and fit for purpose
- A powerful actuarial/risk calculation engine for models that value asset/liabilities on a market consistent basis for Solvency II capital calculations and other market, insurance and counterparty risk modelling
- Scalable computing power to run ever more complex actuarial/risk models frequently and potentially on an "on-demand" basis
- Reporting and analytical capabilities to generate the reports, dashboards and information required for regulatory, market and internal business purposes
- Full audit, tracking and security controls associated with enterprise solutions necessary for the transparency and compliance required by pillars II and III of Solvency II
- Enterprise deployment capabilities for integration into existing risk and financial systems and for providing access to risk information across the business for use test purposes and beyond

Challenges/Opportunities

Challenges

Insurers face a whole range of challenges in implementing a Solvency II programme, many of which have been touched on in this paper. Fundamentally, those challenges revolve around the following key questions:

- **Data quality.** How do we ensure that the risk data is consolidated, accurate and validated? Can we trust the data?
- **Use test implementation.** Is the internal model genuinely important and relevant to the business? Is it widely used in decision making? How do we show to the regulators we are using the internal model in decision making for the use test? How can we make risk information available throughout the organisation?
- **Actuarial/risk management processes.** Do we have defined, controlled and documented processes? How do we aggregate risk/capital results from multiple systems?
- **Auditability and transparency.** How do we audit, track and control our actuarial and risk management processes? How do we demonstrate to the regulators that controls are in place?

- **Documentation standards.** Is there proper documentation to describe the models, the supporting risk management processes and how it is kept up to date? How do we ensure documentation is kept up to date?
- **Computing power.** Do we have the raw computing power to run complex actuarial/risk models quickly and on demand?
- **Integration.** How do we integrate actuarial, risk and finance systems to give a consolidated view for Solvency II purposes?

Moreover, all of these questions are posed within the context of the broader demand to drive tangible business benefits from the Solvency II programme.

Opportunities

It is the business benefits and the broader context of opportunity that should really focus the minds of insurers currently assessing the Solvency II landscape. The opportunities that are presented crystallise around embedding a true risk-based culture with the organisation that really understands risk and the impact it has on business decisions. Those organisations that utilise Solvency II to step beyond mere compliance and have a clear strategy to drive business benefits out of their Solvency II programme will, in all likelihood, be the winners.

Equally those insurers that have multiple lines of business and operate globally are likely to maximise capital diversification benefits and thus be more efficient in their use of capital. This can translate into a number of competitive advantages against smaller insurers.

Finally, an investment in a scalable risk technology architecture today goes some way to future proofing against further upcoming regulation, such as IFRS phase II. Beyond that, it creates a legacy of agility that will prove essential in dealing with future market volatility and upheaval. Those with a deep understanding of the risk-adjusted dynamics of the market will certainly be in a position to react quickest and most effectively as the business landscape evolves.

CONCLUSIONS

So, what impact will Solvency II have on the market as we move forward? Naturally, to a degree this is unknown but the following is a plausible assessment of the future evolution of the industry.

- **Consolidation.** Larger, well capitalised insurers may acquire financially constrained smaller players. Diversification benefits for larger insurers will also mean they are best placed to utilise surplus capital.
- **Increased use of reinsurance.** To improve overall solvency positions, for example to reduce life mortality/morbidity capital.

- **Capital generation.** Raising capital may become more difficult particularly for insurers with less than excellent ratings and good track records.
- **Different products.** Solvency II will cause insurers to closely examine the types of products they sell and the capital required to support those products, for example repricing particularly for annuity type products and those with inherent guarantees.
- **Group capital requirements.** Insurers usually prefer to hold capital centrally and not at an individual business unit level as required by Solvency II — this may lead to some restructuring such as converting subsidiary companies into branches.
- **Costs of compliance.** Complying with Solvency II and maintaining compliance will cost a significant amount of money, particularly for multinational insurers.

The fundamental fact is that insurers must recognise Solvency II as an opportunity to redefine the relationship between risk, finance and the business. Those that do not seize this opportunity will not only miss the chance to evolve the sophistication of their business forecasting and understanding of market dynamics — they will leave themselves at risk from both the competition and the market itself.

Equally, those that are unable to support their financial statements with granular, risk-adjusted performance attribution will alienate policyholders, shareholders and regulators that are now demanding complete transparency into revenue streams and profitability. In the new financial ecosystem insurers will no longer be taken at their word — they will be required to evidence it every step of the way. On the other hand, those that opt to develop a more sophisticated and risk-aware operating model will be confident in their ability not only to ride out the next storm but to emerge from it as a leader.

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