



THE VALUE OF DATA AMONG VARIABLE ANNUITIES

Variable annuities and other complex investment products demand a higher level of accuracy than ever before as regulators crack down on transparency

By **Danielle Kane**

The importance of clean and validated data – a critical component for mutual fund pricing and products – is magnified for variable annuities.

“Variable annuities, due to their complexity and the heightened regulatory focus around transparency, demand an even higher level of accuracy than ever before,” says Bob Ward, chief revenue officer at VMS Solutions.

Pricing a variable annuity is more complicated than pricing a mutual fund because an annuity is made up of various mutual funds and insurance contracts. As variable annuities grow in popularity, it can be overwhelming for managers to ensure that there’s accurate information in each product. “Due to the nature of [variable annuities], the need for accurately sourced data can be compounded and cause significant issues if information isn’t provided on time,” Ward underscores. “All it takes is for information on one of the mutual funds in the wrap-

per to be inaccurate to impact the pricing of the variable annuity.”

As such, firms offering these products will find it increasingly important to have a data governance program in place that aggregates and sources the right information in a timely manner so that no money is wasted addressing errors.

Although variable annuities have been around for years, today’s regulations force fund and insurance companies to spend much more on compliance, meaning spending in other areas – such as data infrastructure – must be done in a savvy manner. There is little room for error, and finding ways to meet regulatory requirements while simultaneously improving data practices is key, according to Barbara March, CEO at Bridgepoint Consulting.

“Companies are looking at problems that are multi-dimensional,” March says. “Financial institutions are finding it harder to compete and their products are getting more complex, which means they are looking for revenue. But instead of looking for new dollars, more are looking at what they are receiving and collecting, to make sure they are collecting what they are allowed to and in a disclosed fashion.”

The issue, March explains, is that back-office opera-

tional teams are responsible for accurately disclosing fees and pricing to millions of clients. Without a sound data infrastructure, this could be an error-prone process and in turn, cost the firm money.

Breaking it down

“This is a convergence of several issues,” March notes. “Financial organizations are struggling with revenue and profitability. They are going after new sources of revenue but there is also revenue leakage. And in some cases, like with variable annuities, you’re talking about being able to attribute pricing to dividends at the fund level and that’s a very complex equation.”

Firms must be able to attribute their data to various sources and certify that it is accurate before even using the information. For example, a large retirement record-keeper could be dealing with 14,000 individual CUSIPs at once (A CUSIP is a nine-character alphanumeric code that identifies a North American financial security for the purposes of facilitating trade clearing and settlement).

The sheer number alone increases risk, according to March. This is especially true because if the data is not correct, a price point could be wrong or fee revenue could be attributed inappropriately.

“This all comes together in operations,” March asserts. “They have to take the product decisions, revenue goals and risk requirements and then make it all come out pretty and accurate. Your business process and technology [must] support the weight of different investment products and the way that things are attributed, as well as take into account regulations and value systems of the business. So, organizations are really struggling with all of that variation in the middle- and back-office.”

As with variable annuities, and as more complex products come to market, operational teams will continue to see these responsibilities falling into their domain. This is why organizations need to identify the right tools.

Ward emphasizes numerous elements of data that must be considered:

- Where the data is sourced
- How the data is validated
- Whether the data is aggregated from multiple sources
- How quickly the data can be cleaned and used.

VMS aims to provide tailored information for its clients, Ward says. “We provide the core data required and also actively source hard-to-get data like dividend and income information with a specific focus on each individual client’s holdings, rather than a supermarket approach.

“We also extended the offering to include a reference mutual fund database via our data portal so clients have access to source information necessary to service their end-clients and internal compliance departments, as well as make changes to invest offerings as needed.”

VMS’s solution is one example of approaching data governance for complex products. No matter the third-party servicer an annuity provider decides to use, it is important that timeliness is always at the center. “Clients who utilize variable annuities like to start their pricing process as early as possible due to the complex-

ity of the investment vehicle to ensure timely reporting to their clients,” Ward says.

The more flexible a system can be regarding timing of data inputs and outputs, the better off the client will be. It allows them to start their pricing processes earlier, which saves operations teams time. But this still must be done using technology that does not forfeit the integrity of the data, according to March.

“We see the answer to the problem is [assessing] everything from how you enter contracts, to onboarding the customers to designing the [pricing] process and organizing yourself as a firm,” March says. “All of this is enabled through good technology.”

Taking a step back

Variable annuities are only one product choice out of many that investors have access to. A similar but separate area where operations teams also play a part is ensuring advisers have the right data to begin with. This must be done before a variable annuity is even selected or offered to a client in order to determine if an annuity product is what’s best for them.

François Gadenne, executive director at the Retirement Income Industry Association (RIIA) notes the factors that must be considered. He believes before determining an investment product, a household balance sheet must be created that aggregates all of the pertinent data points per client in one document, including assets, liabilities and investment goals.

“Once you have an understanding of a client at that level, the product choices fold out pretty naturally,” Gadenne says. “It’s not just about clean information and data integrity, which pertains to a very technical aspect. You also need to have gathered the right data. The old data gathering requirements are now insufficient under the new Department of Labor Fiduciary Rule.”

Due to the rule, standards of data gathering have been raised because firms must be absolutely confident they can prove they are acting in the best interest of the client, according to Gadenne.

Such information includes:

- Adviser-provided data: capital markets expectations and the household balance sheet
- Client-provided data: funded ratio analyses; budget, income and expenses; social, financial and physical capital spent; portfolio view risk exposures; and client view risk exposures

Although not all of this information would be provided by an operational team, as some of it is client provided, on the adviser side it is the job of the back-office teams to work internally and with their third-party data providers to paint a holistic picture for the front-office, who will then determine where to allocate client assets. Whether variable annuities, or not, the fact remains that firms must work to better prepare for multifaceted products.

“I think the question is: ‘Will product complexity continue?’ And the answer is yes,” March says. “Organizations are not prepared to deal with this complexity, now, as [illuminated] in the middle- and back-office, and that’s what we’re trying to solve for.” ●

