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INSURANCE

# Solvency II Readiness Survey in Central and Eastern Europe

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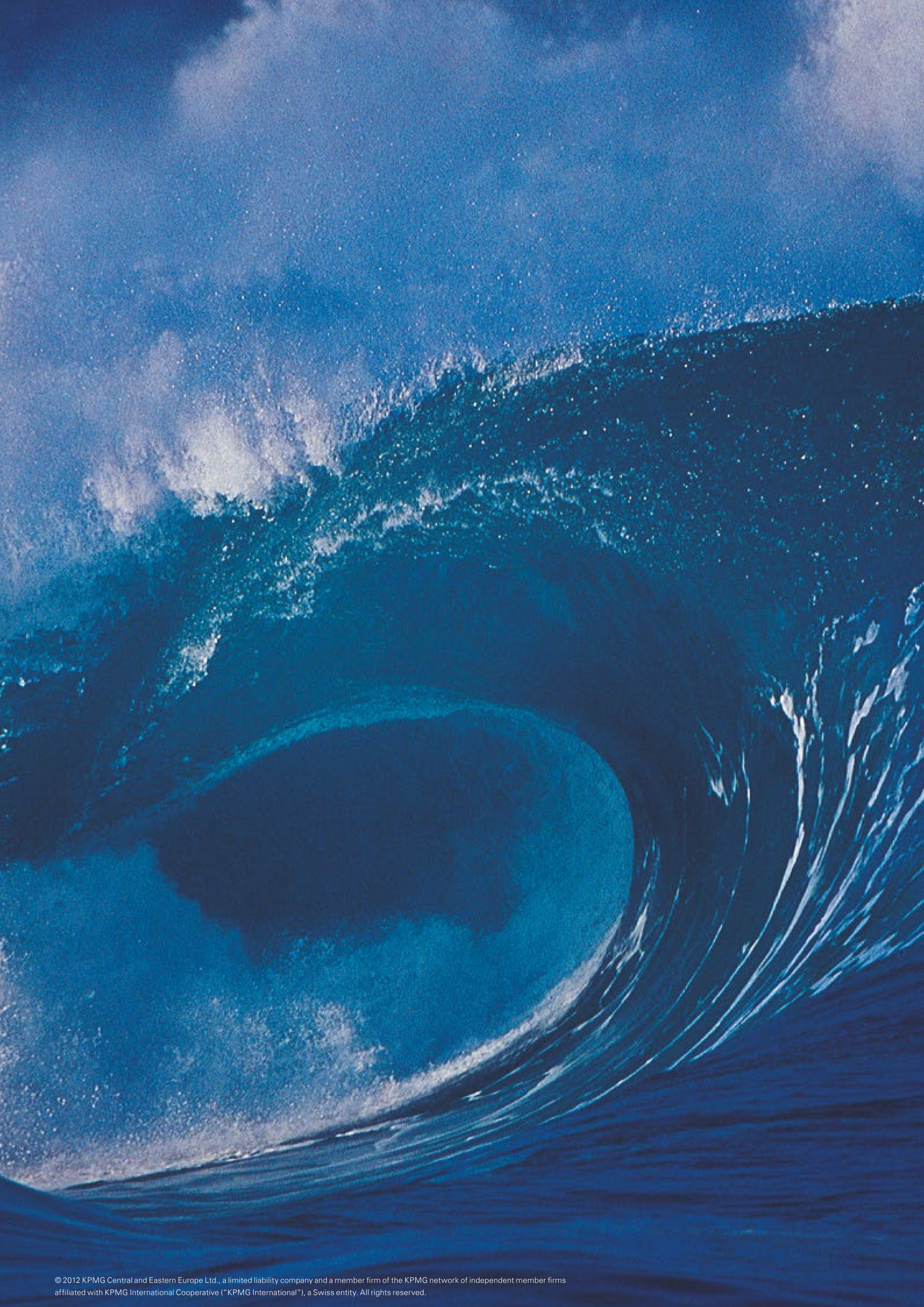
KPMG in Central and Eastern Europe



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# Foreword

It gives me great pleasure to present our second Solvency II Readiness Survey for Central and Eastern Europe (CEE). This year's survey seeks to update and expand on our initial survey, published in July 2010.

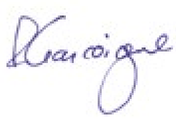
This survey can only, by nature, provide a snapshot of the status of Solvency II at a specific time. At the time of writing the timeline for Solvency II is itself uncertain, with senior industry representatives pushing for greater clarity and realism in the timetable[1].

It is evident from the responses that there is no single recipe for a successful Solvency II implementation. This report seeks to summarize information about the current state of implementation of Solvency II. For some of the insurance companies in the region this status report should build awareness of the extent of work outstanding and act as a stimulus for further debate and discussion. Many of the issues highlighted in this report could significantly affect boardroom decisions for CEE insurers and their parent companies.

In working with the majority of the top regional insurance groups on their Solvency II projects, we are often asked about benchmarks against an industry peer group – how far are the other companies, how have they approached certain problems and what is the emerging best practice (or the range of practices) on technical or practical issues? We therefore believe that this survey will provide some valuable input in this respect.

The survey required a significant investment of time and resources on the part of the contributors and in particular our thanks go to the respondents who gave freely of their time and views in completing our questionnaire. We hope that in reading the results you will find the report a useful guide to the current state of play in our region and an insight into how much progress has been made, and still needs to be made, in order to implement the Solvency II regulatory regime.

KPMG member firms throughout CEE have teams of professionals dedicated to working with insurance companies in implementing Solvency II, including specialists in all the key areas – modelling, capital management, governance, risk management, ORSA, reporting, data, project management and strategy. If you would like to learn more about how our member firms can assist your business, please contact one of our professionals listed at the back of this publication or your usual KPMG contact.



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1 *For example, letter from EIOPA Chairman, Gabriel Bernardino, to European Commissioner, Michel Barnier, dated 4 October 2012 https://eiopa.europa.eu/publications/other-documents/index.html*

# About this survey

This survey was carried out by KPMG's Risk and Actuarial Services practice in Central and Eastern Europe ("KPMG") in order to assess the state of readiness of insurance companies in the region for Solvency II. We were also looking to follow up on our 2010[2] survey to get an impression of the progress that had been made in the intervening two years.

The timing of the survey – responses were gathered in the second quarter of 2012 – is significant and should be borne in mind in analysing the results. As the timeline opposite illustrates, the final deadline for the implementation of Solvency II has been a moving target and, at the time of writing (October 2012), there is still no certainty over whether the final date will be 2014, 2015 or even later.

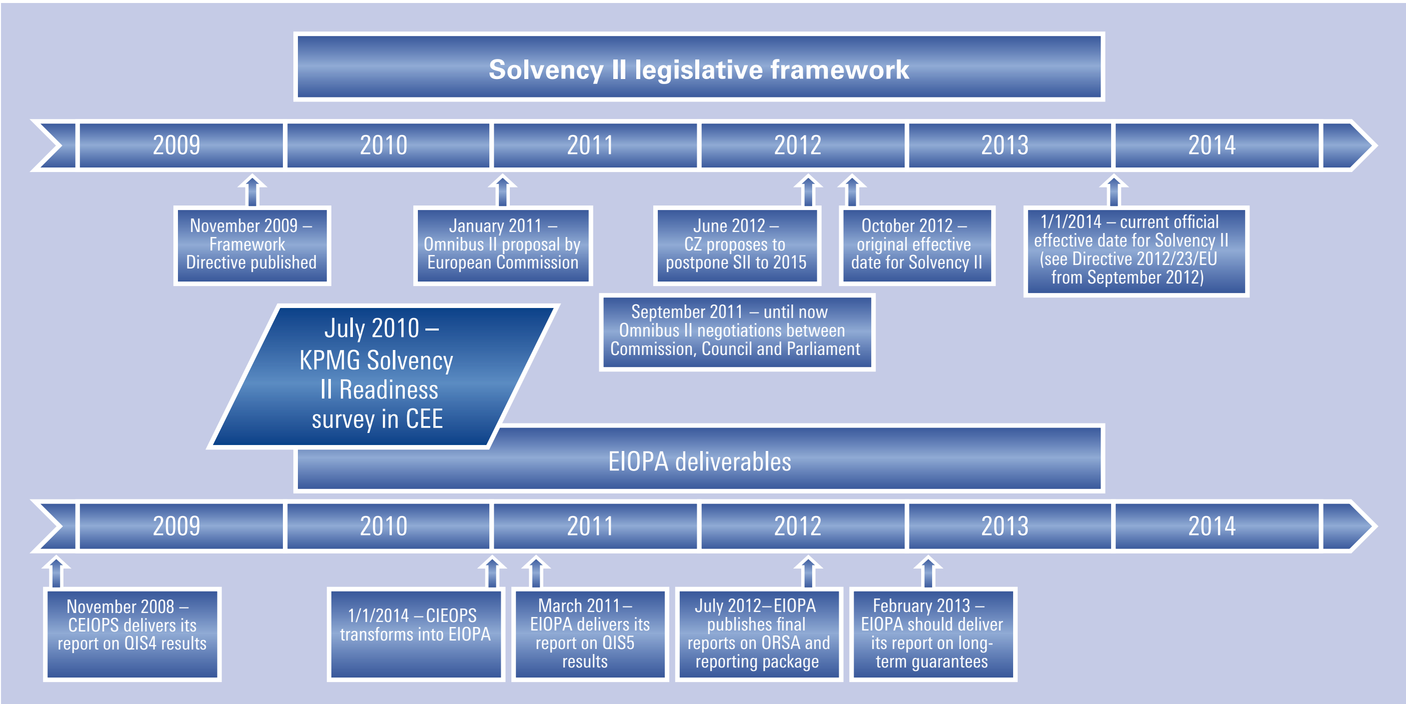
Therefore, at the time of this survey, most companies would have been basing their plans on an implementation date of 1 January 2014, resulting from the European Commission's proposal for postponement of the transposition and application dates of Solvency II which was published in May 2012[3].

Also the detailed requirements of the draft Level 2 implementing measures have not been subject to substantial amendments since October 2011 and the majority of them were extensively tested in the QIS5 exercise. Indeed, a full 87% of respondents had participated in QIS5. Nevertheless, some of the areas remain unclear, pending agreement on Omnibus II – including long-term guarantees and reporting requirements. Consequently, even the revised implementation date of 1 January 2014 appears unrealistically optimistic.

2 *KPMG Solvency II readiness survey in Central and Eastern Europe, July 2010 http://kpmg.com/CEE/en/IssuesAndInsights/ArticlesPublications/Pages/kpmg-solvency-II-readiness-survey.aspx.*

3 *Proposal for a Directive amending the Solvency II Directive (2009/138/EC) as regards the dates of its transposition and application and the date of repeal of certain Directives, 22 May 2012 – European Commission proposal 10230/12*

> *"Solvency II will enter into force as planned on 1 January 2013. Where necessary, the Commission will introduce measures to ensure a smooth transition, but I am against a delay to the introduction of Solvency II"*
>
> *Michel Barnier, European Commissioner, 1 June 2011, Letter to representatives of CEA, PEIF, CFO Forum, CRO Forum*

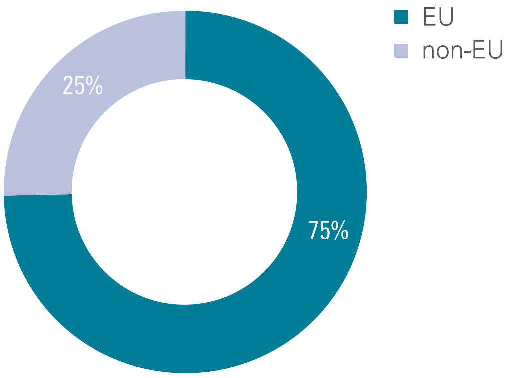



> *"In general, we have strong concerns whether the setting of the transposition and application dates is realistic. In our opinion, a period of six months, delimited by the dates 30 June 2013 and 1 January 2014, is not sufficient for preparation of all stakeholders to a new regime, especially not for approval procedures…. For these circumstances, which create a legal uncertainty, the Czech Republic will propose, within the Omnibus II Directive negotiations, postponement of application of the Solvency II Directive to 1 January 2015"*
>
> *Statement of the Czech Republic, Council of the European Union, 10653/12 ADD2, Brussels, 6 June 2012*

Following on from our previous survey, this year we have focused more on practical issues connected with Solvency II and the implementation projects running in companies. Respondents were also asked to provide their view on the added value of Solvency II in managing their businesses.

KPMG received 84 responses, from insurers in 11 countries, a similar sample size to the 2010 survey. The respondents cover a broad spectrum of operations – subsidiaries and parent companies; life, non-life and universal; large and small – representing a realistic cross-section of the CEE insurance markets as a whole. The inclusion of responses from companies outside the European Union has provided extra dimension to the results, reflecting the requirements imposed by their EU-domiciled parents as well as the intentions of other regulators in the region to move towards full implementation of Solvency II.

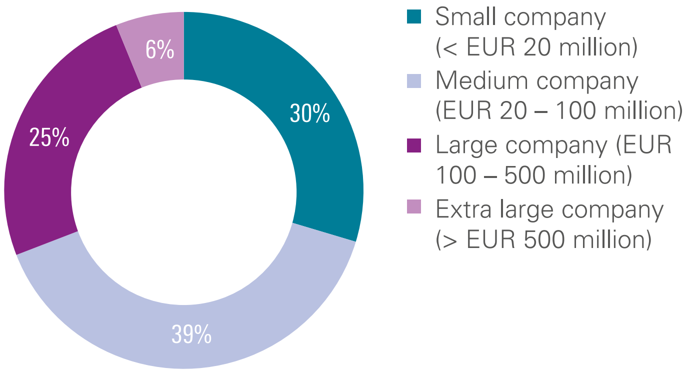
## Origin of respondents



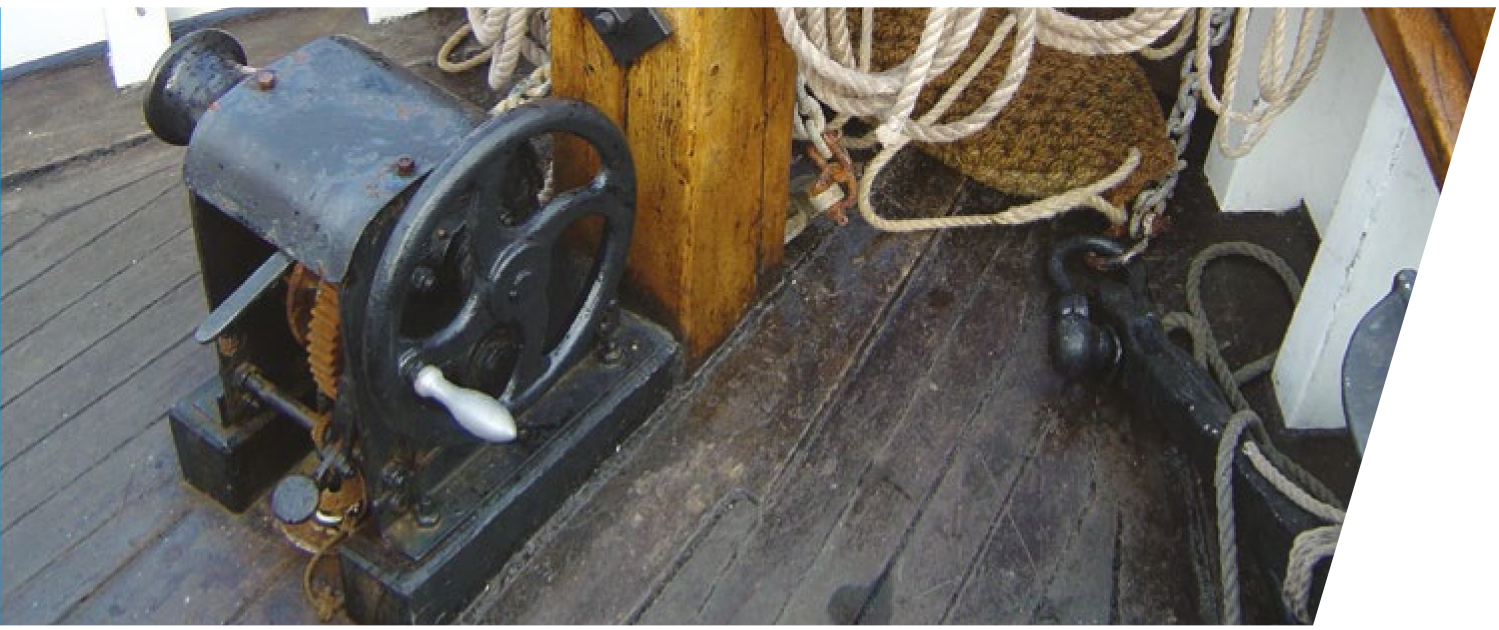

*Source: KPMG Survey*

We have divided the respondents to groups according to their size:

## Participating companies by size (in gross written premium)




*Source: KPMG Survey*



# Executive summary

**Significant progress has been made...**
In our 2010 survey, we expressed concern that CEE companies had been very slow in getting to grips with the requirements of Solvency II. At the time, some 44% had not even begun working on the necessary changes and a further 35% had limited their work to the quantitative aspects of the regulations, Pillar I. This picture has clearly altered significantly in the intervening period. As a result insurers are now facing some of the more specific practical problems in implementing Solvency II.

**...but much work remains to be done**
Despite the obvious progress made in the last two years, a significant amount of work still needs to be done by CEE insurance companies to meet the implementation deadlines. This remains true, even if deadlines have been pushed back since the survey was conducted. Most of the companies which participated in the survey planned to be fully compliant by the end of 2013 with 31% not expecting to be compliant before 2014. Key areas such as documentation, risk management function and dry runs for ORSA or reporting are in a number of cases not planned until 2013 or even 2014.

**Form over substance**
In several areas the results of the survey indicate that companies may be taking an approach of satisfying the legal form, rather than the substance of the requirements. For example 56% of respondents plan to calculate the SCR annually, raising the question as to whether this is really embedding risk management into the business. In addition, there may be concerns that the involvement of the Board of Directors in the risk management processes of companies on an ongoing basis may not be sufficient to meet legislators' expectations.

**Dwindling enthusiasm for internal models**
Only 19% of companies intend to use a full or partial internal model for SCR calculation. This figure has decreased significantly since 2010 when the figure was roughly 40%. This may be the consequence of firms realizing the difficulties and resource needs of building a partial or a full internal model and the attitude of larger groups to rethink their own IMAP (Internal Model Approval Process) strategy. This pattern is, however, consistent with KPMG's observations in other markets in Europe.

**Pillar II – in progress but risk management not being embedded in operations**
It seems that Pillar 2 is still being neglected by companies, since not all functions are in place or the ORSA has not yet been tested in dry-runs. The fact that 62% of companies do not plan an ORSA dry run before 2013 at the earliest, if they perform one at all, is a cause of some concern.

The results suggest that the regulatory requirements are not clear enough for the industry and the delays we have seen in the Omnibus II and Level 2 regulation negotiations have not contributed to a better understanding of the requirements.

**Data and reporting – pushed back to 2013 (and beyond)**
In 2010, more than 40% of respondents claimed that they had not yet planned or even considered Pillar III in their Solvency projects. As companies have begun to address data and reporting issues in 2012 they have realized the sheer volume of work which remains outstanding. Many respondents to this survey have identified Pillar III as the major challenge ahead. With half of companies having 50% or less of the data required for completion of the Quantitative Reporting Templates (QRTs), there remains significant work to be done in 2013.

> *"Acceptance, understanding and full support by management is the biggest challenge in implementing Solvency II"*

### National regulators are active but insurers would welcome more guidance

Companies acknowledge that national regulators in CEE have been much more active in supporting and pushing the industry towards the goal of implementation. This has largely involved educational sessions, workshops, on-site inspections, dialogue on specific topics and local calculations. However, despite this active role of national regulators in the preparations for the new regime, the industry would welcome more guidance to avoid misinterpretations of the legislation and hence significant development work that may need to be reversed. The call for increased guidance seems evenly spread between all three pillars.

### Lack of resources: the biggest challenge?

Besides the lack of clarity in the requirements the answers received suggest that a lack of resources is seen as the biggest challenge in Solvency II implementation, together with extensive documentation and requirements on data and systems. The insufficiency of resources might not necessarily be attributed to Solvency II – the insurance industry has also had to face the consequences of the global financial crisis and the cost cutting we have seen in financial services providers. Many respondents commented that resources were struggling with the extra demands of the Solvency project, at the same time as performing their normal duties, possibly a result, in one in five companies, of not having a dedicated Solvency II team.

*“In the majority of cases people working on the Solvency II project need to combine it with their business-as-usual activities which is not always easy”*

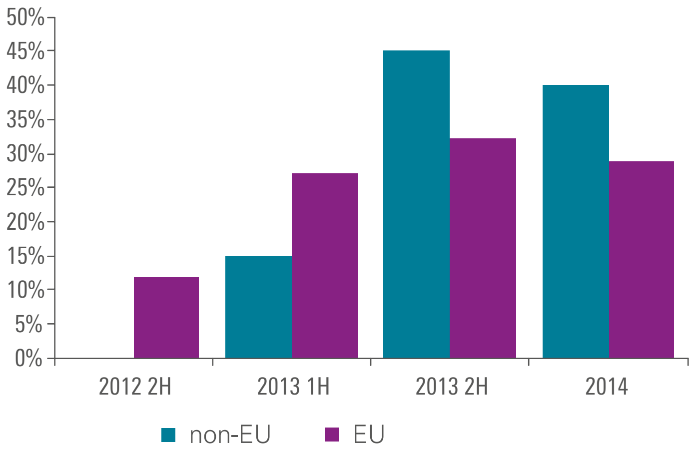
### But on a positive note…

Despite the considerable efforts already conducted and still ahead in order to become Solvency II compliant, the new insurance regime is (maybe surprisingly) viewed very positively. Respondents recognize the value added, particularly in risk management and in taking account of risks in the decision making process. Over 80% of respondents expect Solvency II to provide added value in terms of achieving the company’s business goals. This provides a very welcome degree of optimism that despite the perceived bureaucracy and cost of implementing the requirements, the ultimate benefit may be significant. As a result, the challenge for companies over the next few years will be to move beyond their horizons from compliance to performance improvement.

*“The Solvency II calculations will help us to better identify and manage our risks, improve our pricing methodology, help us to focus on products which require less economic capital and deliver better business results”*

# 1. Solvency II readiness

### When are you planning to be fully compliant with Solvency II requirements?




*Source: KPMG Survey*

According to the original text of the Solvency II Framework Directive, it should have already been in force by the time you read this report. We have seen numerous delays in the process, either because of introduction of new concepts – like handling long-term guarantees, or changing the supervisory structure in Europe.

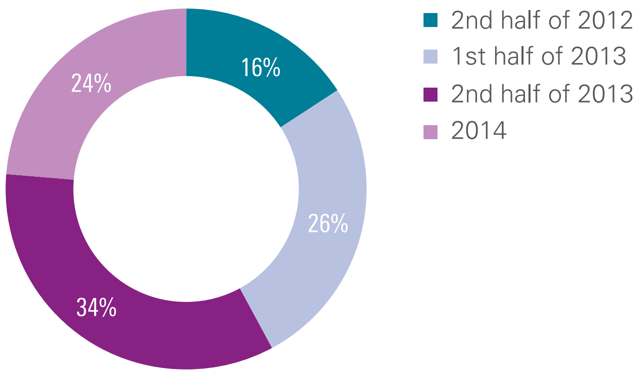
As noted above, at the time the survey was carried out most insurance companies would have been working towards a deadline of 1 January 2014. Sixty-nine per cent of respondents planned to be fully compliant with Solvency II by the end of 2013. Surprisingly almost one third of the respondents do not plan to achieve full compliance until 2014.

What is perhaps even more surprising is the breakdown of these figures between companies from EU Member States and those outside the EU. It is interesting that over a quarter of EU domiciled companies did not expect to be ready until 2014 even though they should have been more aware of the implementation deadline of 1 January 2014. It is noticeable that firms tend to adapt their final implementation date to the changing regulatory road map; uncertainty in the final deadline seems to affect the companies' Solvency II implementation projects negatively.

Similarly to the previous question, most of the answers received suggest that the participants should be ready with their documentation by the end of 2013. One quarter of respondents will finish their documentation in 2014 – almost all of them will use the standard formula, with the exception of one partial internal model user.

There are only four internal model users who plan to have the documentation in place in second half of 2013 or later which might put the approval of their model from Day 1 into doubt.

### When are you planning to finish the local documentation?

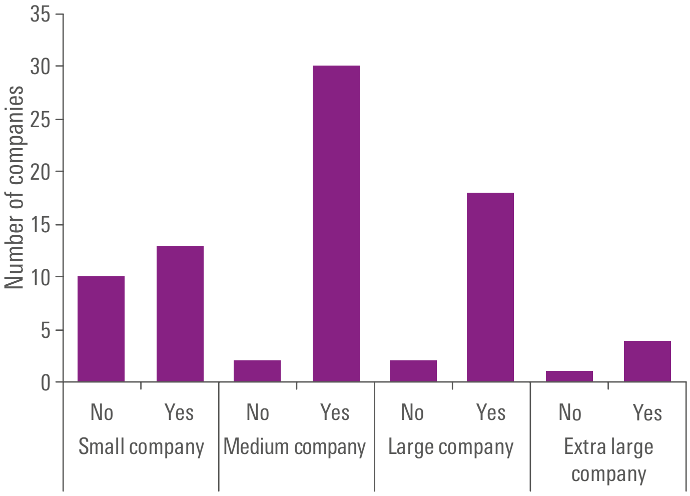



*Source: KPMG Survey*

# 2. Resources

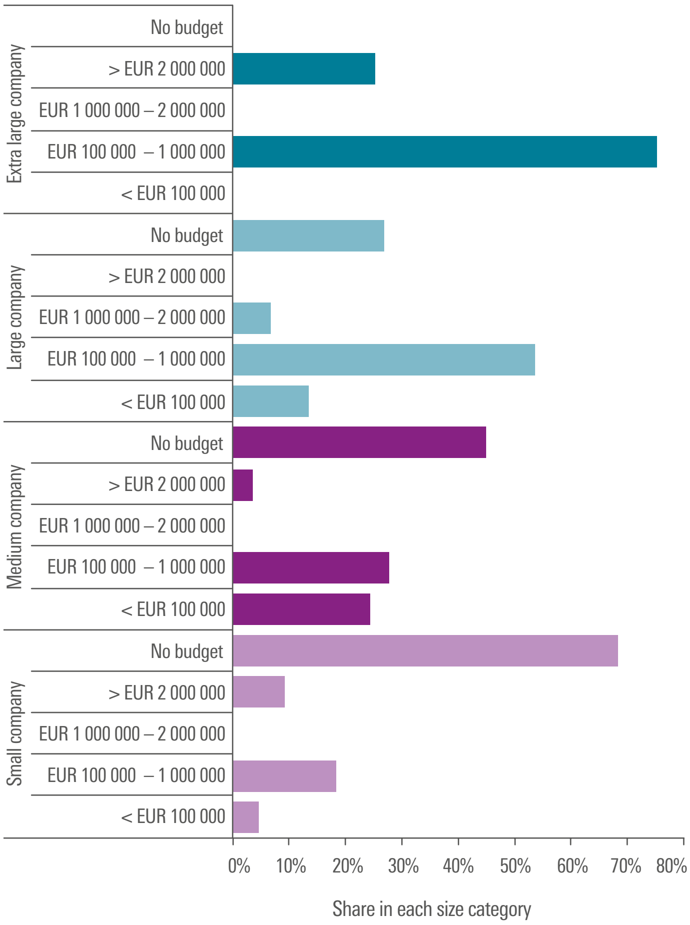
While it is quite common for all but the smaller companies to have a dedicated project for Solvency II implementation, it is quite surprising that there are many companies which do not have any budget at all for such a project. There are even some large companies, which have not formally allocated a budget to their Solvency II implementation projects. As a result such companies may be in danger of focusing on one specific area, such as calculations under Pillar 1, and being unable to complete the remainder of the requirements of Solvency II.

### Do you have a dedicated project for Solvency II?




*Source: KPMG Survey*

### What is your overall Solvency II project budget?




*Source: KPMG Survey*

We asked companies how many additional Full-Time Equivalent staff (FTEs) the companies might need to comply with Solvency II. Their estimates ranged from 1.7 FTEs (for risk management) to 2 FTEs (in the actuarial area) for internal resources and slightly lower figures for external resources.

The respondents assume that after Solvency II goes live there will be a slight decrease in these additional resources to manage the Business-As-Usual (BAU) aspects of Solvency II. The most significant drop can be observed in IT, where the companies estimate 1.3 FTEs lower employment in their BAU operations compared to the implementation period (both for internal and external resources).

| | People (FTEs) needed in addition for Solvency II project | | People (FTEs) needed in addition to run Solvency II in business as usual | |
|---|---|---|---|---|
| | Internal | External | Internal | External |
| Risk | 1.7 | 1.5 | 1.6 | 1.6 |
| Actuarial | 2.0 | 1.1 | 1.9 | 0.9 |
| Finance | 1.7 | 1.1 | 1.4 | 0.8 |
| IT | 1.9 | 1.5 | 1.2 | 0.9 |
| Other | 1.7 | 1.3 | 1.7 | 1.2 |
| TOTAL | 9.0 | 6.5 | 7.8 | 5.4 |

Based on the figures provided by the 84 companies surveyed, this represents a total recruitment need of 756 FTEs in order to implement Solvency II, plus an additional 546 FTEs of external resource.

This estimate would appear to be excessively pessimistic, and indeed unrealistic. Nevertheless, it does clearly indicate that implementing Solvency II will require the market as a whole to engage very significant additional resources, even running into the hundreds. It is equally certain that such volumes of skilled resources are simply not going to be available.

# 3. Project governance

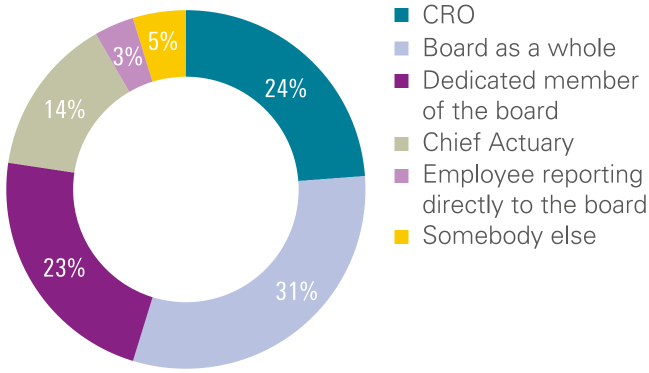
The importance of Solvency II implementation projects can be illustrated by the fact that more than half of the respondents allocated the responsibility for compliance with Solvency II to the whole board or to a specific dedicated member of the board. In other companies responsibility has been delegated to Chief Risk Officers, Chief Actuaries or Chief Financial Officers.

Firms which have appointed a specific individual, particularly one who is not a board member, will need to make sure that the board as a whole, as the company's statutory body, remains fully up-to-date and engaged in the implementation work and can explain the key aspects of that firm's approach to the regulator.

As might be expected, 80% of respondents are supported by their parent undertakings in their preparations for Solvency II. Most of these companies receive templates developed at a group level and have some discretion about the local implementation of the templates together with supporting calculations.

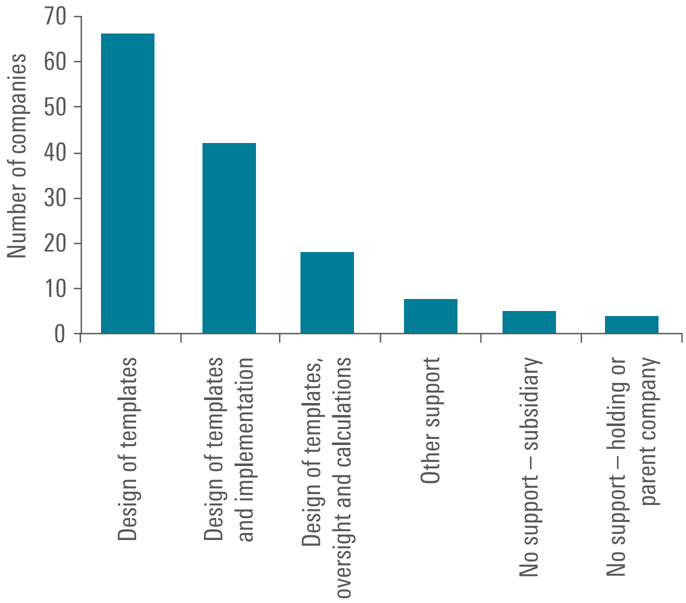
However, only 22% of the companies stated that their parent companies exercise oversight over the implementation and future calculations. Six per cent of subsidiaries stated that they did not receive any support at all from the parent companies or groups.

**Who in your company is responsible for compliance with SII?**




*Source: KPMG Survey*

**Level of support from the group**




*Source: KPMG Survey*

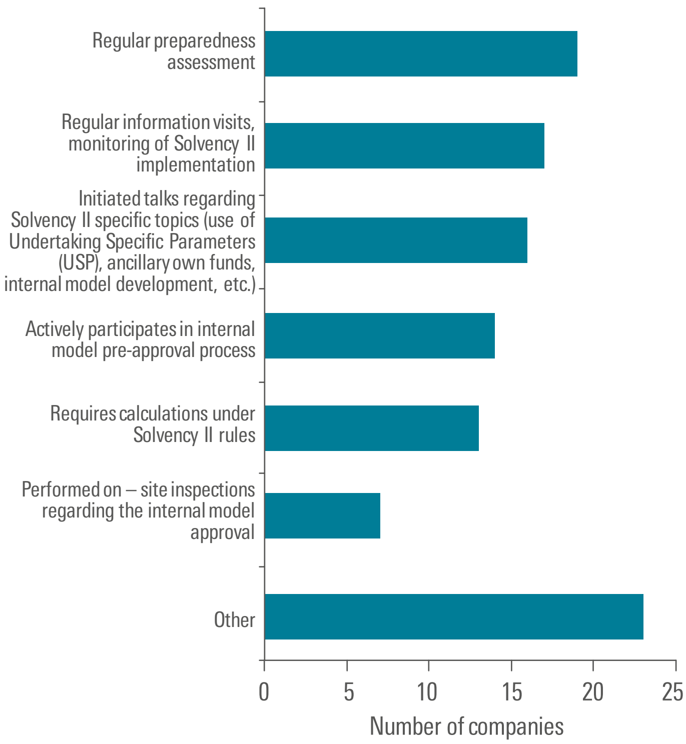
# 4. Approach of the supervisor

As we noted in our previous survey, some of the regulators in CEE are taking lead in the Solvency II implementation on their markets. This year's survey confirmed the active role of supervisory authorities in the region. Their activities are quite widespread and include organizing Solvency II promotional events (workshops, conferences, etc.), focused informational visits and on-site inspections within the internal model pre-approval process. Some regulators even demand calculations of capital requirements in accordance with Solvency II in addition to the scope of the QIS exercises organized by EIOPA. It is interesting to observe that regulators in countries outside the EU are also pushing Solvency II forward locally.

Besides the Solvency II-related requirements, some supervisory authorities also require companies to run specific stress-testing exercises.

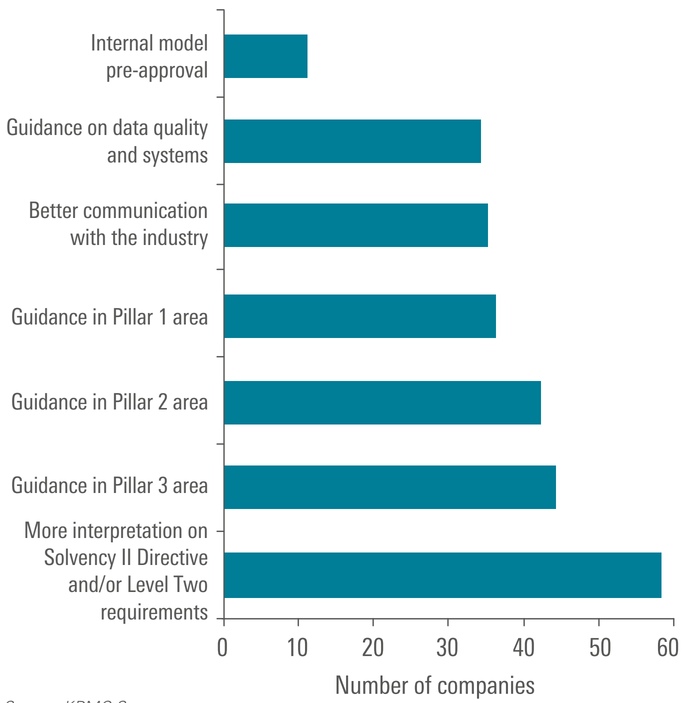
Despite the regulators' efforts to prepare for Solvency II, the companies would welcome more support and guidance from the supervisors. The answers were quite heterogeneous, with no single area on which the guidance would be focused – one might conclude from the responses received that all areas are equally important. Nevertheless, it is imperative for both the industry and the supervisor to cooperate substantially more than under the current regime. Our survey seems to send a clear message to supervisors that the industry needs more information and guidance than received to date. The results also suggest that the interpretation of Solvency II requirements is not always clear across the markets and specific guidance is needed in all areas.

### What actions did the local regulator take in respect to your company regarding the Solvency II implementation?




*Source: KPMG Survey*

### Where would you welcome more guidance from your local supervisor?




*Source: KPMG Survey*

# 5. Pillar 1

There is some ambivalence in assessing the preparedness of undertakings for the new quantitative requirements, as governed by Pillar 1 of the Solvency II architecture. On the one hand, the participants seem to be broadly acquainted with the main calculations and may have set their final approach to the requirements, which has been already tested in the Quantitative Impact Studies. Participation in these studies has substantially increased – while our first survey revealed that 36% of the respondents had not participated in QIS4, this time only 13% of the respondents have not taken part in QIS5.

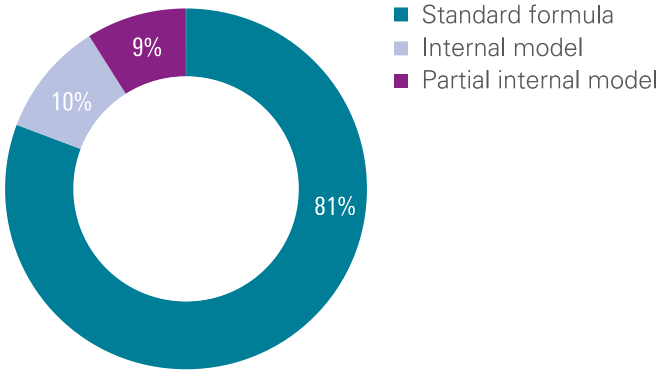
On the other hand, the prolonged negotiations of Omnibus II and the Level 2 delegated act suggest that one of the most important issues of Pillar 1 and the whole Solvency II has not yet been resolved – especially as the question of how to approach the long-term guarantees is still pending and is not likely to be resolved before February 2013 when EIOPA should deliver its analysis of the impacts of various measures to tackle this issue (for example counter-cyclical and matching premiums and extrapolation of risk-free rates).

### Pillar 1 calculation – standard formula or internal model?

While in the first survey in 2010 over 40% of survey participants planned to implement a full internal model for their SCR calculation, after two years we can see that the percentage has fallen dramatically, to 10%. This may have been driven by changes in plans at the group level, following initial IMAP discussions with group supervisors, or at a local level.

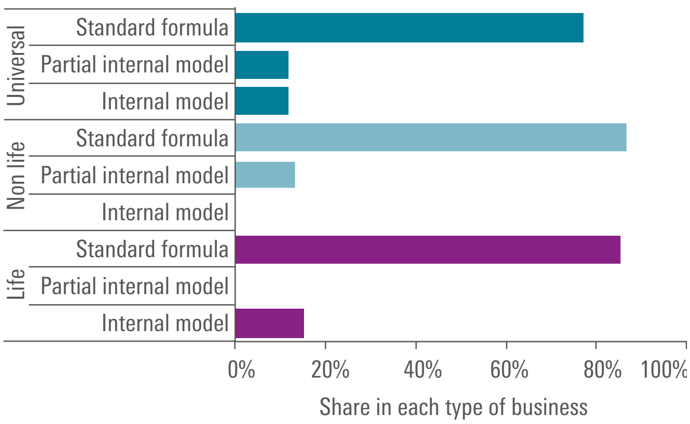
Over 80% of the respondents plan to rely on the standard formula. We do not observe any notable differences between the answers from small or large companies, though it is clear that the intention to use an internal model is more pronounced with large and extra large companies – only one extra large company intends to use standard formula. Furthermore, the proportion of non-life companies using the internal model seems to be very low and if they plan to use an internal model, it will be the partial one. The share of internal model users is slightly higher among life or composite insurers.

**Do you intend to use standard formula or internal model?**




*Source: KPMG Survey*

**Do you intend to use standard formula or internal model?**




*Source: KPMG Survey*

### Practical modelling issues

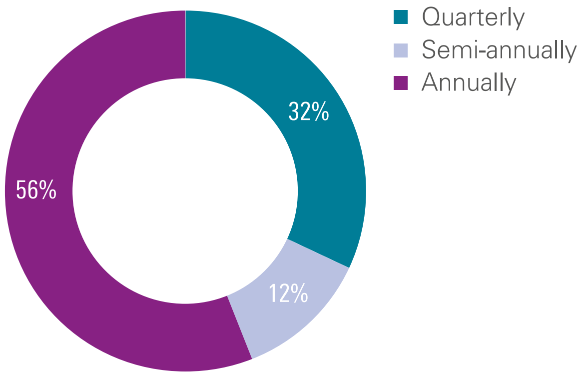
Besides the use of internal model for SCR calculations, we asked how companies would approach traditional with profits business. The nature of the financial options and guarantees embedded in these contracts is such that a set of deterministic best estimate assumptions may not be sufficient to produce a best estimate liability. Consequently more than half of the participants intend to use a stochastic modelling approach to their traditional with profits business.

More than a half of undertakings which are planning to use a full or partial internal model have encountered issues within the validation process. These are mostly related to the setting of assumptions and the model calculations. Others highlighted areas of practical difficulties when validating the internal model comprised data and its collection and doubts about the use of expert judgment.

### Frequency and speed of calculation SCR

In accordance with the Solvency II Directive undertakings shall calculate the SCR at least once a year. Less than half of respondents expects to perform the SCR calculation more regularly than this minimum requirement. One third of companies intends to calculate SCR on a quarterly basis and the rest of the survey participants plan to perform the calculation semi-annually. Since the companies need to monitor the SCR on an on-going basis, almost half of the respondents who plan to use annual calculations intends to rely on estimates of the SCR during the year to comply with this requirement.

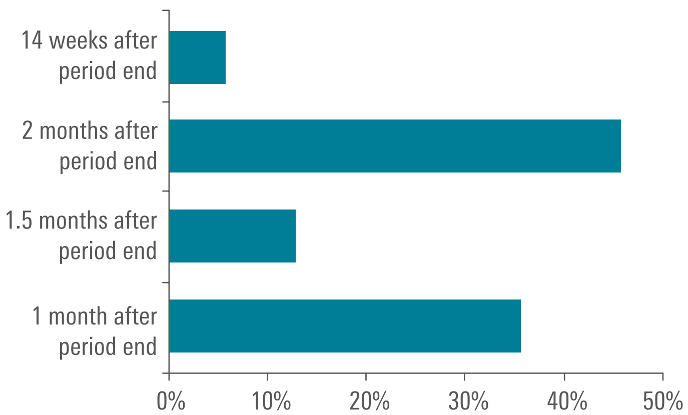
### How often do you plan to calculate full SCR?




*Source: KPMG Survey*

More than 40% of respondents do not intend (or will not be able) to calculate the SCR faster than two months from the end of the reporting period. Very few respondents (6%) assume they will be able to calculate the SCR within 14 weeks of the period end. This might have negative consequences for their ability to submit their figures to the supervisor within the deadline of 14 weeks after the period end, once the three years transitional period expires. Hence the majority of companies will need to invest significant additional resources in implementing fast close procedures before that date in order to be able to comply.

### How quickly do you plan to calculate SCR?




*Source: KPMG Survey*

Further analysis of answers received from users of partial or full internal models shows that they want to be able to receive the results earlier – almost half of the respondents who plan to use an internal model intend to have the results within one month of the period end, while a further 36% will have their results within two months.

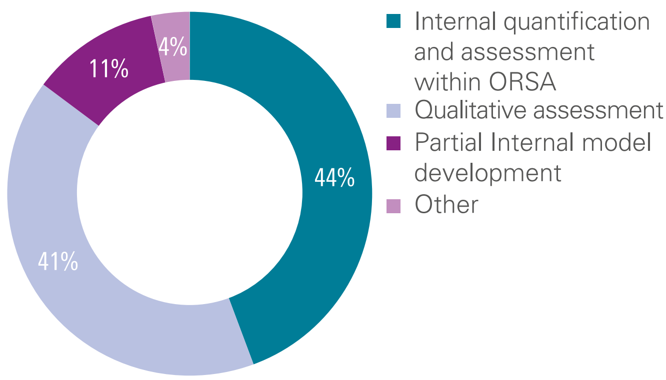
Interestingly, 17% of respondents answered "not applicable" to this question; presumably because they have not yet performed any dry runs and so are currently unable to assess their expected response time. This is borne out by the fact that none of these 14 respondents have yet performed dry runs for ORSA or Pillar 3, while five of this group did not participate in QIS5.

### Assessment of risks outside the standard formula

While the Solvency II Directive states that the SCR takes into account all quantifiable risks, it is clear that this is almost impossible to achieve, especially for the standard formula users. For example, sovereign risk may require some quantification methods (such as cash flow at risk or application of spread risk capital charge on government bonds with adjustment) to be developed. Furthermore, the companies should also take account of risks which are not subject to frequent and active quantification and are categorized as non-quantifiable risks that materialise only rarely, such as reputational or strategic risks.

Some of these companies plan to develop a partial internal model to assess these risks – in the case of material risks the supervisors might impose a capital add-on, force the undertakings to develop a full internal model or ask for a plan to extend the scope of the model if applicable. The UK FSA has already indicated it may use these options in such cases[4] . Most of the companies will evaluate the risks not covered by the standard formula using qualitative assessment and/or use own quantification methods with assessment during the ORSA process. The undertakings are expected to identify the non-quantified risks and evaluate how these risks contribute to their risk profile and how they are covered within their risk management system.

### What is your approach to risks not covered by a standard formula?



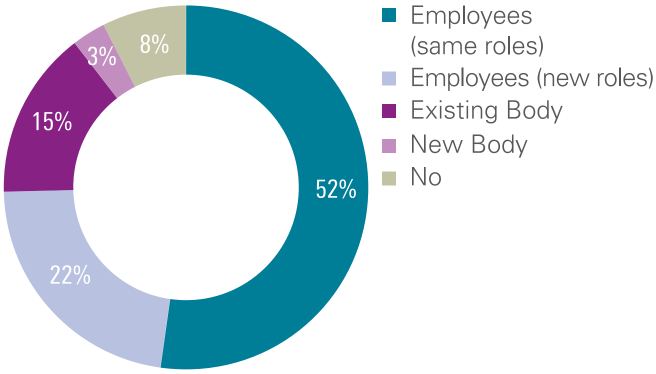

*Source: KPMG Survey*

4 *See the presentation for standard formula users on http://www.fsa.gov.uk/static/pubs/international/standard-formula-slides-and-notes.pdf, page 5.*

# 6. Pillar 2

The qualitative requirements of Solvency II, brought together in the second pillar, aim to enhance the governance structures of the companies, to strengthen risk management and, more generally, to embed the consideration of risks into the decision-making process. The Own Risk and Solvency Assessment (ORSA) is often referred to as "the heart of Solvency II" and as such it should be seen as an essential tool for reflecting risks in deliberating major strategic decisions within the companies.

### Have you identified employees/bodies which will carry out the key functions?

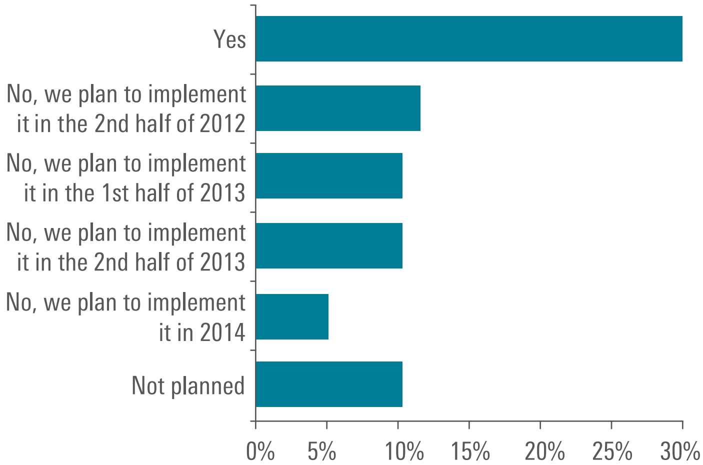



*Source: KPMG Survey*

### Risk management function

More than half of the participants have already implemented a risk management function in line with Solvency II requirements. On the contrary, 60% of the companies classified as small have not yet set up a risk management function. One tenth of the respondents, covering both EU and non-EU countries, replied that they do not plan to have a risk management function at all. Our interpretation of this answer is that they have not yet resolved how to implement this mandatory requirement under Article 44 of the Solvency II Framework Directive.

### Do you have a risk management function in line with the Directive?

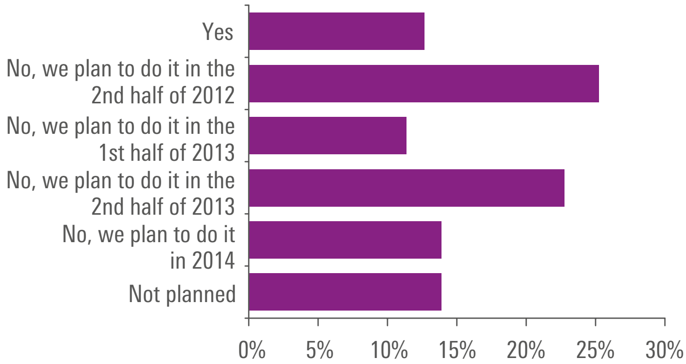



*Source: KPMG Survey*

## ORSA

ORSA, as a part of regulatory requirements, has to be integrated into individual business areas within the company, the risk management processes and the organizational structure.

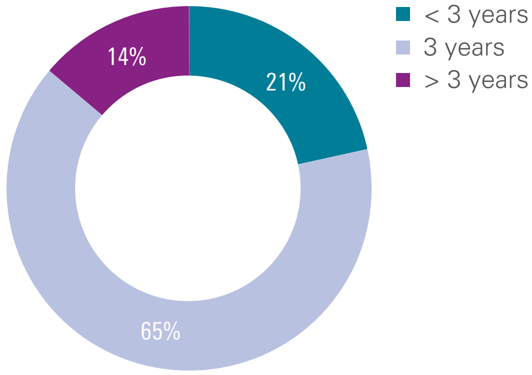
### Have you performed an ORSA dry run yet?




*Source: KPMG Survey*

Only one in seven participants has already performed an ORSA dry-run. The vast majority of participants plan to conduct a dry-run in the second half of 2012 or during 2013. We are concerned that a relatively large number of participants (28%) do not plan to carry out a dry-run until 2014 or even do not plan one at all. Most of these companies are small non-life undertakings. For insurers who plan to assess risks outside the standard formula this would seem a particularly risky approach.

### What is your business planning period for ORSA?

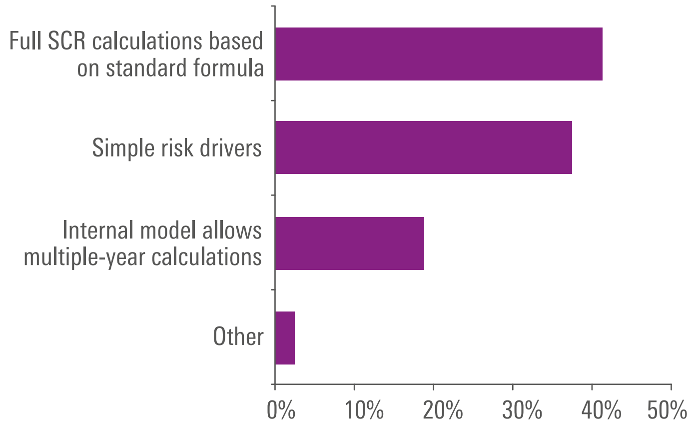



*Source: KPMG Survey*

Most of the companies intend to use a 3-year planning horizon for the forward looking projections within ORSA, which, in our view, is in line with the current market practice across Europe. One fifth of respondents intend to use a shorter period, most of them being composite undertakings. Life companies tend to have a longer business planning horizon.

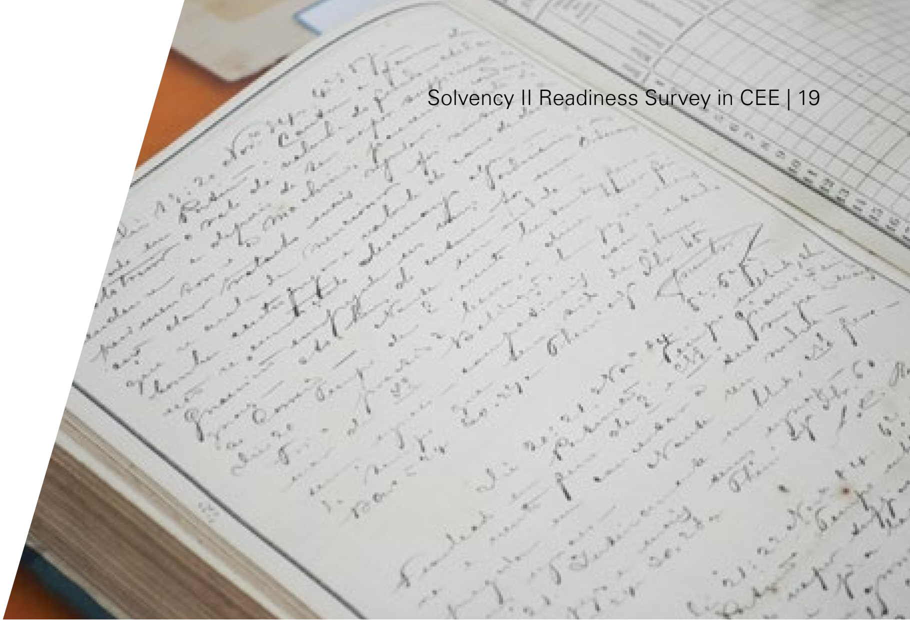
The participants are divided as regards the technique they intend to use for the forward-looking projections. Around 80% of them will use either full SCR calculation based on the standard formula or a method based on simple risk drivers. Many of the participants have not yet decided (whose responses are not included in the chart).

### What techniques will you be using in ORSA for a forward looking projection?




*Source: KPMG Survey*

# 7. Pillar 3



The requirements for market discipline raised a number of concerns among the participants in the 2010 survey. However, more than 40% of the participants claimed in the last survey they had not yet planned or even considered Pillar 3 in their implementation projects. With the work on the reporting templates by EIOPA conducted during the last two years the approach of the industry has substantially changed –insurance companies are working on mapping the data needed for completing the reports, preparing their systems and planning dry-runs.

### Main challenges

EIOPA's public consultation that was launched in autumn 2011 gave the industry a clearer picture on the information that will be submitted to the supervisors in the Quantitative Reporting Templates (QRTs) and Regular Supervisory Report (RSR) and publicly disclosed in the Solvency and Financial Condition Report (SFCR). It seems that the requirements are equally challenging for the participants, with the SFCR and quarterly QRTs being regarded as the most demanding. Companies are struggling mostly because of the level of detail required, unstable final versions of the templates and also from the human resources capacity needed to meet the requirements.

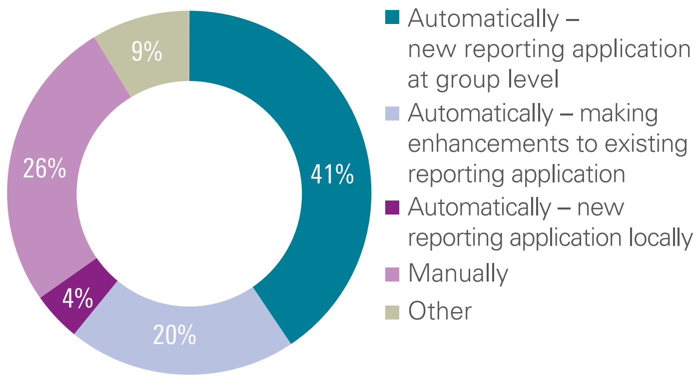
**What are the most challenging requirements under Pillar 3?**


*Source: KPMG Survey*

### Quantitative reporting templates

In our survey we focused on how the companies have approached the QRTs. Around two-thirds of the respondents intend to collate the information necessary for supervisory reporting automatically – either by using a new reporting application or an enhanced current application. More than one quarter of the respondents plan manual collation of the data – these respondents are evenly divided between small, middle and large companies. There were 15 respondents who did not answer this question, which might suggest their projects are not sufficiently advanced for them to have made a final decision.

**How are you planning to collate the QRTs/ other reports?**

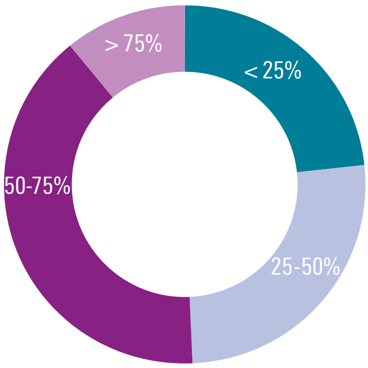



*Source: KPMG Survey*

The manual collation of data, however, seems at this point in time quite impracticable for firms, as it would be an extremely burdensome process requiring significant additional resources. As might be expected in the CEE region, many companies are implementing a reporting application developed at the group level – more than 40% of the respondents are relying on their parent companies in this respect. This indicates that reporting might be an area where support from the group is stronger.

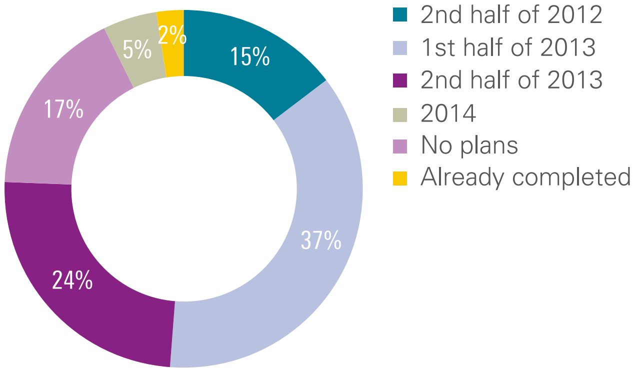
Most of the participants who intend to collate the QRTs automatically expect to be able to produce a full set of reports before Solvency II goes live. They mostly target to test their QRTs delivery in the course of 2013. Only one respondent has already completed this task, while two respondents have not planned this step yet and 17% are waiting until 2014. This may be due to the fact that as Omnibus II negotiations continue at the European level, the application date of the new regime is still uncertain and the final proposal for QRTs is still pending, waiting for the final text of the legislation. Based on an implementation date of 1 January 2014, these participants may be exposed to the risk that their reporting application will not have been tested before Day 1 of the Solvency II regime. Even if Solvency II is ultimately delayed to 2015 or beyond, there remains plenty of work ahead of companies if they are to be ready for the go-live date.

### How much data required for QRTs do you already have available (in %)?




*Source: KPMG Survey*

### If you are planning to collate the QRTs automatically, when are you going to be able to produce a first full set of QRTs?




*Source: KPMG Survey*

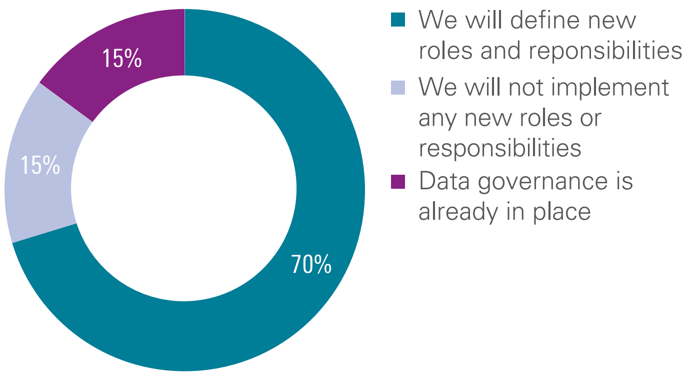
Approximately half of the respondents seem to be on track with identification of the data necessary for QRTs population. However, the fact that almost half of respondents have 50% or less of the data required for QRTs is a major area of concern, particularly given the fact that almost three quarters of respondents plan to have the first set of QRTs ready by the end of next year.

In general, Pillar III would seem to be the area where insurers still have a huge amount of work ahead of them in 2013 and 2014.

# 8. Data and systems

Data and systems is another area which appears to be behind schedule in the CEE region. This may be due to the fact that this was not identified specifically as one of the pillars of Solvency II. However, the Solvency II requirements have substantial implications for data and systems which should not be neglected or underestimated by the industry.

### What is your approach to data governance/roles and responsibilities?



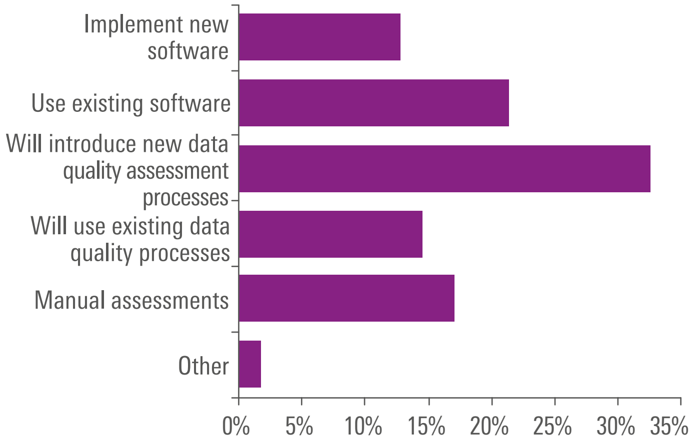

*Source: KPMG Survey*

The responses received reflect this situation – while only 15% of participants have appropriate data governance in place, 70% still need to define new roles and responsibilities in this respect. The remaining 15% does not plan to implement any new roles or responsibilities.

It seems that full or partial internal model users are more aware of this issue; within this sub-group more than 25% of the participants have data governance in place, compared to 15% of the whole sample. Appropriate data governance is a prerequisite for an effective data quality process. Many companies may have overlooked the fact that data quality is also applicable to the calculation of the technical provisions and is an absolute must for accurate and timely reporting, both external and internal.

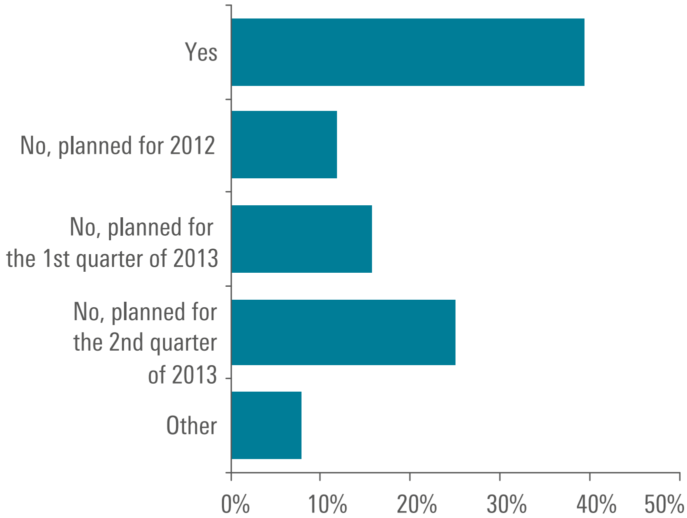
Consistent with the previous answers, almost half of the participants intends to implement new software and/or introduce new data quality assessment processes to ensure appropriate data quality.

### How will you ensure data quality?




*Source: KPMG Survey*

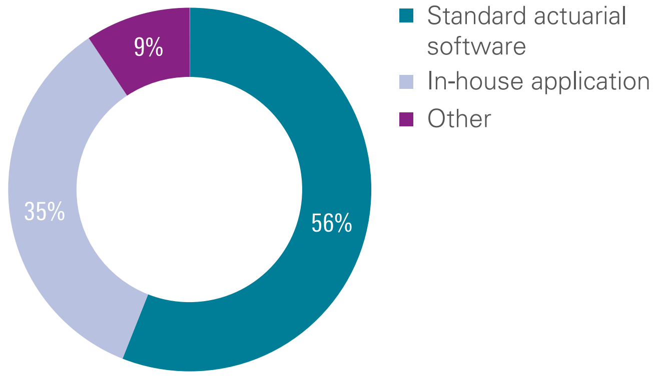
### Have you started compiling data directories?




*Source: KPMG Survey*

The respondents, however, are aware of the impact of the new requirements of Solvency II on their data and systems. Many of them have already started compiling data directories with a further 40% planning to work on this in 2013.

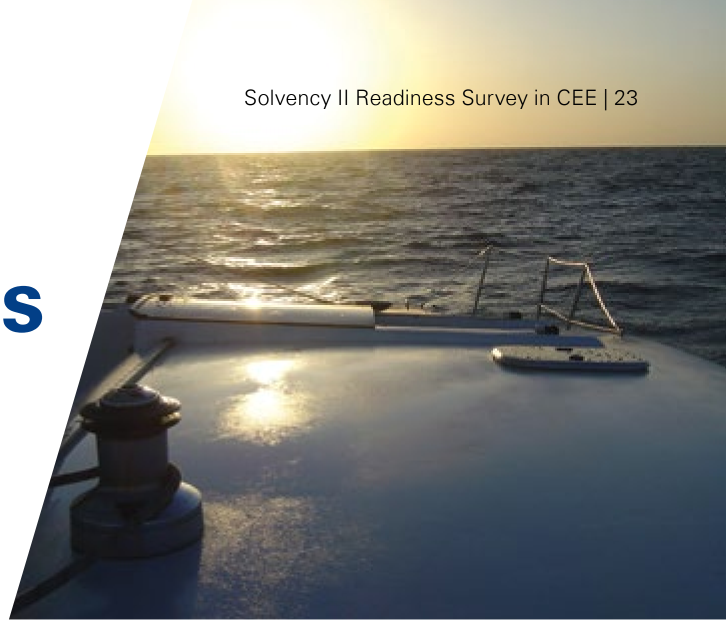
**What applications are you planning to use for calculation of technical provisions?**




*Source: KPMG Survey*

As regards the use of actuarial software, we asked what applications the companies will use for the calculation of their technical provisions. The majority of respondents intends to use standard actuarial software, while one third of the survey participants envisages using an in-house application. Given the heavy workload and the high number of scenarios to be used for technical provision calculations for SCR and ORSA purposes, it remains to be seen whether it is realistic to develop actuarial tools for life companies in-house. Some of these respondents are relying on applications developed at a group level.

# 9. Challenges, risks and benefits

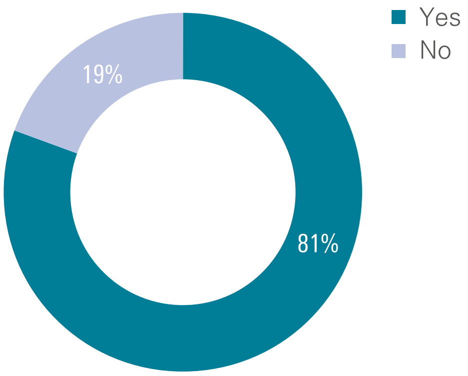


When asked about the main challenges of Solvency II implementation, there was one answer that was repeated frequently in the responses: lack of resources. It is very demanding to follow the developments of the new regime and drive the implementation project alongside an employee's normal responsibilities.

Respondents commented that the documentation requirements of Solvency II have imposed a significant administrative burden.

Many participants also mentioned communication between the group and subsidiaries; data and systems; reporting requirements and the engagement and involvement of senior management.

### Will Solvency II provide an added value in terms of reaching your business goals?




*Source: KPMG Survey*

*“We are spending a lot of time with documentation and formal calculation, but will not have time to really deal with risks”*

*“We are able better steer the company according to the risk appetite and capital adequacy”*

Participants also often mentioned that the industry is still waiting impatiently for the final texts of legislation on all levels. The constantly changing rules and envisaged application deadlines result in an unacceptable level of uncertainty and delay the preparations for the new supervisory regime. Some would welcome more active involvement of national supervisors in clarifying the requirements.

Despite the aforementioned, about 80% of participants (similarly to our 2010 survey) perceive an added value in the Solvency II regime in terms of reaching the business goals.

*“Solvency II is a concept inspired by Basel II, which was not able to identify the problems of the banking industry”*

The positive aspects in Solvency II include helping to direct the company on the basis of proper risk and capital management. Solvency II gives the companies incentives to identify and measure risks and incorporate a proper assessment in the decision-making process. As such it promotes good risk management and raises awareness of the risks the companies face.

Some participants questioned whether this positive aspect of Solvency II outweighs the costs associated with its implementation – almost one fifth of the answers suggest that the costs and administrative burden connected with Solvency II implementation outweigh the value added by Solvency II.

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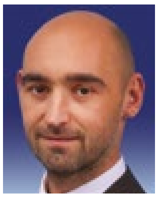

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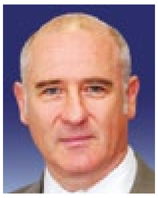

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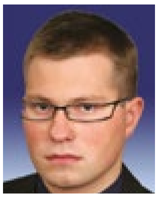

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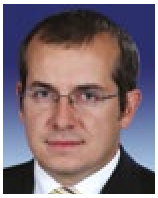

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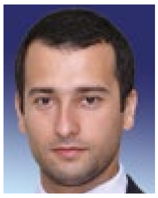

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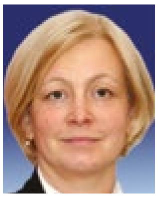

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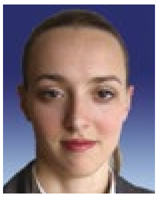

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