How asset managers are preparing for Solvency II

Solvency II for asset management survey findings 2012
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Key findings

European asset managers think they will win more insurance business due to Solvency II

The survey found asset managers to be bullish about their prospects of winning additional business as a result of Solvency II, with two-thirds of respondents expecting to acquire more insurance business. While this is a positive viewpoint, Ernst & Young believes that this expectation is mainly aspirational rather than related to a specific revenue target: some 91% of respondents have no set target for additional fees to be generated by Solvency II.

Lack of clarity in the Solvency II regulations is the biggest challenge for asset managers

At present, the biggest challenge for asset managers stemming from Solvency II is the “clarity of requirements,” with more than half of respondents citing this as an issue. Once clarity is achieved, we would anticipate that meeting the objective of providing accurate, timely data would become the next hurdle.

Asset managers believe their client reporting, data and product development functions will be significantly impacted by Solvency II

The top three areas of impact within the asset management operating model highlighted by respondents in our survey were client reporting, data management and product development respectively. We would have expected data management to be ranked higher than client reporting because data management concerns the entire investment process, whereas client reporting is only the end of the process. We imagine respondents selected this activity due to a lack of clarity in the reporting requirements under Solvency II.

Other findings

Lack of client requests cited as reason for not having a Solvency II program

Almost a fifth of respondents do not have a program under way and do not intend to deploy one, the main reason being a lack of client requests and asset managers not viewing insurers as a strategically important channel. There is evidence to suggest that many insurance firms are not yet fully engaging their asset management partners on Solvency II, and there is a disparity in the state of readiness. A few firms are pushing ahead with a strategic focus on grasping the opportunity offered by Solvency II while 20% of respondents said that “engagement with insurers” is their biggest challenge. This is a significant number, given that there is an imperative for insurers to comply with Solvency II.
most remain purely reactive with a low state of readiness. For example, a quarter of respondents said fewer than 10% of their insurance clients had engaged with them on Solvency II. The response to Solvency II remains reactive with minimal indication of asset managers taking a strategic approach: if the insurer is not demanding a response to Solvency II, the asset manager is not initiating a program. Furthermore, a third of asset managers are without a clearly defined strategy for Solvency II. This lack of a clear strategy is reflected in the lack of revenue targets.

Lack of clarity around recouping costs and generating additional fees

There is much work to be done with respect to Solvency II fee structures. Firms may consider charging for two reasons: first, if they are being asked for data, they need to recoup the cost of that data, and second, if providing additional services, there is an opportunity to generate additional revenue. It is perhaps surprising that more than a quarter of respondents are not considering the charging on of Solvency II expenses to their insurance client base. Furthermore, just 5% of respondents have a set target in mind for additional fees that could be generated as a result of Solvency II.

Solvency II programs predominantly on schedule

As far as timetables for Solvency II programs are concerned, it is a relatively positive scenario: for those firms with a Solvency II program, a quarter of respondents aim to complete before January 2013 and three-quarters aim to complete by the end of 2013. To achieve this goal, the results concerning Solvency II spend suggest asset managers are drawing in staff from existing programs to support Solvency II. This is placing more pressure on those individuals and a strain on other resources: there is a hidden cost to these programs that asset management firms need to consider.

Conclusion

Many asset management firms are not actually taking a strategic perspective on Solvency II. Whilst over half have said they are being proactive and two thirds have a strategy in place, more detailed evidence from the survey suggests the approach remains reactive. The survey found that the focus is on operational and compliance matters, with relatively little attention being paid to strategic revenue generation opportunities that may be derived from the Solvency II program.
Solvency II is an EU Directive that sets out stronger risk management requirements for European insurers and dictates how much capital firms must hold in relation to their liabilities. Under guidance of the European Insurance and Occupational Pensions Authority (EIOPA), implementation of the Directive is expected to come into force on 1 January 2014.

The requirements of Solvency II involve more complex calculations of factor-based formulas, stress testing and financial models. Insurance firms must also make significant changes to financial systems, change their balance sheet for reporting to a fair-value basis for Solvency II, and prepare for greater public disclosure of financial statements, risk measures and capital calculations. The review consists of three central “pillars”:

► Pillar 1 – Capital adequacy
► Pillar 2 – Systems of governance
► Pillar 3 – Supervisory reporting and public disclosure

In the future, insurers are likely to prefer investments that provide closer matching with their liabilities and minimise risky asset classes, as this would reduce their capital requirements. This presents an opportunity for “Solvency II-optimized” products, such as bespoke products to hedge long-duration liabilities or products that match the complex discount rates the new regime will use. Asset managers are also beginning to develop their capabilities in portfolio construction, with an opportunity to pay more attention to their insurance clients’ liabilities and offer genuine portfolio optimization solutions, which in turn may lead to stronger, long-term client relationships.

All the recent studies measuring the impact of Solvency II have been conducted from an insurer’s perspective. Solvency II is a significant piece of insurance regulation; therefore, it is understandable that the focus to date has been primarily around the impact on insurance firms. However, Solvency II has to be seen in the context of all the other regulations impacting the asset management industry. Unfortunately, dealing with a regulation that is not asset management focused is not a priority: FSA regulation such as the Retail Distribution Review and European and overseas legislation such as Dodd-Frank, UCITS and FATCA have inevitably taken precedence for asset managers.

For the last two years, Ernst & Young has been working with a number of asset managers, looking at Solvency II in terms of its impact on the asset management value chain. In this survey, we analyze Solvency II from the viewpoint of asset managers with insurance mandates. Through numerous meetings with asset managers, we have gained extensive anecdotal evidence about their concerns and plans. As awareness has grown, we have demonstrated that the impact of Solvency II extends beyond the insurance industry and into the business models of asset managers.
Based on our work and discussions with asset managers, we designed a European survey that analyzed seven themes that are most relevant to Solvency II preparation, requirements, opportunities and threats. The objective is a quantitative assessment of how the asset management industry is responding and its state of readiness. The report reveals how the engagement process has unfolded between insurers and asset managers, whether targets have been set and what provisions have been made for insurers. Therefore, this report considers Solvency II from the asset management perspective, not from the insurance perspective (of the three pillars).

It is widely acknowledged that data acquisition, accuracy, consistency and manipulation will present considerable challenges. As insurers are seeking internal model approval from their regulators over the coming 18 months, it is becoming obvious that many have a significant shortfall to make up in terms of asset data. The calculation of Solvency Capital Requirement (SCR) requires a range of inputs, and insurers will be looking for detailed, accurate asset data and quantifiable credit and liquidity risk metrics.

Full implementation is shortly upon us, and with data and technology both critical to success, insurers will soon need assurance that asset managers can provide all that they will need as they enter their testing phases.

With less than a year before regulatory supervisory approval of Solvency II models, the asset management industry should be reasonably prepared. This is an appropriate juncture to ascertain whether the industry has moved beyond the conceptual influences of Solvency II and made detailed provisions for the operational impacts and strategic opportunities. This survey also reveals the opportunities for asset managers with respect to product development.

We trust that this report will be appreciated by the insurance community, as its findings should galvanize it to engage more with asset management partners. However, the primary objective of this report is for asset managers to act upon the findings.
Survey findings
Solvency II and asset management

Has the insurance industry led from the front on Solvency II and actively engaged its asset management partners?

One might assume that the impetus for a Solvency II program would stem from the insurer, and the encouraging news is that almost a third of respondents had been engaged by most of their insurance client base around Solvency II. It is clear, however, that a significant proportion of asset managers are not in regular dialogue with their insurance clients about Solvency II, even at this relatively late stage. In fact, 25% of respondents said more than 90% of their insurance clients had yet to engage with them on Solvency II planning and requirements. In these instances, the position would appear to be a reactive one: if the insurer is not demanding a response to Solvency II, the asset manager is not initiating a program.

“If our clients are not bringing up the issue of Solvency II, then we are taking the lead in terms of initiating a strategic process.”

What percentage of your insurance client base has engaged with you around Solvency II?

- <10%: 4%
- 10-25%: 25%
- 25-50%: 29%
- 50-75%: 13%
- >75%: 9%
- n/a: 20%
It must be remembered that there may be a slight positive bias in this survey. By virtue of the fact that these asset managers are happy to participate in the survey, one might expect that they are further along the track toward Solvency II implementation. Those firms that are less prepared would be less inclined to take part.

If there is low awareness of Solvency II among asset management firms, what is the potential impact?

At a board level, there may be missed opportunities to react strategically. For staff dealing with clients, we could see potential issues or challenges being overlooked or not being identified quickly enough.

With full implementation nearing, one would expect awareness to be extremely high, and two-thirds of respondents claim to have a Solvency II strategy.

Significantly, however, that still leaves a third of asset managers without a clearly defined strategy. This lack of a clear strategy will impact the asset manager in terms of its achievement of the opportunities stemming from Solvency II, such as the development of Solvency II-optimized products. Reacting strategically also allows the company to align Solvency II programs with other regulatory programs under way that may have a potential overlap. For example, Dodd-Frank and Solvency II can overlap at a data governance level, providing an opportunity for synergies.

Do you have a clearly defined Solvency II strategy?

- Yes: 67%
- No: 33%
Are asset managers being proactive in their approach toward Solvency II?

The good news is that the approach to Solvency II was predominantly described as being “proactive,” though a significant proportion described their firm as “reactive” or “not engaged.”

It is encouraging to see a proactive response from the asset management community, as evidence from the survey has indicated that insurers are not yet fully engaging. A reactive position may work in many instances, though it could leave asset managers at the behest of their insurance clients as the deadline approaches. A reactive position might also lead to asset managers having to develop custom builds for individual clients, rather than proactively being clear about what they can and cannot deliver. Asset managers who are not engaged risk losing existing clients and falling behind their competitors in the future.

How would you describe your firm’s approach to Solvency II?

- Proactive: 53%
- Limited proposition: 20%
- Reactive: 25%
- Not engaged: 2%
How would you rate your company board’s current understanding of Solvency II and its impact on asset management?

"Our team has a really good understanding of Solvency II, but outside of that team there is minimal awareness."

Is there a good understanding of the impacts of Solvency II at a board level – from which a strategic approach should evolve?

Our survey indicates a reasonable understanding at board level of the impact of Solvency II. It is also testimony to the asset management community that boards are engaged, given the raft of other regulations that they are obliged to contend with. More than a third of respondents rate their board’s understanding of Solvency II as “good,” with more than half saying it is “fair.”

The picture emerging is one of well-informed staff in asset management firms. The results for staff broadly mirror that of the board, with more than a third rating their staff’s understanding of Solvency II as “good” and almost half rating their staff’s understanding as “fair.”
There is an important caveat here: these results are generally (but not exclusively) specific to Solvency II teams. Therefore, the 86% of respondents that rated staff understanding as “good” or “fair” is generally applicable to Solvency II teams. There is a question mark regarding awareness outside of these groups: Ernst & Young has anecdotal evidence to suggest that awareness does not seem to extend beyond the Solvency II teams.

If as we suspect knowledge of Solvency II is held mainly within the Solvency II team, this explains the lack of a strategic approach among many asset management firms. With sales, investment and business development teams not engaged in the Solvency II program, the focus remains on operational and compliance activities.

How would you rate your staff’s current understanding of Solvency II?

- Good: 44%
- Fair: 14%
- Poor: 14%
A useful indicator of whether asset managers have been proactive with respect to Solvency II is their approach to training. It could therefore be seen as positive that 71% of respondents have run education sessions for staff on Solvency II. This result, however, is counterbalanced by the fact that a significant number of asset managers have not run sessions to educate staff. The proportion that have not run (or even plan to run) educational sessions on Solvency II also correlates with asset managers’ lack of a clearly defined strategy.

One might reasonably assume that even educational seminars run on Solvency II will be delivered to a limited number of teams within any asset management firm. The implication is that the programs are under way and two-thirds of asset managers have a strategy, which is all very positive. However, the knowledge is held within the Solvency II teams; therefore, these programs are more operational and compliance-focused in nature, rather than being truly strategic.

We think the level of understanding at a board level is accurate; however, we feel that staff understanding of Solvency II is lower than the result here would indicate.

Have you run/do you plan to run education sessions for your staff on Solvency II?

- Yes: 71%
- No: 29%
With the Solvency II deadline looming, asset managers should be in a position where each of the components of their programs is nearing completion. But how ready are they, and where are they behind? Our study indicates that at present, the biggest challenge for asset managers stemming from Solvency II is the “clarity of requirements,” with more than half of respondents citing this as an issue.

As clarity of requirements is a basic component of a Solvency II program, once clarity is achieved, we would anticipate that providing the right data would dominate. “Data provision” is currently ranked in second place, with more than a quarter of respondents citing this as a challenge. Subsequently, we expect to see other challenges gaining prominence, such as “loss of intellectual property” due to the requirement for look-through to position-level data, close to month-end, to meet the insurers’ reporting requirements.

The loss of intellectual property is an interesting challenge. The speed with which asset managers have to submit data to insurers under Solvency II effectively means that the insurer can potentially replicate the portfolio that the asset manager is managing. As a consequence, while only a few asset management firms see loss of intellectual property as a major challenge, most are significantly concerned about providing look-through data within such a short timeframe and are exploring ways in which to circumvent this issue.

What do you perceive is the biggest challenge for asset managers of Solvency II?

“Our still aren’t sure what the insurers are expecting from us!”
Where will the greatest impact of Solvency II be felt by asset managers within their own operating model?

The top three areas of impact highlighted by respondents in our survey were client reporting, data management and product development respectively.

In terms of the impact on the operating model, these findings for reporting and data management are in line with later questions in the survey, where the provision of the additional, quality assured data and data for the SCR calculations ranked highly. The data managers gather the data, process it, clean it, validate it and channel it to various recipients across the firm, including the client reporting team; therefore, its influence is broad and deep.

No respondents cited the investment process as being significantly impacted. If this survey were to be repeated in a year’s time, when there will be more clarity on the issues, we would expect the investment process function to be ranked far higher.

What are the top three areas of your operating model you think will be impacted the greatest as a result of Solvency II? (rank answers from 1 to 3)

We would have expected data management to be ranked higher than client reporting because data management encompasses all processes from the back to front office, whereas client reporting has an impact on just the front end. We suspect this is owing to lack of clarity in the reporting requirements of Solvency II.
At the board level of most asset management firms with insurance mandates, a fundamental question regarding Solvency II will be whether this regulation will result in the firm winning more insurance business.

Two-thirds of respondents expect to win more business as a result of Solvency II. While this is a positive viewpoint, Ernst & Young believes this expectation is mainly aspirational rather than related to a specific revenue target. As we highlighted earlier in the survey, 91% of respondents have no set target for additional fees to be generated by Solvency II.

It is noteworthy that a minority of respondents indicated that Solvency II will reduce the amount of insurance business that they manage. Why would those two firms anticipate losing business? The reason may simply be that these firms do not want to invest in the program. Indeed, both of these firms have less than US$10b in insurance money under management. It is significant that some asset managers may already be considering insurance client attrition because they do not want to assist insurers in compliance with Solvency II. A similar policy is being adopted by some wealth managers supporting US clients with accounts in Europe, as a result of FATCA.

A large number of respondents expect to win more business as a result of Solvency II, but where will this business come from? Should we expect to see some churn in the industry as insurers look to reallocate assets due to capital requirements? Will insurers be enticed to other asset managers, or will client retention be driven by factors such as Asset Liability Management (ALM)?

Do you anticipate Solvency II will mean that you...?

![Graph showing responses to whether respondents expect to acquire more insurance business, continue to retain insurance business, or reduce the amount of insurance business they manage.](image-url)
The challenges and opportunities

The percentage of respondents (87%) anticipating a closer working relationship with their insurance clients is quite high when considering a third have no Solvency II program under way and a quarter describe their approach to the regulation as being “reactive.” We imagine that the 87% are more aspirational in nature, however there is little evidence from this survey to substantiate this view.

Will asset managers form a closer working relationship with insurers as a result of Solvency II?

The answer appears to be “yes.” With a potential impact on the front, middle and back offices, this is perhaps unsurprising. But why have more asset management firms not engaged with their insurance clients?

Do you believe Solvency II will promote a closer working relationship with your insurance clients?
Adapting to Solvency II

How are asset managers gearing up for the increased data requirements stemming from Solvency II?

The need for a scalable data solution has been the center of much debate within the asset management industry over the last two years. Solvency II will add to the high level of data requirements that asset managers already face from a myriad of regulations and legislation.

The message here is one of self-reliance, as opposed to external systems support. Our survey found that more than half of respondents plan to enhance their existing data infrastructure, while a quarter said they are intent on delivering an in-house build. Indeed, only a quarter of respondents have the intention of expanding data coverage through a third-party arrangement, such as an existing administrator.

This may come as a surprise to the system providers and administrators, who have been preparing for asset managers (and insurers) to approach them for Solvency II data solution support. There are higher data requirements under Solvency II, but it appears asset managers intend to look at gaps in their own infrastructure.

When we compare the results here with those concerning the state of readiness pertaining to various Solvency II tasks, there is a disparity. The current state of the key data activities needed for Solvency II compliance was rated low to moderate, yet more than half of respondents are expecting to enhance existing data infrastructure. If these firms are to be ready by January 2014, activity will need to pick up considerably. The reasons why a third-party could potentially be used include competency in data provision and the avoidance of large-scale internal change programs. Therefore, we might expect this figure to rise as the deadline looms closer and the pressure to comply increases for the insurer.

In relation to data solutions to support Solvency II requirements, do you plan to...?

![Graph showing number of respondents for different options]

- Buy and implement a vendor data solution
- Deliver an in-house build
- Enhance existing data infrastructure
- Extend coverage through third-party arrangement such as existing administrator
- Other
There are various methods of providing quality assurance over Solvency II data, including independent reviews, internal dashboards and Service Organization Controls Report 2 (SOC 2).

The insurer is responsible for having some sort of data control mechanism, as they cannot delegate the responsibility for the quality of the data. The SOC 2 does provide some comfort in that it confirms a level of quality within the data.

Our survey found that 24% of respondents are planning to provide a SOC 2 assurance, while 31% are considering an independent review. Both of these responses involve a form of independent review via an external party, a situation that will be welcomed by insurers.

Intriguingly, however, a third said they are not considering the provision of any assurance. Consequently, this third saying “none” may indicate that they have not yet planned to provide assurance or that another firm is providing that service.

Are you considering any of the following to provide assurance over your Solvency II data?
Have asset management firms across Europe adapted their processes to Solvency II, allocating budget, recruiting staff and setting targets for fees?

The findings may indicate a lack of confidence in the amount of money currently being spent on Solvency II or simply that a specific Solvency II budget has not been allocated to some asset managers. Fifty-one percent of the respondents were unwilling or unable to say what their budget was for Solvency II-related activities.

What is your budget for Solvency II-related activities?

Eleven percent said there is no separate budget allocated. This may be due to a number of factors, such as the lack of clarity around the regulations, an unclear timeline or perception that Solvency II is not an asset management issue.

A fifth of respondents have a separate spend, though the majority of these have a budget below US$1m.

“We are worried about spending too much on Solvency II if there is so much change and uncertainty from the regulators.”
Adapting to Solvency II

The responses to the question regarding Solvency II spend were enlightening as a result of their ambiguity.

How much have asset management firms spent on Solvency II so far?

There appeared to be very little awareness of the budget utilized to the end of last year, and the responses indicated that the time utilized by internal resources was considered an overhead and was, therefore, not measured. This would suggest that the values presented by some respondents would be in addition to any staffing costs. Therefore, the actual cost is significantly higher than indicated. The implication is that asset managers are drawing in staff from existing programs to support Solvency II. This means the asset management firms are placing more pressure on those individuals and thus more strain on other resources. Asset managers need to understand the hidden cost to these programs.

The recruitment of staff to assist in the implementation of a Solvency II program might be seen as a tangible indicator of commitment toward compliance within the asset management community, and 27% of respondents have recruited in this way. One might assume this refers only to Solvency II team members, but some firms have recruited staff into areas such as product or marketing. This figure (12) is far lower than the number of firms having a Solvency II program under way (28) or a strategy in place (29). The finding indicates that additional staff recruitment is not seen as part of a strategic commitment toward Solvency II.

Have you recruited, or are you planning to recruit, additional staff to support Solvency II?

- Yes: 27%
- No: 73%
How is the asset management community responding to the changes in operating costs as a consequence of Solvency II?

Solvency II poses a question for asset managers in terms of how to pass on the additional costs resulting from compliance facilitation. There are opportunities for fee generation that will affect the operating model of asset managers, but the basic question regarding the recouping of additional Solvency II expenditure is the first issue to be addressed.

Only a third of respondents are still undecided about items they are considering charging to insurers, which is in line with the fact that a third do not have a clearly defined Solvency II strategy in place.

The increase in data will be significant. Insurers may not be anticipating these heavy data expenses to be charged on, yet a third of respondents intend to levy a fee for the provision of additional data.

A quarter will pass on the cost for portfolio modeling and optimization, and we expect that percentage to grow in the coming months.

It is perhaps surprising that more than a quarter of respondents are not considering charging on Solvency II expenses to their insurance client bases, despite the potentially significant costs involved.

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Are you considering charging insurers for any of the following items?

![Chart showing the number of respondents considering charging for various services.]

- Additional data reporting
- Solvency II specific products
- Portfolio modeling
- Portfolio optimization
- Reporting services
- Other
- Not considering
It appears that the respondents are not actually taking a strategic perspective on Solvency II. Although more than half said they are being proactive and two-thirds have a strategy in place, when faced with the difficult revenue questions, the approach of the asset management firms is more reactive than proactive. The approach is not strategic (focused on revenues) but rather operational (focused on compliance).

Is the attitude to Solvency II really board level and proactive, or is it more operational and reactive?

Only 5% of respondents have a set target in mind for additional fees that could be generated as a result of Solvency II. Once again, assuming that the firm has a clearly defined Solvency II strategy in place, one would expect that strategy to specify the level of additional revenue to be generated. Yet only two of the firms with a strategy have a set target for additional fees.

As clarity improves, we expect more firms to look at the opportunities that Solvency II brings. Although only 5% of respondents are actively setting additional fee targets, some firms are recognizing the revenue opportunities.

Do you have a set target for additional fees generated?

- 5% Yes
- 4% No
- 91% Other or N/A
What form will the charging on of Solvency II expenses take?

The method adopted by asset managers for charging on additional products and services is a key decision given the potential costs that Solvency II may incur for asset managers. Sixteen percent will levy a one-off charge for these additional services and a similar proportion have agreed to increase fund or management charges.

We would have expected there to be far more clarity in the plans for fund charges. It leaves the bulk of responses in the “other” category, some examples of which are reproduced here. These illustrate the varied approaches to charging adopted by asset managers.

The design of SCR modeling solutions to support Solvency II requirements is a major undertaking, so what are asset managers’ plans? Our survey found that a third of respondents are planning to create an in-house SCR model. This is effectively replicating components of the model that the insurers use, so the asset managers are moving up the value chain in terms of what they can deliver to their insurer clients. Such a move will bring the asset manager operationally closer to the insurer with the result that the asset manager will have a better understanding of the insurers’ challenges.

A third of respondents (17 firms) are not planning to undertake any activity in terms of modeling solutions.
Adapting to Solvency II

Industry expectation is that insurers will reduce the risk of their asset allocations as a result of Solvency II.

Actuarial models are moving forward in a particular way with respect to Solvency II. The “standard model” was originally seen as a simple model for small and medium insurers. Larger insurers, with more developed actuarial models, larger scale and more resources, were expected to develop a more sophisticated response, known as the “internal model.”

The survey found that the insurance clients of 36% of respondents are running an internal model. These are significantly more complex and entail a greater requirement on the amount and granularity of data.

Are your insurance clients mainly running...?

- Standard model: 44%
- Internal model/partial internal model: 36%
- Don't know: 13%
- Mix of internal and standard models: 7%
There has been a lot of discussion in the market as to when, and if, insurers will move into different asset classes as a result of Solvency II. Some commentators have suggested that insurers tend to move asset type after a major event, but it is interesting to note that 64% of asset managers are already witnessing shifts in demands for different asset classes. It is perhaps unexpected that this change in demand has arrived so early.

The remaining 36% suggests there may be a significant late push among insurance clients to alter their asset mixes. For asset managers that have had minimal engagement from their insurance clients, such a late push may prove very demanding.

Industry expectation is that insurers will reduce the risk of their asset allocations as a result of Solvency II, with a gradual shift away from equities and toward safe havens such as investment-grade bonds. Insurers will need to maximize risk-adjusted returns and optimize their use of capital. This may involve minimizing interest rate and FX mismatch and reducing holdings of equities, long-term corporate debt and structured credit while boosting exposure to short-dated corporate bonds and longer-dated sovereign debt. Our survey, however, found that the only asset types that are experiencing increased demand among insurers are bonds and derivatives.
Adapting to Solvency II

Fund structuring will be a key consideration for asset managers as a result of Solvency II, and our survey sought to reveal the intentions for product development, SCR and other impacts on the operating model of the asset manager.

Our findings concerning the expected impact on fund structuring and actions planned or taken to date generated a varied response, but the launch of Solvency II-specific products, the provision of look-through on positions and the inclusion of SCR in modeling were the main themes to emerge.

Solvency II and the ongoing debate regarding the matching adjustment will force insurers to adapt their approach to Asset Liability Management (ALM). This, in turn, may prompt many to review the mandates that they have awarded to asset managers and to put existing and new relationships under closer scrutiny. Therefore, asset liability management may have an important role to play in terms of client retention.

Thirty-six percent of respondents already assist insurers with ALM, and 11% plan to provide this service.

This still leaves more than half of respondents without a current ALM service or intention to provide such assistance. We would expect this figure to fall as we approach the January 2014 deadline, or asset managers will potentially risk losing insurance clients.

When those who currently or intend to supply ALM assistance to insurers were questioned about their detailed plans for ALM data, there was a fairly positive response. The majority of respondents aim to provide at least one of the two options: to provide asset data or take in liability data. There was a slight bias in favor of supplying asset data only.
Progress to date

How active has the asset management community been in terms of its preparation for implementing Solvency II?

This section addresses program implementation with a detailed breakdown of specific tasks within active programs. It also provides a benchmark as to the level of engagement asset managers currently display and highlights areas where there is still room for improvement.

Sixty-four percent of respondents have a Solvency II program under way, in most cases with budget being allocated. This correlates with the earlier findings surrounding strategy development, where two-thirds have a clearly defined Solvency II strategy.

On the other hand, 18% of respondents do not have a program under way and do not intend to deploy one. This finding seems to challenge the response to the question concerning the asset manager’s approach to Solvency II, where only one firm said that they had not engaged on Solvency II. Without a program under way (or even an intention to deploy a program), it is difficult to view this group of asset managers as being anything other than disengaged.

The true picture emerging is one where a significant number of asset managers describe themselves as being engaged on Solvency II yet may not have the fundamental components in place.

Do you have a Solvency II program under way?

[Diagram showing 64% Yes, 18% No, 18% Planning to]
Our survey revealed that the main reason for respondents not having a Solvency II program underway is a lack of client requests. This highlights the need for insurers to engage more with their asset managers and is perhaps surprising, given that Solvency II is a regulation with which all European-based insurers must comply.

The additional comments made by respondents to this question indicated that a full Solvency II program was deemed unnecessary by some asset management firms, including:

- “Our system is ready to meet clients’ Solvency II reporting needs, but the number of clients is limited.”
- “Solvency II issues are dealt with on a case-by-case basis.”

If you do not have a Solvency II program underway, please select the reasons why?
The survey now delves deeper into the group of respondents who either have a Solvency II program under way or are planning to deploy one.

If we study the absolute numbers, it is notable that while 28 firms said they have Solvency II programs under way, 1 firm indicated that it will not be providing additional data to their insurance clients. Given the intrinsic necessity for additional data in order to support Solvency II requirements, this brings into question the Solvency II program in this firm and may suggest that the firm has taken a purely alpha-generation-based approach and is passing on any data requirements to a third-party.

One might expect that the number of respondents citing the development of products to be higher than 23 firms, given the limited revenue opportunities available in the current climate. This statistic means that there are 13 firms that are not planning on developing Solvency II-optimized products. Although four of these respondents are among the 20 firms for which their insurance client base contributes less than US$10b AUM, the finding nevertheless indicates that asset managers are still predominantly viewing Solvency II from a compliance perspective as opposed to a potential revenue opportunity.

If you answered “yes” or “planning to” in regard to having a Solvency II program under way, do you intend to perform any of the following activities in relation to Solvency II?
Our survey indicates that the majority of asset managers are still in the early stages of their preparation in a number of areas.

How confident are asset managers feeling about their level of preparation for Solvency II?

In terms of engagement with insurance clients, the response is predominantly moderate. This result conflicts with the findings concerning the approach of the asset manager to Solvency II, where more than half of respondents described their approach as being “pro-active.”

If we consider all the tasks being assessed, the overall evaluation is “low” to “moderate” in nature, with only the identification of data requirements being rated as “high.” It is a predominantly negative picture that emerges, with few respondents feeling bullish about their level of preparation.

Asset managers need to accelerate the progress of their programs as we move into 2013. Our survey indicates that the majority of asset managers are still in the early stages of their preparation in a number of areas. This may not be surprising, though, given the lack of clarity within the regulations, but the industry must do something to prepare itself. We have seen a number of industry working groups set up to address potential challenges, which is a positive step forward.

Within your current Solvency II activities, which of the following tasks have you covered, and what status are they at?
Can the asset management industry be in a position to support insurance firms by the time Solvency II is implemented in January 2014?

Many are anticipating completion by Q2 2013. Although acceptable from the insurers’ perspective, we would suggest that these firms should be aiming for the end of Q1. We know from experience that large change programs generally take longer than expected, and if the firm is aiming for Q2 2013, there is potential that completion will drift into Q3.

Only seven firms are anticipating completion after 1 January 2014. If we probe deeper into this group, the criteria that respondents expect to remain outstanding are surprising. As we noted previously, data and reporting are generally perceived by insurers as being relatively base-line requirements. Therefore, we would have anticipated these two tasks to be among the first to complete.

The picture emerging is a relatively positive scenario: a quarter of respondents will complete their program before January 2013, and three-quarters will complete by the end of 2013.

The chart shows the distribution of responses to the question: “If undertaking a Solvency II program, when do you expect your program to complete?” The data indicates that a significant proportion of respondents expect their programs to be completed by the end of 2013.
Survey approach

Eighty percent of respondents provide services for 1-50 insurers. One is in the 51-100 range, and several are at the higher ranges. The highest number of clients is more than 350 insurers, which applied to one asset manager.

Methodology
The research methodology was a series of face-to-face and telephone interviews with staff of 44 global, domestic, alternative or other European asset managers. These interviews were conducted in the spring of 2012. The questions were mainly quantitative in nature, with a limited number of semi-structured questions.

Profile of respondents

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Global asset manager</td>
<td>23</td>
</tr>
<tr>
<td>Domestic asset manager</td>
<td>11</td>
</tr>
<tr>
<td>Alternative asset manager</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
</tbody>
</table>

In terms of insurance AUM, 45% of respondents manage less than US$10b in insurance money, while the same percentage manages more than US$10b.

How much of your insurance money do you manage in terms of AUM?
The insurance client base of the respondents is predominantly life and non-life, with almost half managing money for mutuals and health insurers.

Almost two-thirds of respondents do not manage money that belongs to a parent firm, but almost a fifth have a captive business that accounts for more than 70% of their insurance assets under management.

For which type of insurers do you typically manage money?

If you have a captive insurance business, what percentage of your overall insurance AUM does this represent?
### Glossary of acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>ALM</td>
<td>Asset Liability Management</td>
</tr>
<tr>
<td>AUM</td>
<td>Assets Under Management</td>
</tr>
<tr>
<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FATCA</td>
<td>Foreign Account Tax Compliance Act</td>
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<tr>
<td>SCR</td>
<td>Solvency Capital Requirement</td>
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<td>SOC 2</td>
<td>Service Organization Controls Report 2</td>
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<tr>
<td>T+3</td>
<td>Three days post-trade</td>
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<tr>
<td>UCITS</td>
<td>Undertakings for Collective Investment in Transferable Securities</td>
</tr>
</tbody>
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