Insurers face an uncertain future as the final stages of Solvency II and its accompanying internal models for managing capital adequacy are debated and finalised. The FSA has stated that one of the biggest risks for insurance companies in the run-up to Solvency II is managing the data contained in large estates of spreadsheets that exist within the business.

Spreadsheets are a business critical tool for any organisation and will always be in demand with end-users. Rather than attempt to eliminate spreadsheets from the business, insurance companies can accept that they need to allow spreadsheets to be used – but only within a structured environment and with a best practice policy in place.

ClusterSeven has developed this business guide to help insurance companies navigate their way through the spreadsheet risk management process.

Watch out for the warning signs

How can you tell that you are in need of a spreadsheet overhaul?

1. Do you experience expensive audits because it is difficult to demonstrate the integrity of the data they provide?

2. Do you receive regulatory criticism because you fail to meet the needs of legislation or regulation?

3. Do you regularly experience delays in your reporting process because information is difficult to collate and validate?

4. Do you suffer from errors in your financial reporting because of disaggregated systems and complex reconciliation issues?

5. Do you have critical business information buried in spreadsheets leading to missing intelligence and insight?

6. Do you maintain critical dependence on individuals' knowledge of data held in spreadsheets?

7. Have you experienced data leakage because of insecure systems based on spreadsheets?

If you answer yes to one or more of these questions, then a spring clean is in order. The next stage is to look at how to address the spreadsheet risk problem.

Step one: e-discovery for end-user computing

The first step to controlling critical end-user computing is to understand what you have, where it is and how it is connected to your business. Using the right tools, you can automatically scan your network to intelligently locate your key spreadsheets and Access databases. This builds a complete dependence tree that demonstrates the relationships between files with multiple connections. Organisations are typically surprised not just by how many spreadsheets they are using across the business but also how they are connected.

Step two: risk assessment

After conducting a file discovery process, the second step in establishing control of end-user computing is to understand the risk presented by each file. ClusterSeven has worked with leading companies, auditors and risk experts to establish a comprehensive list of rules that define the 'riskiness' of files. These factors can include cell content (ERROR type cells); file structure (hidden worksheets, reliance on names); data presentation (hidden cells, matching text and background colours); data connections (names linking to external data sources); VBA code (poor code, embedded passwords); range settings (non-contiguous named ranges); and security settings poor administration of Access Control Lists (ACLs), unsecured macros and worksheets). Other user-defined searches can be added, such as client names and account information. The result is a carefully constructed list of problem spreadsheets that need to be addressed.

Step three: registration

Most organisations do not want to manage every single spreadsheet in their business. Instead, they can choose to register only those spreadsheets that they have identified during the e-discovery and risk assessment phases to be managed centrally. ClusterSeven provides three options for registration: bulk registration based on factors such as location, dates or file/folder naming patterns; automated registration, where only spreadsheets or databases matching specific risk rules are automatically placed under management; and user registration, where the business places responsibility for registration directly with the users.

Step four: continuous validation

e-discovery and risk assessment show what is in place today, but time doesn't stand still and everything can change by the next day. The objective of spreadsheet risk management is therefore to ensure the continuing and sustained correctness of each spreadsheet or database without excessive interference or overheads. It requires the application of continuous validation tests based on a variety of factors, such as the materiality and deadlines associated with business processes or the frequency and nature of spreadsheets changes.

Step five: turning risk into opportunity

Spreadsheet management can deliver benefits beyond compliance. However, being able to add this value depends on intelligent data collection. Using ClusterSeven, organisations can arrange all cell changes into their own time series – creating a data warehouse of all cell histories. Instead of spreadsheet silos or disconnected audit reports, business history is now in one structured location for easy analysis. Not only does this save time and money, it also exposes opportunities for improvement. Spreadsheets fill many gaps between central applications and are manually intensive and prone to error. Using a data warehouse, large scale reconciliations can be automated and run as frequently as needed.

Step six: replacing end-user computing

Critical end-user computing applications, including spreadsheets and databases usually start life as short-term tactical fixes, for reasons of cost, speed or flexibility, Many will be replaced when the functionality of central applications catches up to meet longer-term needs or will be retired when the fix is no longer needed. This relationship between end-user and central applications needs to be complementary, so that new user-driven development in end-user systems is replaced by more robust solutions. However, this relationship can break down because there is a lack of visibility and understanding of end-user activity. Leading practitioners of spreadsheet management now bring end-user and central application development together so that a joint roadmap can be developed – this ensures a rapidly adaptable business information infrastructure across areas of financial applications, including corporate performance management, business intelligence, actuarial modelling and portfolio risk management.

Conclusion

The majority of insurance companies are only too aware that they face significant risks through the use of spreadsheets and other user-developed applications. They also know that the FSA has specified spreadsheet data risk as one of the top challenges for companies moving towards Solvency II compliance. Yet the idea of not using spreadsheets across the business is untenable: managing spreadsheet risks through the steps outlined above is the only way to square the circle.