

Data Governance & Quality

The key to unlocking value in Insurance

Your Partner For What's Next



Background

While data quality has always been a component of Solvency II requirements, increased regulatory attention is putting data governance in the spotlight. Simultaneously, increased focus on big data and analytics as a strategic asset means that organisations can no longer ignore the need for robust data governance. Data governance does not need to be overly complex, but it must be built on strong foundations and management buy-in.



Regulatory environment

The increasing sophistication in modelling techniques being used across the insurance value chain, from product development through to claims management, highlights the need for robust levels of data governance. Harnessing the power of data and analytics in insurance is a journey and data governance the first, critical step in driving value. Although this requires more than a focus on regulatory compliance, regulatory interaction with the industry suggests that there are still weaknesses in key regulatory processes that urgently need to be addressed.

In a [speech by Ed Sibley](#), Deputy Governor, CBI where he discussed regulatory expectations in a digital world, he highlighted some of the challenges faced by firms and regulatory expectations. He noted that firms can only monetise their data if data is reliable and available. He noted that from the on-site inspection work over the last number of years, the CBI has identified many weaknesses in firms' abilities to effectively understand, use and report on their data. He also noted that issues stem from a patchwork of legacy and newer systems that do not talk to each other, resulting in fragmented data that requires manual interventions and adjustments before it can be used. He highlighted that firms need to have a single source of their key data if they are to rely on it for critical intelligence and decision-making. He emphasised that those firms that manage this transition best are likely to be the firms that survive and thrive.

Those involved in Solvency II or regulatory reporting roles will be familiar with this focus:

- ✓ Solvency II was first published in 2009, with Article 82 requiring firms to have 'internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in the calculation of their technical provisions'. Furthermore, Article 48 requires the Head of Actuarial Function to opine on the 'sufficiency and quality of the data used in the calculation of technical provisions'. However, for many years Data Quality was rarely the subject of regulatory focus.
- ✓ In April 2018, the CBI issued a Dear CEO letter focusing on governance, controls and data and quality around regulatory reporting. It highlighted several issues including the expectation that Solvency II regulatory reporting risks, including Data Governance and Quality, are included on risk registers and the Internal Audit universe. Furthermore, it highlighted that firms should have a robust, documented and quality assured, end-to-end process for the creation, validation, sign off and transmission of the Solvency II returns.
- ✓ At year end 2019, there were discussions between the CBI and other stakeholders regarding auditor assurance for certain insurance firms, focusing on governance, processes and controls related to regulatory reporting, as well as validation of technical provisions including appropriateness, completeness and accuracy of the data used in the calculations of technical provisions.

Data governance and quality are now clearly on the regulatory radar.



Big data and analytics

EIPOA's Thematic Review of Big Data and Analytics in Insurance (May 2019) found that there are many opportunities arising for use of big data and analytics, both for the insurance industry as well as for consumers. Given the growing use of data analytics to drive strategic decisions and customer outcomes across the insurance value chain, the rationale for strong data governance and formal assessment of data quality extends far beyond the regulatory reporting process.

Key areas where big data and analytics are harnessed across the value chain include product development and design, pricing and underwriting, sales and distribution and claims management. Furthermore, IFRS17 will require insurers to rethink data architecture, require new ways of segmenting and aggregating data and involve new reporting concepts, presentation and disclosure requirements.

EIOPA reported that although insurance firms, in general, already have in place or are developing sound data governance arrangements, there are risks arising from big data and analytics that need to be further addressed in practice. Some of these risks are not new, but their significance is amplified in the context of big data and analytics.



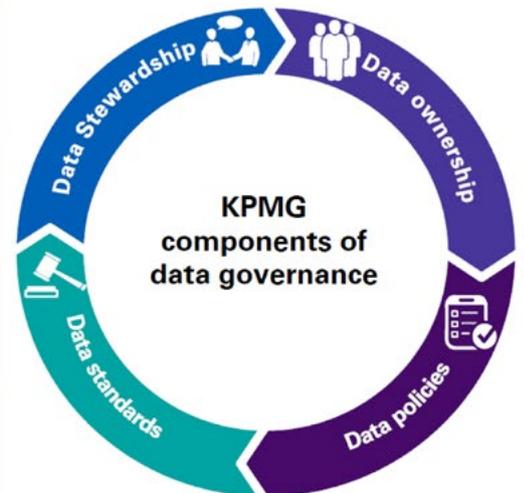
Data Governance in Insurance

Data processing has historically been at the very core of the business of insurance firms, which is rooted strongly in data-led statistical analysis. Data has always been collected and processed to inform underwriting decisions, price policies, settle claims and prevent fraud. Data is now one of the most valuable assets in any organisation, especially as insurance industry transitions into a more data and digitally driven industry. Demystifying data governance and quality and articulating their importance in realising value for customers and employees, is a key pillar of any data analytics strategy. But where to start? KPMG has developed a practical approach based on four main components.



Data governance has four components supported by enabling data management services and data quality tools

1	Data Stewardship is the accountability for the management of data assets. Data Stewards do not own the data, but instead are the caretakers of the enterprise data assets, ensuring the quality, accuracy and security of the data.
2	Data ownership refers to taking responsibility for the creation of the data and the enforcement of enterprise business rules. It constrains or defines data use in the organisation.
3	Data policies are the rules that an enterprise utilises to manage its data assets, including enforcing authentication and access rights to data and compliance with laws and regulations.
4	Data standards are the precise criteria, specifications and rules for the definition, creation, storage and usage of data within an organisation.



Strong data governance ensures that the right information, of the right quality, is available to the right person, for the right purpose, at the right time.

Patrick Farrell

Partner, KPMG in Ireland



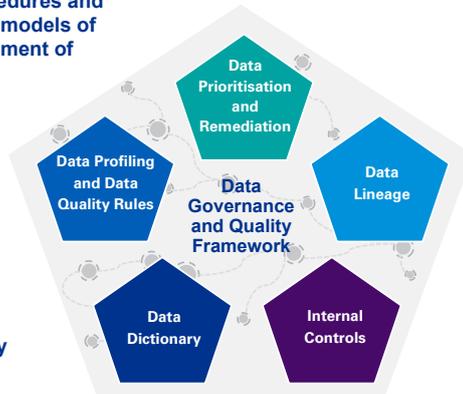
How Data Governance can help Insurance organisations and systems?

The term 'data governance' emerged to describe how organisations manage and influence the collection and utilisation of data. It specifies decision rights and accountability, and encourages desirable behaviour towards how data is valued, created, stored, used, archived and deleted.

Define, approve and communicate data strategies, policies, standards, architecture, procedures and metrics – this is vital in new emerging models of underwriting where “trust” is a key element of working collaboratively.

Facilitate increasingly important digital conversations between customers and insurance professionals about policy in the face of new regulation.

Enable conformance to data policies, standards, architecture and procedures – have a shared taxonomy and ensure compliance.



Create accountability and connectivity of roles, vertically and horizontally – enhancing organisational/system decision making.

Promote understanding of the value of data assets – maintain momentum in a data-driven digital economy

Manage and resolve data related issues – assure users that the data they use is accurate.

Use a consistent framework to help organisations sponsor, track and oversee the delivery of data management projects and services in an increasingly complex environment.

Provide a single system of record for data needs to be consistent across multiple platforms (e.g. customer, product, location) – supports standardisation in reporting and data protection measures.



KPMG Data Governance and Quality Framework components

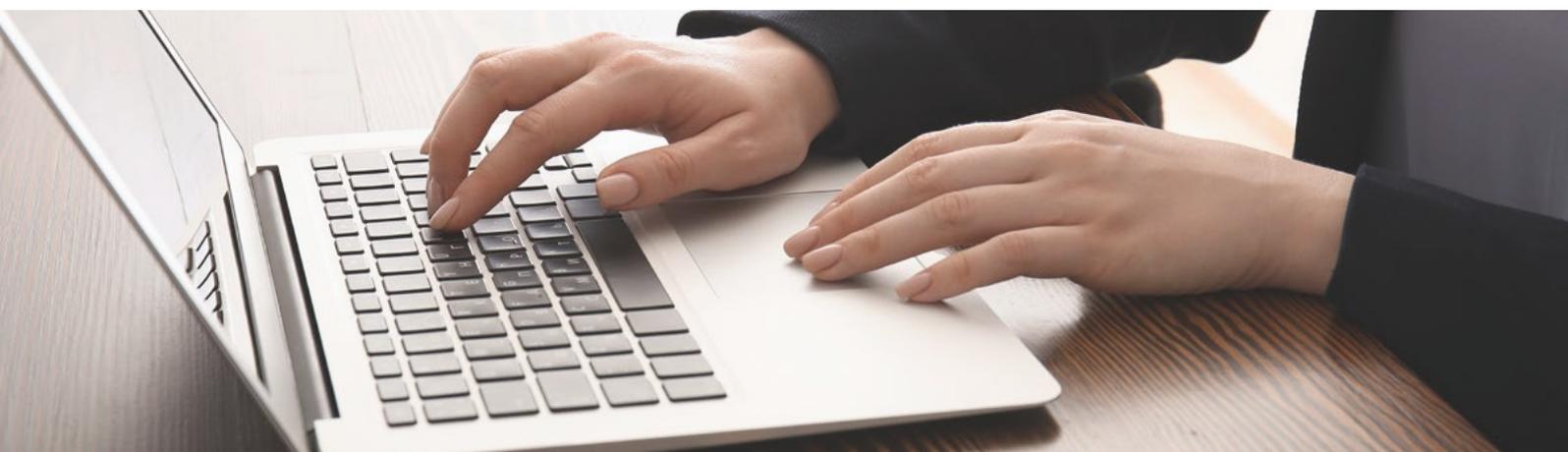
Establishing a Data Governance and Quality Framework allows an entity to put in place comprehensive systems, processes and rules that govern how data is used throughout the organisation. It starts with governance and leadership and leads into systems, processes and controls. Data quality is driven not only by hard controls (such as reconciliations and validation checks) but also soft controls such as governance, ownership and culture.

KPMG has developed a framework for Data Governance and Quality structures and processes. Key components of the framework include:

- ✓ **Data Governance and Quality Framework:** Leadership, governance fora, responsibilities, policies and standards required to administer and manage information resources.
- ✓ **Data Lineage:** The processes through which data travels.

- ✓ **Internal Controls:** The controls that are applied throughout the process.
- ✓ **Data Dictionary:** Catalogue of all data fields in key source data systems, providing the formal definition, description, characteristics, source and use of each data field.
- ✓ **Data Profiling and Data Quality Rules:** System based rules, validation checks and variance flags which help identify Data Quality issues.
- ✓ **Data Prioritisation and Remediation:** Processes for prioritising and fixing identified Data Quality issues.

In addition, the Framework includes several key building blocks including Data Stewardship and ownership; Data Management policies and standards (including Data protection and security considerations); and Technical infrastructure and systems.





Summing up

Data is now one of the most valuable assets in any organisation, especially insurance firms, given its importance to everything from pricing to reserving, regulatory reporting, and the development of new products and propositions. Solvency II has increased regulatory focus on governance and controls over an insurer's data, with a focus on controls to ensure that the data used in the calculation of technical provisions and regulatory reporting

is complete, accurate and appropriate. With the growing use of big data and analytics and heightened risk associated with those developments as highlighted in EIOPA's Thematic Review of Big Data Analytics, Data Governance and Quality will be key areas of focus for some time. Getting this right from the outset will enable trust in data driven decisions and accelerate value creation.



How can KPMG help?

At KPMG, our teams have helped insurance clients build Data Governance and Quality solutions that tackle regulatory compliance and operational problems faced by organisations. Through our global experience, we have identified 10 factors that are key to success.

- 1 Develop a Data Governance Framework that clearly supports your Risk Management and Business strategy
- 2 Honestly assess your Data Governance maturity level and have a clear plan for how you will move up the maturity curve
- 3 Invest in communication to bring customer service teams and other staff on the Data Governance journey
- 4 Use an iterative approach when designing, developing and testing new Data Governance Policies and Standards.
- 5 Engage end users as quickly as possible
- 6 Use globally recognised standards and terminology to improve interoperability of Data Definitions across the organisation
- 7 Establish good data practices and embed them into the organisation, with a focus on Data Quality
- 8 Ensure that Data Governance has a specific focus in your organisation and that accountabilities are clear
- 9 Ensure your Data & Analytics operating model is set to deliver your Data Governance strategy
- 10 Create a Data Governance Culture that focusses on data ownership and a common buy-in to the value of good quality data

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