

Quantitative impact study

Background

In June 2020, the UK Government announced it would review certain features of the Solvency II regulatory regime for insurance firms. HM Treasury (HMT) then published a Call for Evidence in October 2020 seeking views from a range of stakeholders on aspects of the Solvency II regime and possible reforms.

A formal response to this Call for Evidence was submitted by the Specialist UK Insurer, highlighting recommendations for reform particularly in respect of the risk margin and matching adjustment.

To better understand which reforms would best meet the Government's objectives, a Quantitative Impact Study (QIS) was launched. The Specialist UK Insurer agreed to participate in this study and set about producing quantitative results on 18 different bases, all on a year-end 2020 financial position, including two alternative methodologies for calculating the matching adjustment and risk margin and a number of economic sensitivities.

Due to the significant work involved within a very compressed timescale and the expectation that this would be highly resource intensive, the Specialist UK Insurer was keen to secure dedicated project support to help manage the project and ensure progress was maintained against key milestones.

Project objectives

The QIS focused on three key structural components of the balance sheet that were being considered for review:

- The risk margin.
- The matching adjustment.
- The transitional measure on technical provisions.

Firms were asked to produce quantitative results on 18 different bases, all on a year end 2020 financial position, including two alternative methodologies for calculating the matching adjustment and risk margin and a number of economic sensitivities.

Additionally, a number of qualitative questions were then to be published with responses to be provided as part of the QIS submission.

The exercise was highly resource intensive, given that the PRA (Prudential Regulation Authority) was requesting more granular data than would typically be published during year end reporting on a significant number of different bases with some of the scenarios requiring the design of new methodology/models eg. to model alternative fundamental spread approaches.

The following objectives of the project were agreed:

- 1** To gather and address Data in three areas:
 - Risk margin .
 - Calculation of the Matching Adjustment (MA).
 - Transitional Measure on Technical Provisions (TMTP).
- 2** To conduct balance sheet calculations to produce Scenario A and Scenario B results.
- 3** To address all quantitative and qualitative questions provided by the PRA.

The client's challenge

The QIS project had three main challenges:

- 1 Time intensive:** the project had 10 weeks to deliver the objectives for the regulator.
- 2 Labour intensive:** involved a wide variety of stakeholders from different firms collaborating together.
- 3 Stakeholder engagement** was difficult as each of the key stakeholders involved had their own agenda, so it was critical to gain alignment of views.

In addition to the above, further complexity arose from the need for the quantitative workstream to further investigate the design of new models to cover all of the regulator's quantitative requirements. The design and set up of these new models took a lot of time and effort that could have been better utilised elsewhere.

The solution

Hymans' Project Management solution was two-fold:

- ✓ Improve collaboration and engagement between all stakeholders.
- ✓ Ensure timely delivery of QIS project outcomes for the client.

In order to improve collaboration and engagement between all stakeholders we took responsibility for:

- The setup of morning daily stand ups to outline objectives for the day.
- The set up and management of weekly meetings with Quantitative and Qualitative workstream leads.

The daily stand ups helped improve focus and ensured weekly activity across the team was prioritised correctly. The weekly meetings for the Quantitative and Qualitative workstream leads gave them a chance to update the project sponsor on progress made and any issues that they encountered.

In addition, we also:

- Established a robust governance structure for the project at the outset allowing the management board to analyse all the options available to them effectively.
- Set up a steering group which met weekly and presented to them a formal update on progress against plan and provide an opportunity to give visibility of any particular challenges and how these were being.

Result

The project was successfully delivered within the 10-week period with the following outcomes achieved:

- ✓ All quantitative and qualitative questions were satisfied by the PRA.
- ✓ Completed the QIS project a week ahead of schedule giving stakeholders time to digest the final reports and content.
- ✓ Balance sheet calculations were produced to a high standard for Scenario A and B.
- ✓ A fit for purpose governance structure in place to showcase projects approach, objectives and outcome for audit purposes.

Client feedback

“ Overall, the project was excellently managed. Your communication style was exemplary and helped ensure all stakeholders remained clear on their responsibilities. It was also clear the whole team enjoyed working with you. ”

Lead Consultant
Specialist UK Insurer

“ Josh was very organised and quickly got up to speed with the key challenges and areas of uncertainty for the project. He was able to keep me regularly informed of developments and I was quickly able to trust his judgement and appreciated him raising items that might need my consideration. Josh brought a good [project management] rigour to the process while being receptive and adaptable to feedback. A well-executed project, seen as a success by all. ”

Quantatative Lead
EY

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