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## PRIIPs for Asset Managers - When is that due again?

## Research Update March 2019

This research piece is specifically for Finance, Risk Management, Legal, Funds Operations, Compliance and Audit personnel working on PRIIPs projects now...

# Technology key to smooth PRIIPs implementation in Asset Management

March 2019

While PRIIPs regulation for UCITS retail funds has been delayed until 1 Jan 2022, asset management firms cannot afford to delay implementation. Lessons from the life industry indicate strategy and technology are key to minimising disruption, mitigating risk and building trust with clients.

Late last year the European Parliament's Committee on Economic and Monetary Affairs (Econ) passed a draft resolution to defer deadlines relating to the implementation of the PRIIPs (Packaged Retail and Insurance-based Investment Products) regulation. The need for retail funds to start publishing KIDs (Key Information Documents) has been pushed back from 2020 to 2022 and the broader PRIIPs review has been extended until the end of this year.

The news was welcomed by the German Investment Funds Association (BVI) and the UK's Investment Association who have warned the complex methodology used in performance scenarios within KIDs could be misleading for investors.

The regulatory requirements for PRIIPs for UCITS are likely to change prior to go-live. While it is understandably difficult to focus on implementation when the final regulatory requirements are unclear, asset management firms that delay PRIIPs planning risk losing the trust and confidence of their clients.

## Lessons from the Asset Management Industry

In January 2018, MiFID II and the PRIIPs Regulation introduced new requirements for disclosing costs and charges. These aimed to make it easier for consumers to understand the total costs of investment products and services and required firms to disclose all costs and charges.

An early review by the Financial Conduct Authority (FCA) last year found significant errors in calculations by investment managers, with the FT reporting this month "The rules have led some managers to provide zero or even negative estimates for the charges they expect to incur for buying and selling securities held by thousands of funds."

Asset managers will need to have the capability to both populate an EPT and also to generate KIDs – the same technology solution could be used to do both.

## Lessons from the Life Industry

Last month Irish Funds, the representative body for the international investment fund community in Ireland, invited Financial Risk Solutions (FRS) EMEA Sales Director Frederic Simon to share lessons learnt from the life industry's adoption of these regulations at their PRIIPs Working Group meeting in Dublin.

A strategic partner to sixty life industry clients including MetLife, Prudential, Zurich, FRS plays a key role in the planning and implementation of technology and compliance solutions for these firms.

For life insurers PRIIPs proved more of a strategic challenge than many first thought. Implementation was difficult at times due to data collection requirements and external dependencies in receiving completed European PRIIPs Templates (EPT's). Legislation guidance was quite late and problems in interpretation of the Regulatory Technical standards (RTS's) meant that timescales were tight and with much uncertainty until the end.

It's important to note that there are significant differences between the life and asset management industries. Life is more retail focused, whereas asset managers have a greater institutional focus. The types of products differ too in that life has more multi-option products and asset managers more individual products.

However, the experience of life insurers and intermediaries in producing KIDs is still relevant:

- Sales intermediaries, such as insurance brokers, have focused on the costs displayed in the generic KID, with the range of costs from minimum to maximum over all the fund options available on the multi-option product.
- Insurers have removed individual funds from the fund range for funds where the costs are high (irrespective of the fund performance) on the basis that they are distorting the average level of costs and hence impacting the insurers' competitive position.
- Some asset managers have struggled to supply necessary data to insurers for KID production, with some dropped from the asset manager panel as a consequence.
- Insurers typically provide blended products where the underlying investments such as UCITS are provided by asset managers.
- Computing transaction costs was less of an issue for insurers as asset managers were supplying that data.



### Issues for the CRO & Solutions

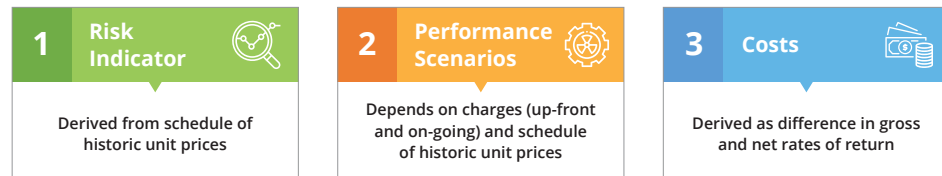
The most successful implementations of PRIIPs have had dedicated project teams. These teams are responsible for staying abreast of the industry and regulatory developments and developing an implementation strategy that ensures solutions are focused on data integrity and ongoing compliance.

### Data integrity - for efficiency and risk mitigation

As seen above, the reliance on data from asset managers in the production of KIDs for life insurers was critical. With this data continually changing over time, automated processes for updating KIDs are necessary for operational efficiencies and to reduce risks of accuracy.

### Let Technology Partners do the heavy lifting

Despite delays and details yet to be ironed out, PRIIPs is here to stay. Technology is the key to delivery and working with technology partners throughout the process will help to minimise the implementation pain and mitigate risk. With the right technology vendor doing much of the heavy lifting your company can stay focused on strategic issues.



*Calculations: what do we need to know for KID development?*

### Compliance - robust solutions that pass the CRO test

While it could be tempting to turn to a spreadsheet to calculate KIDs, it's important your solution stands up to the CRO (Chief Risk Officer) test. As KIDs are significant pre-sale documents, the CRO must be confident you have a provable dataset to support a robust defense of the accuracy of KIDs for potential future civil liability cases.

For legal robustness you must ensure your solution:

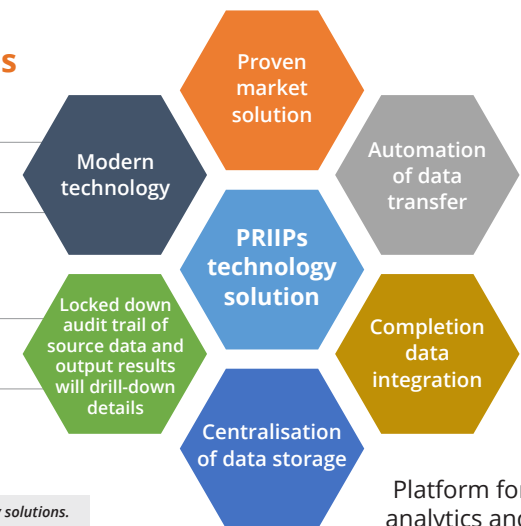
- Is documented and archived
- That results are locked-down
- There is an audit trail
- There is centralised storage of results including data inputs and intermediate calculations results sets

### PRIIPs Technology Solutions

Visualisation Tools

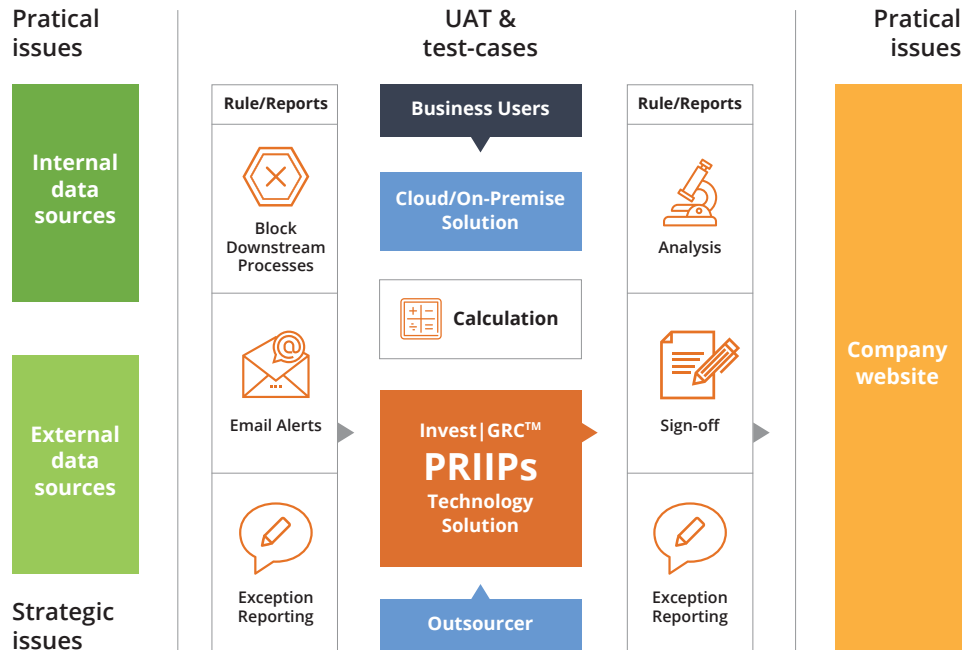
Civil Liability Case-proofing

*Key requirements for robust PRIIPs technology solutions.*



Platform for advanced analytics and reporting

At FRS, we focus on simplifying the PRIIPs problem and reducing its scale for clients. The diagram below shows a three stage operating model – inputs, calculations and outputs, that are managed through the Invest|Pro™ software suite.



*Companies should deploy PRIIPs resource to strategic issues to maximise benefit. A technology partner can solve this part of the implementation.*

This single analytics-driven compliance engine combines data from internal and external sources to help insurers and asset managers meet PRIIPs and KID requirements along with Pillar III asset reporting standards for Solvency II.

Through the Invest|Pro™ platform FRS manages thousands of unit linked funds for over 60 blue-chip financial services and BPO clients worldwide. Delivered on-premise or as cloud-based SaaS, Invest|Pro™ is scalable, modular and flexible and responds to fast changing industry needs to ensure clients can always stay focused on growing their businesses.

### Selecting a Compliance Technology Provider

Key criteria checklist:

- Is it a systematic solution?
- Has it been externally validated through unit tests and customer test cases?
- Is it consistent with other companies?
- Has it market credibility?
- Results cross checked against previous?
- Is there a central results warehouse?
- What are the analytics capabilities?

*'We chose Invest|Pro™ to automate and consolidate our administration functions and the 35% cost savings and efficiencies that have resulted have been exceptional. These efficiencies have also allowed us to provide our clients with better service and products – which is where our core competencies lie.'*

**Head of Group Finance,  
Friends First**

#### References:

- <http://www.funds-europe.com/news/german-funds-welcome-priips-delay>
- <https://www.ft.com/content/d3503dd7-983b-3b91-a74b-232e48ac53ec>
- <https://www.ft.com/content/7dbedf5e-90ec-11e8-b639-7680cedcc421>

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## About Financial Risk Solutions (FRS)

Financial Risk Solutions Ltd (FRS) is a leading provider of unit pricing and fund administration software to the life assurance and pensions industries. Its Invest|Pro™ product family is a recognised leading benchmark in the investment fund administration area and customers in life assurance and third party administration include MetLife, Zurich, Aegon, SEB, Charles Taylor, IFDS, and Accenture Managed Services.

Invest|GRC™ (Governance, Risk & Compliance).

This is an asset reporting product that can consume data from the company's investment and financial systems, from outsourcers and from other external data sources. It empowers senior finance, risk, audit, ops and admin staff to monitor risks and mandates, do rules management, manage breach occurrences, assist corrections and crucially produce asset reports (both regulatory reports and also risk management function reports). There are three main strands: 1. Solvency II asset QRTs, 2. Risk management metrics, rules monitoring, breach management and compliance and 3. Analytics

Invest|Pro™ manages unit pricing and portfolio valuations, asset/liability unit matching, box management, trade order management, investment accounting, tax, financial reporting and compliance with investment mandates in a single application. Product types covered include unit linked funds, portfolio bonds, self-invested/directed pensions, shareholder funds and with-profit funds. Invest|Pro™ was specifically designed to securely automate complex fund administration processes.

Invest|OPS™ (Outsourcing Partner Supervision) automates the validation of operational activity performed by outsourcing partners. It provides methods for assessing the standard of performance of the service provider; enables the investment firm to supervise the outsourced functions and to manage the risks associated with outsourcing. It also provides the firm with effective access to the data associated with the outsourced activities.



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