

# The impact of Solvency II on the Asset Management industry

A focus on asset data

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# Top data related concerns and focus areas

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Ernst & Young conducted a survey during July 2010 in relation to Solvency II readiness. Within the data section of this questionnaire it became evident, based on responses that asset data is a key area of concern for insurers.

## Top data related concerns

- ▶ External data including asset data
- ▶ Defining and understanding data requirements
- ▶ Setting data quality standards and limits
- ▶ Challenges posed by existing system architecture specifically in relation to interfaces and external systems
- ▶ Ability to provide data in a timely manner
- ▶ Availability of experience data

## Top five focus areas

- ▶ Data governance frameworks
- ▶ Asset data
- ▶ Liability data
- ▶ Data definition and capture
- ▶ Data quality assessments

# Solvency II – impact to asset managers, asset servicers and custodians

In order for the Asset Management community to successfully prepare for Solvency II, it is important to consider the areas for attention and how they are interlinked

Actuaries must be able to model exposure and risk using fit and proper asset and liability data



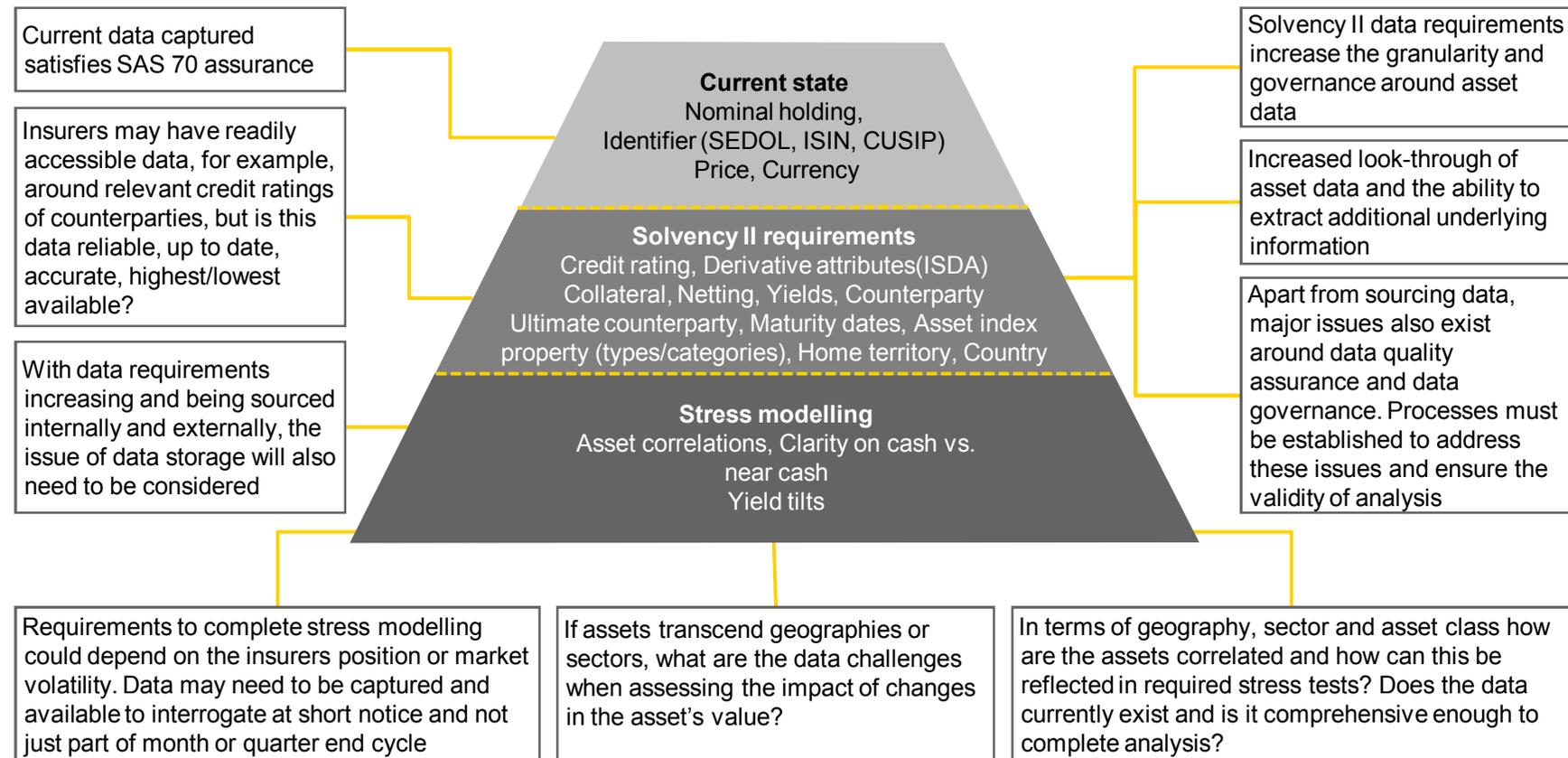
Efficient sourcing of accurate and highly granular data for all asset types

Capital requirements based on probability models of risk using FSA or internal model

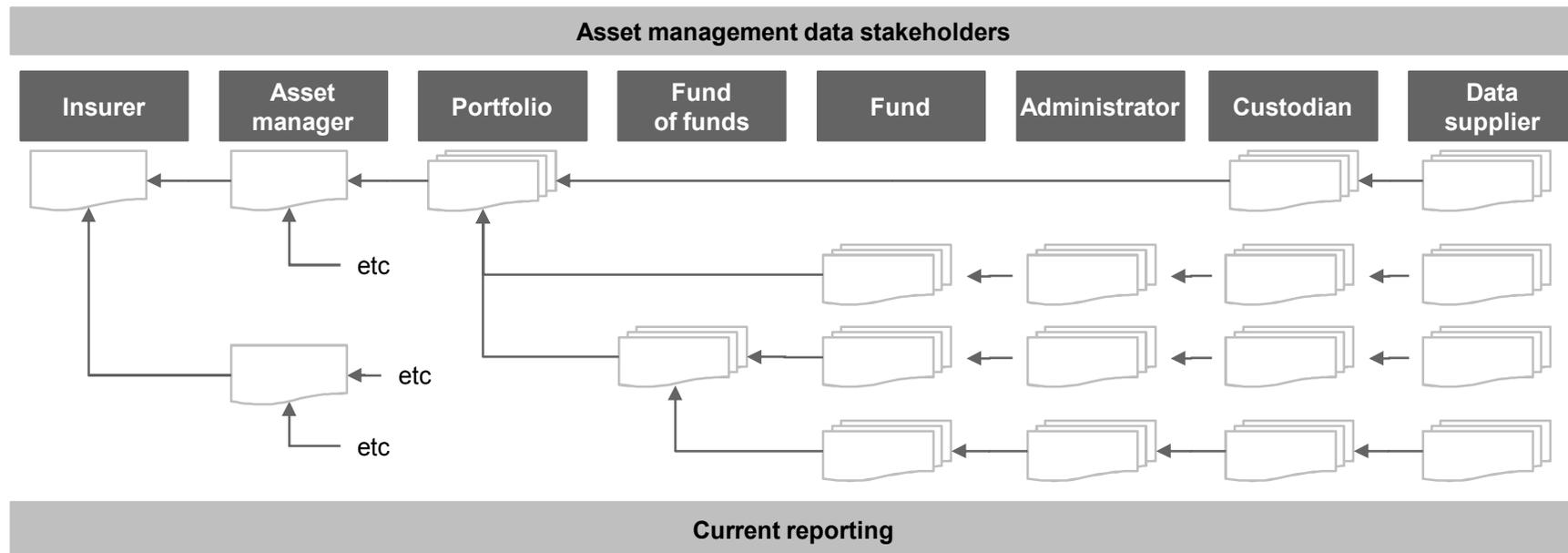
- To date the major focus of insurers in preparation for Solvency II has been through actuaries looking at an insurers liabilities
- Asset data requirements will exceed those of today and will present significant sourcing and integrity challenges
- There is insufficient granularity of asset data available to assess where exposures lie
- Additional data will be needed to fully understand the level of exposure and the liquidity profile of the markets an organization is invested in

# Asset data: increased requirements

Solvency II presents major challenges with regards to data availability, but even when data is available what processes and controls are put in place to ensure that data quality is assured and the data is used correctly and effectively?



# Current data reporting



Reporting to Insurers focused on hierarchical asset pools

- ▶ Valuation
- ▶ Performance
- ▶ SoX assistance
- ▶ Fund accounting

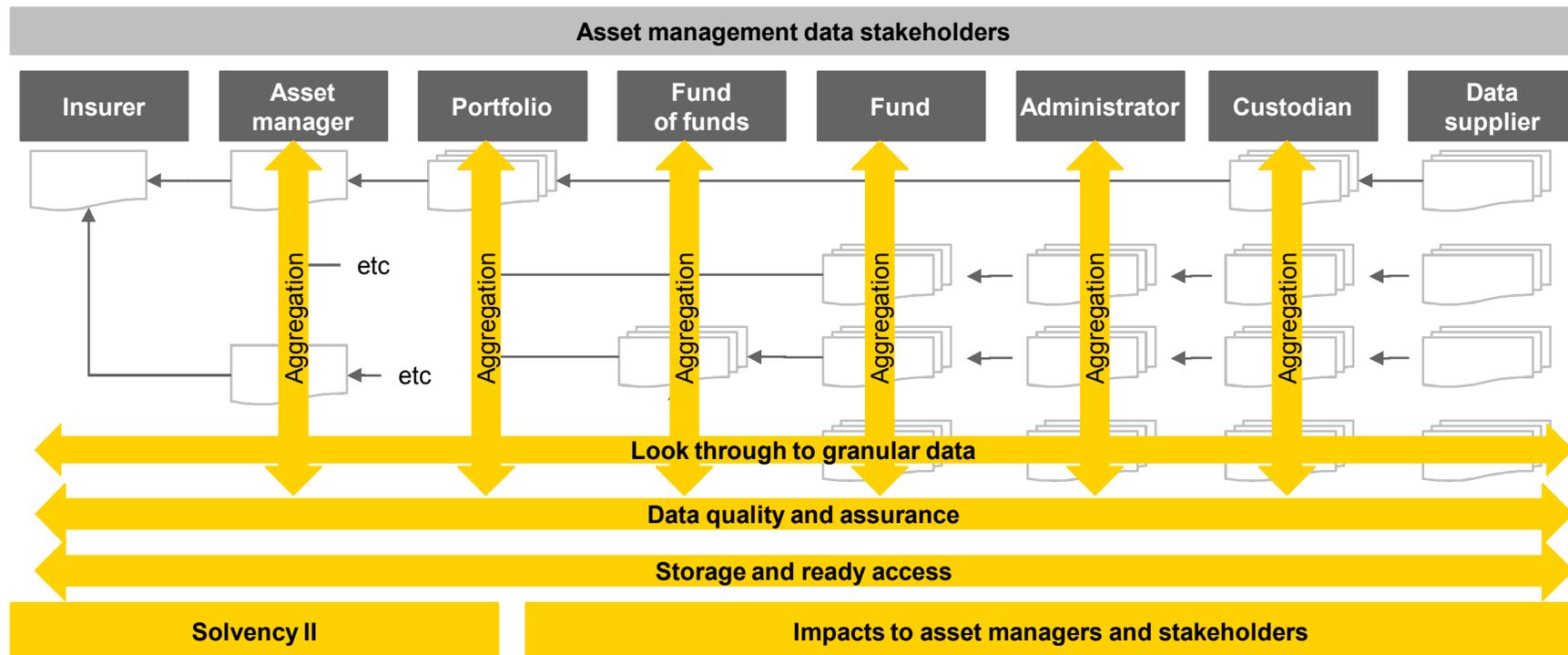
Stakeholders have multiple regulators and reporting requirements

- |               |                            |                  |
|---------------|----------------------------|------------------|
| ▶ Contractual | ▶ Client reporting         | ▶ Basel II       |
| ▶ IMA         | ▶ Fund report and accounts | ▶ Sarbanes Oxley |
| ▶ FSA         | ▶ Fund pricing             | ▶ Valuation      |

Asset data feeds are often provided in a variety of formats and are not sufficiently granular

The time taken to get asset data, process it and check its validity is a major inhibitor for the desired reporting frequency

# Data implications



# The data challenges for the AM community

**Definition of data**

**Data quality assessment**

**Identification, collection and processing**

**Quality monitoring**

# Definition of data

## Challenge

- ▶ Individual insurers will define different data requirements based on their models and the key inputs required
- ▶ Materiality will vary per insurer defining a differing material data set in each case
- ▶ Data is sourced from multiple places within the asset management environment (e.g., third party administrators, fund managers). Therefore the consolidation or provision of data will vary dependent on the nature of the asset management business

## Asset Manager/Service Response

- ▶ Asset Managers should engage with insurers early to understand when data requirements may be defined and provided to them
- ▶ Define a data set which they believe will be common and key across insurers
- ▶ Decide their position in terms of data collation, enrichment and provision to enable them to clearly articulate this
- ▶ Clearly document the data set they can provide and the frequency at which they can provide this

# Data quality assessment and remediation

## Challenge

- ▶ Existing controls tend to focus on a narrow data set and a frequency that enables key procedures and financial statements to be validated. Solvency II requires a broader data set on a more frequent basis. How does an Asset Manager validate and verify this to an appropriate level?
- ▶ How does an Asset manager ensure that they have remediation programmes in place prior to you asking for high quality data?

## Asset Manager/Service Response

- ▶ The ability to articulate and have implemented a robust data governance framework assists in identifying whether controls are adequate and all material data sets are robust and validated
- ▶ Consideration of the types of data required and the existing validation and completeness checks will help the Asset Manager to identify data where they may not be able to attest to completeness, accuracy and appropriateness. This will allow them to start remediation

# Identification, collection and processing

## Challenge

- ▶ How will the Asset Manager engage with you on the transparency of their data collection and processing?
- ▶ How will the Asset Manager communicate their data sources, processes, manual interventions?
- ▶ How will they demonstrate risk mitigation within their data processing environment?

## Asset Manager/Service Response

- ▶ The Asset Manager should consider whether they wish to document process and control maps for key data sets and trace data back to source
- ▶ Decide if they wish you to have access to their environment to execute these tasks yourselves
- ▶ Consider if they need to enhance month-end processing to provide a high quality data set faster

# Data quality monitoring

## Challenge

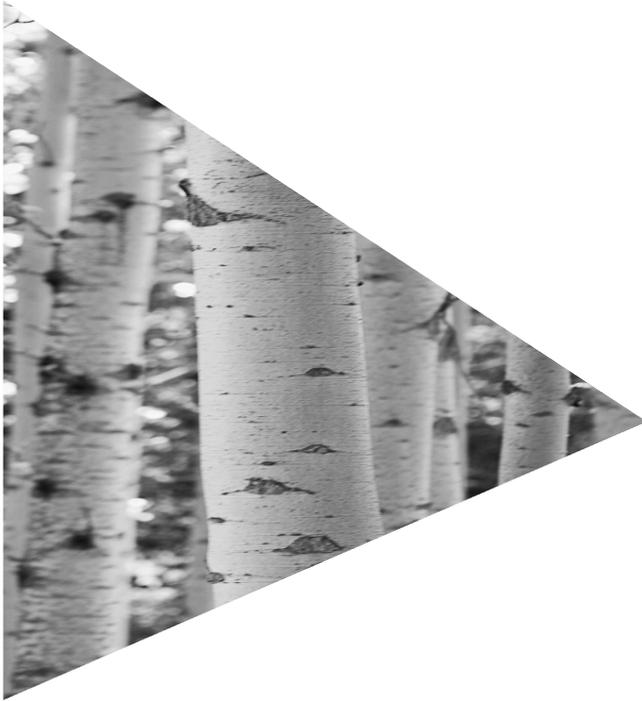
- ▶ How does the Asset Manager ensure that all material data for Solvency II is monitored on an ongoing basis?
- ▶ How do they evidence to you that this is the case?

## Asset Manager/Service Response

- ▶ The Asset Manager should consider their existing data quality monitoring processes and ascertain how to enhance these to include the full Solvency II data set
- ▶ Determine the level of audit trails in place
- ▶ Consider whether they wish you to validate their processes and controls and whether they wish to give you access to do so
- ▶ Ascertain whether they can leverage other mechanisms e.g., SAS 70 reporting to provide attestation over the controls to a standard suitable to you

# Q&A





**Thank you**

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