
INSURANCE ASSET MANAGEMENT, EUROPE 2015

Published by



MARCH 2015



Examining the fresh challenges faced by insurance companies as they seek to improve their current asset allocation activity whilst meeting upcoming regulation and grappling with low yields in an uncertain interest rate environment.

Sponsored by



To read the full version of this report and other informative, financial market reports please visit: www.clearpathanalysis.com

Establishing a consistent approach to insurance operations and regulatory reporting



David Reid

*Senior Vice President, Global
Institutional & Investment
Management - Outsourcing,
SS&C Technologies*

The insurance industry has long been a major purveyor of rich information, complex analytics and ever-changing data models, but until recently, asset-related information was often left behind. However, in today's environment, the reliance on enhanced reference data and the data management process is becoming increasingly important. The drivers of this paradigm shift are a combination of new challenges and opportunities; a low yield environment and regulatory changes such as Solvency II challenge the status quo of an insurer's investment strategy. Conversely, a lack of major catastrophic events and the expansion of risk-spreading products like insurance-linked securities leave many insurers with more excess capital to invest.

Insurers need to find the most cost efficient and scalable way to handle this changing environment and are increasingly reliant on the institutional asset management community to take a broader role in handling a wider remit within the asset side of their business. History of returns, reputation, expertise in key assets, and flexibility have always been important factors in the selection of investment managers, however management of data, reporting, and regulatory support are becoming far more important areas as insurers seek investment solutions.

Insurance companies are different than other types of asset management clients and institutional investment managers need to make sure that they are actively focusing on the challenges that insurers are facing and tailor their products accordingly. The investment management community also brings investment best practices and the wisdom of experience from recent industry challenges and regulation that should be incorporated into any effective solution.

Navigating the web of regulatory changes

Solvency II has put considerable strain on insurers over the past few years, changing their business architecture in many ways. Much of the focus has been on the Pillar 1 requirements, but in recent months this focus has shifted to the challenges of Pillar 3. The institutional asset management community was left out of much of the early planning on requirements and is now trying to incorporate the requirements and infrastructure in advance of 2016 deadlines. There are still elements of ambiguity which make preparation for requirements a challenge for both insurers and insurance asset managers; however, those managers who make the right steps to support Solvency II requirements with a robust technical infrastructure supported by insurance tailored operations, will be at a competitive advantage. Embracing this approach is imperative

for any investment manager that wants to maintain and grow their insurance business as insurers are forced to start making investment decisions based on the ability to meet Solvency II reporting requirements.

Uncertainty around asset data reporting for Solvency II, for both managers and insurers, is still fairly endemic; managers must be prepared to provide data in multiple data standards and based on the current trajectory, a standard offering means the ability to support multiple evolving data formats. Many local regulators and sub-regulators have produced their own file requirement interpretations and EIOPA instructions often fail to give adequate guidance. A recent tripartite template between the IMA, BVI, and Club Ampere, is a good step towards a standardised offering for the asset management community; however, the current specification is still in an adolescent form.

A robust data management infrastructure and process is essential in order to meet clients' Solvency II reporting requirements. Managers must have consistent data management capabilities for all of their clients' assets. Solvency II reporting requirements require rich data feeds for security types, like OTC's and structured credit, which may have less industry automation or liquidity. Institutional investment managers need to make sure that they have ways to normalise, collect, and aggregate these assets with more traditional asset types. Sweeping regulatory changes have affected most financial markets over the past few years and we expect that this trend will continue. Managers can decrease costs and increase their responsiveness by putting investment in robust technologies that can be deployed in a scalable manner across both current and potential future regulatory frameworks.

Managers are also facing challenges on the sourcing of data for Solvency II. Reporting requirements often utilise fields that are not widely used in the industry and may not be part of standard feeds from data vendors. Classification codes like NACE, LEI, and CIC may be challenging. Managers need to make sure that their data library and licensing agreements are capable of reporting on these fields. Managers that invest in funds on behalf of clients will now need to provide information to support "look through" requirements. A manager must have a way to take in this data in different formats and normalise it. Protection and permissions of data are becoming important topics as managers are being required to provide transparency into funds for the historically opaque alternatives industry.

The challenges don't stop there

Solvency II may be the most topical item currently, but additional trends in the industry are creating associated challenges. A long-term low yield environment means that many insurance companies are looking for more complex asset types to enhance performance and a new vernacular within the industry of "big data" is changing how insurance companies look at their investments. Asset types, such as bank debt and real estate, are less automated and can be a reporting challenge for managers who don't have robust technology. Other insurers are investing in various OTC types to offset interest rate risks, while new rules under IFRS 9 will cause the information insurers require to evolve to support these new accounting stipulations. Complex re-insurance products like catastrophe bonds and insurance-linked securities are being included in more insurers' portfolios and can have complex accounting requirements. Many of these asset types have attractive yields currently; however, managers with strong back and middle offices who manage expenses and automation efficiently are necessary to minimise the servicing costs on these assets.

In addition to the new reporting requirements driven by Solvency II, insurance companies are looking for more types of information from their managers. Financial accounting reporting, attribution reporting, and risk reports that link investment assets to insurance liabilities are some of the other examples of information that we increasingly see a demand for. More than ever before, insurance asset managers need to have the technology and business expertise to support a larger asset base and an insurance-focused investment manager should incorporate these specific reporting requirements into their offering.

Invest in insurance solution for success

The current insurance environment may pose challenges and require capital investment for most asset managers but these challenges are not all that different from other parts of the financial services industry. The market as a whole has seen a huge amount of regulatory change over the last few years: FATCA, EMIR, Form PF, and AIFMD are just a few of the changes that have affected managers. Solvency II certainly poses its own unique challenges, but technology and smart data management are imperative in creating solutions that can store and harvest "big data" to be utilised in responding to these regulatory burdens in a collective and efficient manner.

Insurers big and small are struggling with the IT requirements from Solvency II and the other market trends aforementioned. Large insurers, with old proprietary systems and infrastructures are seeing acceleration in the investment required to support this changing landscape. Small to mid-size insurers are challenged in their ability to find affordable solutions to handle Solvency II data requirements as well as being able to diversify their portfolios with higher yield asset classes. These factors have a major impact on insurers; consequently, the

"store and harvest "big data" to be utilised in responding to these regulatory burdens in a collective and efficient manner. . ."

propensity to outsource investment functions to help control capital expenditure and be able to focus on core insurance activities is a trend that we believe will continue.

Institutional asset managers will also benefit from outsourcing their Solvency II reporting. The multiple types of changing Pillar 3 reporting template formats will make it challenging for managers to channel cost efficiencies with home grown reporting solutions. In addition to this, the process of sourcing, storing, and reporting on data points that are specific to the insurance industry, may challenge traditional asset management back offices. Insurance asset managers should consider outsourcing Solvency II and insurance accounting functions to enhance their ability to provide competitive value add solutions to insurers while managing the long-term costs of trying to build bulky solutions in-house.

Conclusion

Institutional investment managers are now uniquely positioned to assist the insurance industry. In order to maximise this potential, managers will need to invest in building an insurance offering which is adaptable to changes in the investment environment and risk appetite, and can provide extensive information in a transparent and scalable manner.



In today's low yield environment, insurers face increasing investment complexity and cost pressures more than ever before. Combined with a growing regulatory workload, the industry is dealing with real and ongoing challenges to deliver better performance. Having the right partner to navigate those challenges is the key to success.

SS&C has spent years creating the most comprehensive arsenal of software technology in the insurance investment management industry – technology that complements our unrivaled expertise and professionalism in front-/middle-/back-office software applications, business process outsourcing and software as a service.

That's why we have the innovation and agility to service any new market, asset class or regulation in your future.