

The R-Team

Fundsquare and Silverfinch have teamed up to take on Solvency II reporting and unite two industries. Paolo Brignardello reports

With the introduction of Solvency II regulatory reporting imminent in early 2016, Fundsquare has announced a partnership with the fund data look-through experts at Silverfinch. Together, they're devising a solution that can cater to the needs of both insurers and asset managers as regulations bring the industries closer together than ever.

While Solvency II's reporting regulations are designed to increase transparency in the insurance world, fund managers are finding themselves drawn in to the process, largely because insurers make up such a large proportion of their own clientele.

An important element of the new regulations requires insurers to be allowed access to their own holdings, and it obliges them to reveal details of the funds in which they invest. In turn, this will force fund managers to disclose more information about the investments than their own regulatory bodies require. More importantly, it will mean, most probably, revealing investment activity to direct market competitors.

Although not legally required to do so, fund managers that do not provide the information required for insurers' Solvency II requirements face losing their clients to competitors that will.

Those that release the information could even benefit from this themselves, learning more about their clients as a result of increased interaction between insurers and fund companies, and through the required transparency, which, by definition, works both ways. The complications, however, lie in balancing transparency for reporting requirements with protecting clients' private information and fund managers' data.

A central hub is the solution. It provides a single location where all data required for Solvency II reporting is readily available. This method should, in the long run, help companies become less reliant on intermediaries, putting their own streamlined and cost-effective reporting processes into practice.

Silverfinch clincher

The pairing with Silverfinch will add the required data protection to Solvency II reporting through a central hub. The only credible remedy is through a single, purpose-built standard utility to allow fund managers to exchange information with their clients in a secure format that remains totally under the fund manager's control and in-house.

This will allow asset managers to be 'Solvency II friendly' well in advance of the 2016 implementation, while the added security of an in-house solution will restrict the release of unrequired data.

Data will be protected from those not entitled to see it, including the competitors of the asset managers involved, but it would still be entirely possible for a client to legitimately gain access to data for Solvency II reports and pass on the information to regulators.

“ The knock-on effects will not be limited to asset managers and data protection companies ”

It will, however, also resolve some of the concerns about additional costs and inefficiencies that could come hand in hand with the reporting requirements. The asset management industry is in danger of generating a 'spaghetti' model with a surplus of communication models in various formats generating too many connections with different insurers and their respective clients.

The central hub offers a solution to this, forming a cloud-like community connection between the asset servicers, insurers and clients simultaneously. Data protection expertise will serve to provide the necessary IT services for security protection, consistent with the detailed levels of data required for the reports.

While Solvency II strives to harmonise the insurance market in Europe, much like the Alternative Investment Fund Managers Directive strives to harmonise the fund management industry, the knock-on effects will not be limited to asset managers and data protection companies. Insurers will be required to set certain amounts of capital against operational, market and credit risk, while the 'look-through' aspect will require complete transparency on end investments, even if they are held by third-party investors.

The transparency directives stem from the idea that an unseen asset in any portfolio must be risky. There is no guarantee here that the insurer holds enough capital to pay out if a claim is made. It adds complexities to investments, as well as additional costs that

will undoubtedly be passed on to the policyholders. But, actually, the eventual costs of not providing this look-through function could amount to even more.

Under Solvency II, failure to provide a look-through will mean insurers have to hold excessive amounts of capital unproductively as reserves, in order to satisfy the regulators that they are as solvent as they need to be. Money not invested will not only cost the insurers and their customers, but also the asset managers on the periphery.

With its existing connections to the fund management industry, Silverfinch will tackle the ongoing challenges of Solvency II regulations in partnership with Fundsquare. The issue is being broached with industry groups such as the UK Investment Management Association, and together they are striving to blend Fundsquare's central hub with a workable and cost-effective data protection service for fund managers.

The partnership is founded on the belief that by working together in good faith, neither industry will be too inconvenienced by the implementation of regulatory reporting.

Solvency II could drive insurers to understand their assets as well as their liabilities, and to understand their investments in greater detail too. At the same time, clients recognise the importance for effective investments, and appreciate the limits that insurers and inventors work within. The asset managers still face data protection challenges, but they stand to benefit from the all-important transparency regulations.

Whether it was intended to or not, Solvency II may open up a discourse of information between these industries, ultimately driving sales for both, and a partnership between Fundsquare and Silverfinch shows they're approaching the challenge with a positive and well-prepared outlook. **AST**



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