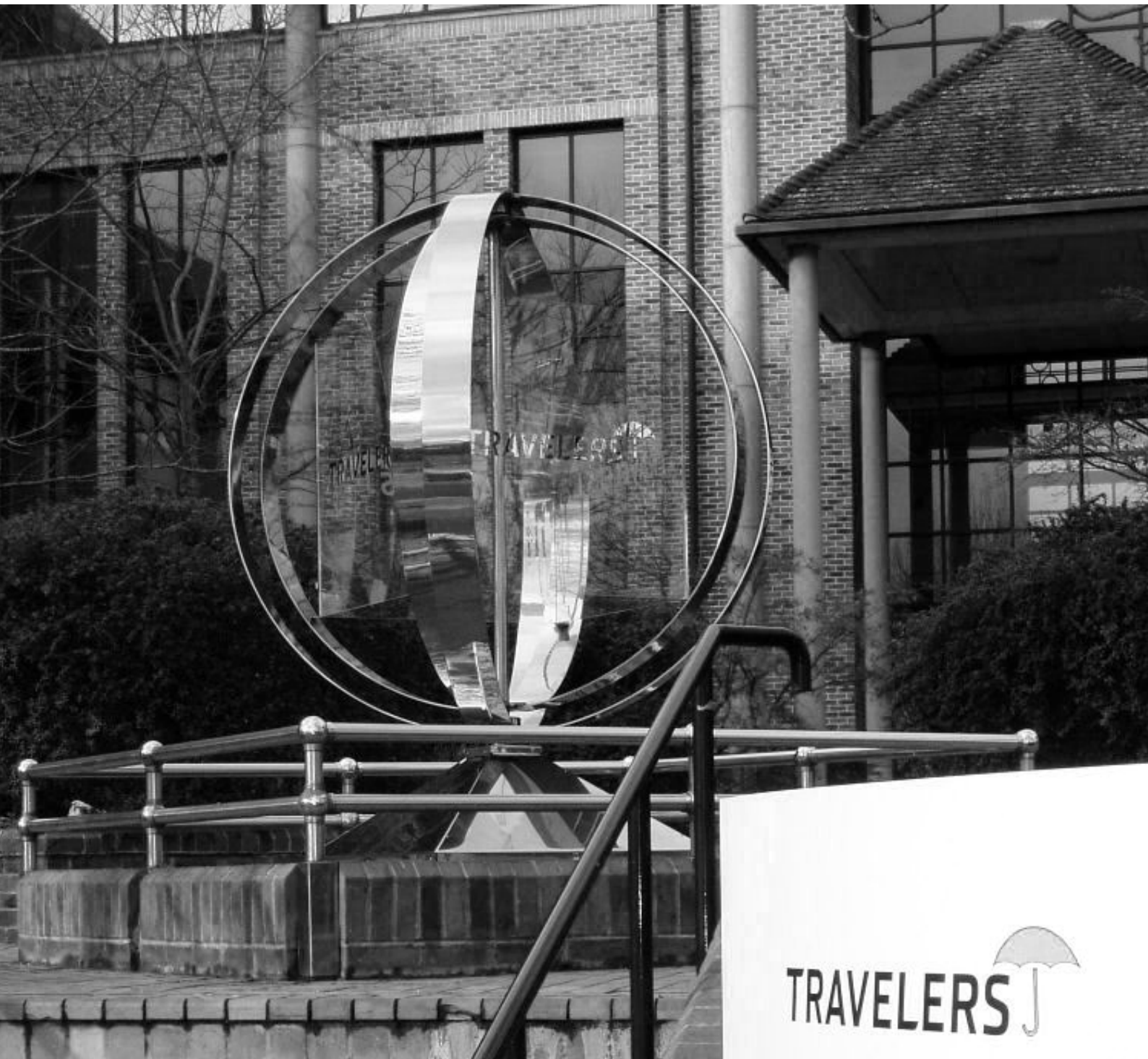




Case Study: Travelers

Travelers sets out on management journey



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**Dan Wilkinson, Head of Operations,
Risk and Compliance, Travelers**

The starting point

When Travelers' UK arm elected for an internal model, it wanted a solution that would drive wider risk management and strategic planning in the business but also streamline regulatory capital submissions. As a mid-tier subsidiary of a large US parent, consultancy support and the ability to interface with head office systems were major factors in a successful project.

About Travelers

Travelers is a US Fortune 500 insurance company that was founded in 1853. The UK operation employs around 700 people providing specialist insurance for private industry, the public sector and selected professions. It operates through a general insurance company and a Lloyd's of London syndicate.

Background

By 2007, Travelers UK had reached a point where it had become virtually impossible to scale up its existing Excel capital models any further. The intellectual property and business information needs of the company had moved on and the regulator was starting to ask questions that the company could not calculate easily. From an efficiency point of view, a full run of the model was taking at least 16 hours and the lack of flexibility precluded making any changes to ICA returns in the two weeks prior to submission.

But when putting together the business case for an alternative capital modelling platform, it was clear to all involved that using a model to gain business advantage took priority over ticking the regulatory boxes. Even so, the senior management team recognised that the enforced deadline of a regulatory submission would help drive the implementation timetable.

Having gone through a detailed requirements specification, Travelers shortlisted three capital model platforms, including EMB Igloo™, at the back end of 2007. Key to its requirements were transparency of calculations, flexibility to interrogate the model and scalability.

Selected model requirements checklist:

- Transparency and flexibility to drill down into the model
- Level of future-proofing e.g. for Solvency II
- Quality of technical design
- Asset modelling capability
- Technical support
- Availability and quality of resource to support design and implementation
- IT support
- Regulator buy-in
- Ease of use and output presentation for senior management

The target was to select a supplier by the end of the year and have the draft ICA submission for the live Lloyd's syndicate ready by late July 2008 - a period of just over six months to design, parameterise, implement and document a system. After consulting within the industry and meeting with another EMB Igloo client, Travelers selected Igloo days before Christmas 2007, and the hard work began.

The business case

Faced with the limitations of its previous modelling platform and the escalating timescales required to work with it, Travelers took a conscious decision to 'leapfrog' several notches in its modelling capability.

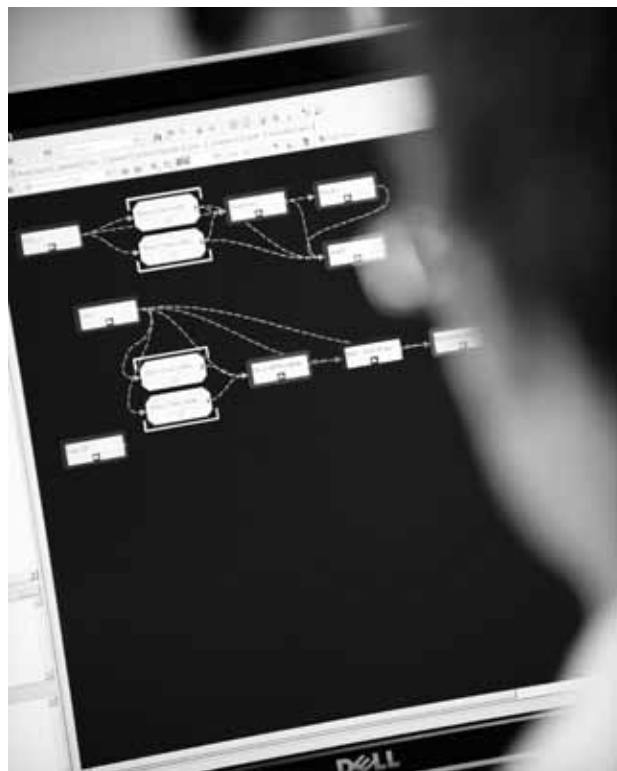
From Chief Operating Officer Tony Dilley's perspective, the rationale is quite clear. "I fully intend to make sure that Igloo is central to our future risk management planning - that's where the real business benefit lies for us," he explains.

Utilising the power, flexibility and transparency of Igloo, which Travelers admits it is in the "foothills" of exploring, the company will be able to analyse aspects of its business in far greater detail to improve performance and capital management.

Areas the company expects to derive the most benefit from in the short-term include the analysis of risk-based return on capital by business line, modelling of individual reinsurance contracts and the wider use of what-if scenarios within strategic business planning.

The evolving regulatory scene, including the implementation of Solvency II, is important both from the perspective of optimising the amount of capital Travelers needs to hold for regulatory purposes and the efficiency in dealing with regular returns for its three entities. However, the major consideration during the specification and selection process was that the resulting platform was future-proof and would enable it to meet the requirements of the use test within Solvency II.

The models will also enable better integration with the US parent company. While the US had given free rein on the choice of a UK modelling tool, it had insisted on the use of the economic scenario generator (ESG) that forms part of its modelling platform. Since Igloo interfaces directly with the most widely used ESGs, information from the UK models has already started to be fed into the US to enable the parent company to take a more aggregated view of risk exposure across the Group.



Working together to a solution

Throughout the design and implementation EMB worked closely with the core team at Travelers charged with delivering the model framework. “One of the things that gave us confidence in selecting EMB is the seamless combination of software development and actuarial consultancy. Without that, we could never have worked to the timetable we set ourselves,” explains Dan Wilkinson, Head of Operations, Risk and Compliance.

Travelers’ core team consisted of the Head of Capital Modelling supported by the chief actuaries for the insurance company and the Lloyd’s syndicate, together with the Risk and Compliance team. They were joined for six weeks by a secondee from the US operation who proved vital to understanding the workings and needs of the parent company models.

Equally important to the success of the project was to have senior project sponsorship in the form of the Chief Operating Officer and the Chairman of the Lloyd’s Syndicate, backed up by the Finance Director.

With support as necessary from IT teams, and data gathered by finance and actuarial teams, work to design and populate the model began in earnest at the beginning of 2008. This included tailoring certain components within the model to the specific needs of the business such as aligning modelling to the UK underwriting year whilst still permitting presentation on an accounting basis for the US, and the design of the reinsurance methodology.

Another particular focus was asset modelling where Travelers UK was keen to assimilate the detailed knowledge built up in the US. The fact that Igloo integrates fully with the US ESG simplified consistent valuing of assets and provided a robust approach that could, in future, be extended to the modelling of operational risk.

Once the basic models were in place and the core team had received two days of intensive training, delays in actuarial recruitment at Travelers meant that more resources were required for the push to achieve the initial draft ICA submission timetable. EMB stepped in with the secondment of two actuaries for six weeks. Dan Wilkinson notes: “The fact is that Travelers has done four ICAs while EMB has probably done 40-odd using the software. A feature of working with EMB has been the enthusiasm of the team, who tackled everything as an interesting challenge. And whenever we needed a senior level response, help was at hand very quickly.”

Embedding the new risk tools

Whilst the Travelers' capital modelling team is now broadly self-sufficient in the use of Igloo, having carried out the run-off syndicate ICA submission in September 2008 and the final live syndicate submission in October, it benefits from EMB's Igloo User Group and the dedicated helpline to ensure it gets the most from its investment.

Even at this early stage in its use Igloo has cut the time to process a complete model run to around four hours. With further refinements, the capital modelling team is aiming to reduce this further.

Travelers has, however, recognised that improved risk management requires a greater cultural understanding of identifying and quantifying risk.

The Igloo implementation project included a 'teach-in' for Board members, led by the core team and EMB consultants, outlining the advantages and enhanced analytical capability it offers the business.

The company has also held a kick-off meeting for all heads of department in the syndicate and insurance company. Education has continued throughout the business, with an initial focus on underwriting heads and specific underwriters.



Moving forward with EMB Igloo™



By necessity, due to time pressures, the early focus for Travelers in its use of Igloo has been on compliance. Next on the regulatory conveyor belt is to prepare and document the insurance company model in preparation for the next ICA submission. Internal teams have also been able to use the models as a reference point in preparing the company's gap analysis for Solvency II.

Whilst tackling issues that offer wider value to the business has largely had to take a back seat, the capital modellers have begun to develop what-if scenarios for senior management and as the baseline compliance models are finished, wider business analysis will become possible and support the business requirements for which Igloo was principally acquired.

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**Tony Dilley, Chief Operating Officer,
Travelers**

The challenge

To create a capital model structure to match senior management's ambitions for advanced risk management analysis within the business whilst meeting a short-term compliance deadline.

The solution

The EMB Igloo platform delivers the high level of flexibility and transparency Travelers required and interfaces fully with the US parent company's modelling platform and the group-wide economic scenario generator. EMB's hands-on support contributed to the compliance deadlines being achieved.

The benefits:

- The time to process a full model run has been reduced by a minimum factor of four
- Baseline compliance models for each business entity have been completed or are in progress
- The ability to run what-if scenarios
- Full flexibility for modelling assets and operational risk
- Ability to drill down into the model and examine individual assumptions in detail

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