



Solvency II: Targeted solutions for complex data challenges

A constantly evolving regulatory landscape is creating significant challenges for compliance teams tasked with gathering, collating and managing specific reference data for each new or changing regulation. Solvency II delivers its own set of challenges, but Refinitiv's comprehensive data and tools empower industry participants to meet their obligations efficiently and effectively.

Solvency II – an overview

Solvency II took effect in 2016, introducing significant changes to the regulatory requirements for European insurance firms.

Whilst the Directive – which aims to harmonize capital requirements and risk management standards across the EU insurance industry – undoubtedly enhances transparency and disclosure, ultimately delivering better protection for customers, the complex nature of the updated requirements has led to some significant challenges for industry players, including insurance companies and their service providers.

Solvency II comprises a framework with three distinct sections, or pillars, as follows:

- **Pillar 1** sets out quantitative requirements, including the rules for the valuation of assets and liabilities, the calculation of capital requirements and the identification of eligible funds to cover those requirements.
- **Pillar 2** details requirements for risk management and internal governance, as well as the details of the supervisory process with competent authorities.
- **Pillar 3** centers on transparency, reporting to supervisory authorities and disclosure to the public, and aims to improve market discipline, increase comparability, and boost competition.

Complex challenges

Compliance with Solvency II is not without complex challenges. Organizations must source and map data for reporting purposes; value and classify assets and liabilities; understand the constituents of potentially thousands of fund holdings; and create derived data inputs such as credit quality steps (CQS). Many are grappling with the need to proactively manage these obligations, both globally and regionally.

The fundamental challenge these firms face is essentially one of managing Big Data, and doing so at speed. Contacting each fund to obtain the required data relating to fund constituents, and collating incoming non-standardized data in a timely fashion for quarterly submission to European insurance regulator, EIOPA, can quickly become a significant headache.

Refinitiv manages the heavy lifting aspect of compliance by providing both data and leading-edge technology to equip the insurance industry to meet the challenges posed by Solvency II, and can enable firms to meet both their Pillar I and Pillar III obligations.

Our partnership with Fintech provider, WizzInvest further enhances our ability to address Solvency II challenges for our clients.

WizzInvest is committed to promoting more responsible, transparent finance, and boasts the agility of a small and energetic team well-schooled in rapid iteration and highly committed to client service.

The company brings augmented regulatory expertise, including knowledge of Solvency II, to the table and provides intelligent insights into some of the current and future challenges surrounding Solvency II.

WizzInvest co-founder, David Smykowski, points out that data quality within industry-recognized Tri-Partite Template (TPT) reports has become a key issue. Investors understandably require that the data they receive is both complete and accurate, but assessing data quality brings its own set of challenges. For example, it is possible to have many different spread durations provided for a single bond, depending on the day the duration was calculated, the price used, or the method chosen. This variety of durations can lead to very different results, which can dramatically change the market solvency capital requirement (SCR) of a fund which is included on the list of indicators to be reviewed before investing.

David further highlights that, beyond data quality, investors naturally expect client service excellence from their asset managers, and wish to monitor the quality of service, including the frequency of TPT production, whether there are delays in delivery, and the quality of content, to name a few.

Turning to infrastructure investments, he points out that investors are of course keen to identify qualifying infrastructure investments in order to benefit from capital reduction, and therefore that partnering with leading-edge firms able to offer quality data and value-added insights is key.

“At WizzInvest we strive to add real value by augmenting data with intelligent insights and analytics, and in so doing, to solve real-world client pain points.”

David Smykowski
Co-founder, WizzInvest

Innovation for success

Refinitiv understands that firms need to find innovative ways to manage the complex data management challenges created by evolving regulations such as Solvency II, and that they need to do so as efficiently and effectively as possible.

We provide non-embargoed fund holdings, or fund look-through data, in a consolidated feed managed by a team of specialists to ensure that accurate fund constituents are sourced and aggregated for subscribers. Look-through enables insurers to gain valuable insights into their asset portfolios, and boosts their ability to mitigate the risk exposure of their investments.

Our unmatched breadth and depth of regulatory-specific pricing and reference data – including CIC, LEI and branch level ratings – includes everything necessary to meet quarterly reporting obligations, and our professional services software capability combines full holdings data with pricing, reference and client proprietary data to populate the TPT report for submission to EIOPA.

Our three stage offering is available in independent components that can be utilized separately or combined to create an end-to-end solution, depending on client needs:

1) Stage 1 – Fund Holdings/Constituent Data

The Refinitiv Holdings Team removes the heavy lifting aspect of dealing with volumes of data. We liaise with all relevant fund managers, obtain and standardize all holdings information in a timely manner, and send the constituent data back to the client via secure FTP.

2) Stage 2 – Data Enrichment

DataScope Select, our strategic data delivery platform, enables the retrieval of a variety of different data components, including referential data; pricing data; entity information; and analytics to produce an enriched holdings file.

3) Stage 3 – TPT Creation

Refinitiv Professional Services works with the clients to combine client proprietary data with the enriched holdings data mentioned above. The result is consolidated output data that can be used to populate the TPT in the required format for submission to EIOPA.

Our evaluated pricing team also covers illiquid and hard to price assets. This is particularly useful in light of the fact that additional capital requirements are usually imposed when asset valuations are not available.

Additionally, we can offer insurance actuaries a significant time advantage. As of January 2020, EIOPA has used Refinitiv as its source for Risk-Free Rate (RFR) term structures. Firms taking their underlying data directly from Refinitiv, rather than waiting for the official publication by the regulator, will therefore benefit from a 4 day time advantage.

‘EIOPA, the European Insurance regulator, has just confirmed its change of market data provider for the calculation of Solvency II risk-free rate curves...Refinitiv will be the new data provider from Jan 2020 onwards.’¹

¹ <https://www.sequantis.com/en/eiopa-switches-to-refinitiv-for-solvency-ii-risk-free-rate-curves/>

Managing change

At Refinitiv, we understand that each regulatory change brings new challenges and pressures to firms obliged to meet new or changing regulations, whilst simultaneously containing costs and protecting operational efficiency.

We also appreciate that the landscape is constantly changing. For example, Smykowski highlights that the latest version 5 of the TPT may create opportunities for specialised asset managers. More granularity is expected for securitisations, and this might soften the capital burden for simple, transparent and standardized (STS) securitisation assets. New columns have been added for private equities that could help investors in cutting their SCR ratio on this asset class by 10%.

Both Refinitiv and WizzInvest are committed to providing insights such as these to help clients make the best possible decisions for their firms.

Our end-to-end solution (structured in separate components) for Solvency II compliance enables insurers to confidently cover all their global and regional compliance needs in a cost-effective and efficient manner. Moreover, our data solutions are highly adaptable and able to evolve alongside ever-changing requirements.

Whilst managing regulatory change is no easy task, taking a proactive approach and employing the best holistic solutions – including robust data and leading-edge technology, backed by trusted human expertise – offers the most effective answer for forward-looking firms seeking a smooth and seamless response to ongoing regulatory developments.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

Visit refinitiv.com

 @Refinitiv  Refinitiv