



Costs and charges for policyholders & members

IDD plus DC Independent Governance Committee
reports, post-sale PRIIPs in another guise...

New regulations in the life and pensions industry have the potential to distract providers as they adjust their operating processes to remain compliant. Finding partners that can respond with regtech solutions that optimise the operating model is key for businesses focused on growth.

Celebrating twenty years of delivering fund administration software to Life and Pensions companies in 2019, Financial Risk Solutions (FRS) prides itself on its combination of domain expertise (the company was founded by a team of actuaries) and advanced software that help clients stay ahead of regulatory developments with minimal disruption to daily business.

Here we explore two important regulations, the Defined Contribution (DC) Workplace Pensions Regulation in the UK and the Insurance Distribution Directive (IDD) in Europe and how the Invest|ProTM platform is supporting clients by providing timely, cost effective enterprise solutions to these regulations.



Defined Contribution Workplace Pensions Regulation

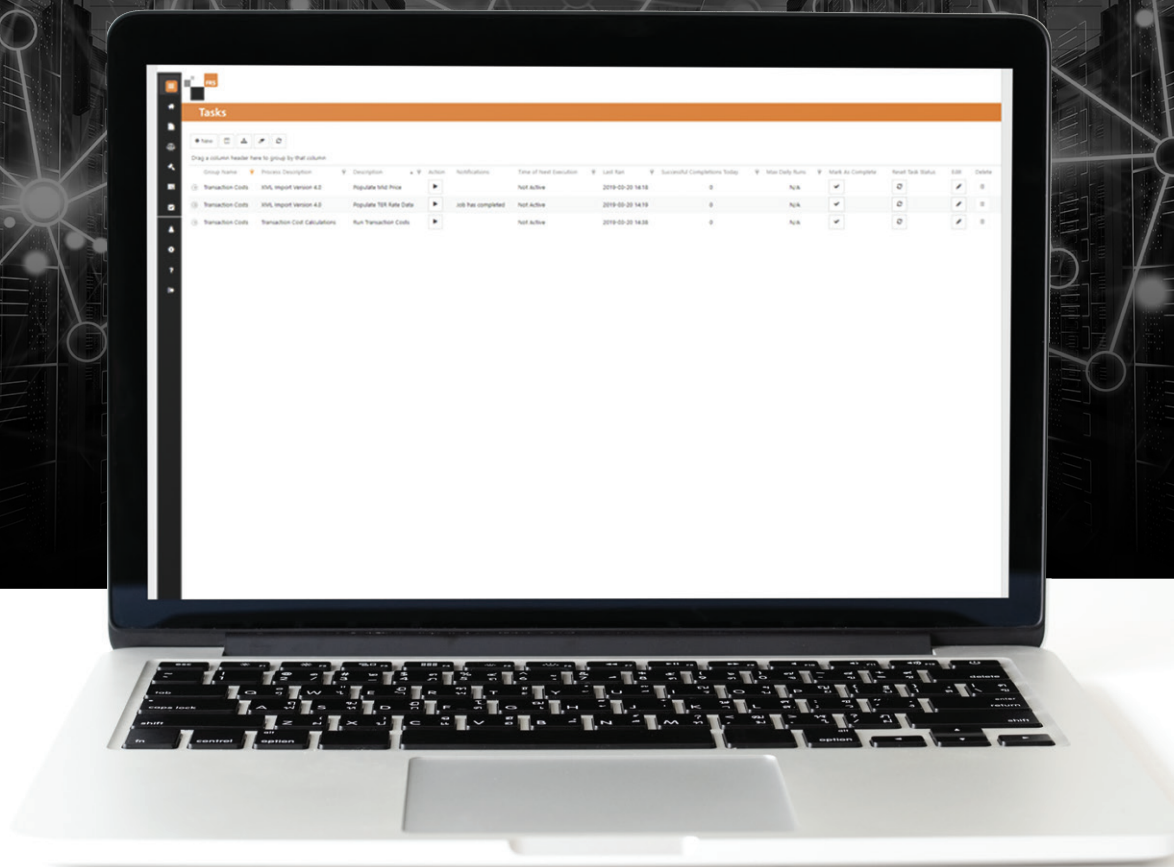
The Defined Contribution (DC) Workplace Pensions Regulation in the UK is designed to protect the interests of consumers. This regulation requires reporting of a DC scheme's costs and charges. The reports must be made to the trustees or Independent Governance Committee responsible for assessing the value for money received by members of workplace DC schemes.

The rules for calculations of these costs and charges are set out in the Financial Conduct Authority (FCA) Conduct of Business Sourcebook. Detailed in section 19.8 "Disclosure of transaction costs and administration charges in connection with workplace pension schemes," these rules came into effect from January 2018.

These costs are the actual historic costs incurred, for example, over the last year and are required to be split out by the type of costs and charges. They need to include the direct costs and charges that are levied in your investment admin platform, the indirect costs for buying and selling the investments, and the indirect costs incurred for the underlying investments themselves.

The rules are reasonably detailed, especially for the transaction or slippage costs (the costs incurred as a result of the actual buying or selling of investments). They also state what kinds of costs and charges are not included, for example the costs for providing insurance, mortality charges are not included.

The Insurance Distribution Directive (IDD)



The second piece of legislation which covers similar ground is the Insurance Distribution Directive (IDD), an EU directive effective from October 2018, which introduces new requirements for firms distributing Insurance Based Investment Products (IBIP).

The definition of an IBIP is an insurance product that offers a maturity or surrender value that is exposed to market fluctuations, essentially all Unit Linked products except pensions business.

One additional requirement, new this year, is to provide a personalised post sale periodic report of actual costs and charges over the last year for the individual product. This is as opposed to PRIIPs regulations which are pre-sale. The detailed requirements for this periodic report are not yet fully clear, but we would expect that the costs and charges that need to be calculated are similar to those for the UK Workplace Pension figures. So, for an Individual Portfolio Bond the actual costs and charges, both direct and indirect, incurred over the last year.

For a unit-linked products, providers will have to first calculate the total costs and charges within each unit-linked fund and then allocate these costs proportionately to the individual policyholders in each fund. Non fund related charges will also have to be added.

If the IDD regulations adopt similar methodologies to the UK Workplace Pensions or MiFID II methodologies, the costs and

charges for a unit-linked fund investing in an external collective might include:

- Transaction Cost (slippage cost) of trading the underlying assets, the difference between the executed price and the mid-market (arrival) price
- The unit fund's portion of the underlying collective's Total Expense Ratio(s) (including the underlying collective's transaction costs)
- The Charges (e.g. AMC) of the unit fund
- Fund Expense items should also be included

This requirement means that for each trade in an external asset the arrival or mid-market price is now required. FRS believe that the logical place to capture additional data items required is the core investment administration system to maintain the integrity of a single investment data set.

Calculating costs and charges in fund of fund structures



Trying to make these calculations on spreadsheet can be quite difficult and comes with significant risks, particularly from a compliance perspective. For a fund of fund structure Invest|Pro™ easily calculates the costs and charges over a time period for the higher-level funds, for example the pension scheme and/or the funds into which a pension scheme, personal pension or insurance bond invests.

Invest|Pro™ provides:

- Data on all the trades in external assets
- Holdings of the funds each day from the daily valuation results
- Charges and expenses on the funds within Invest|Pro™

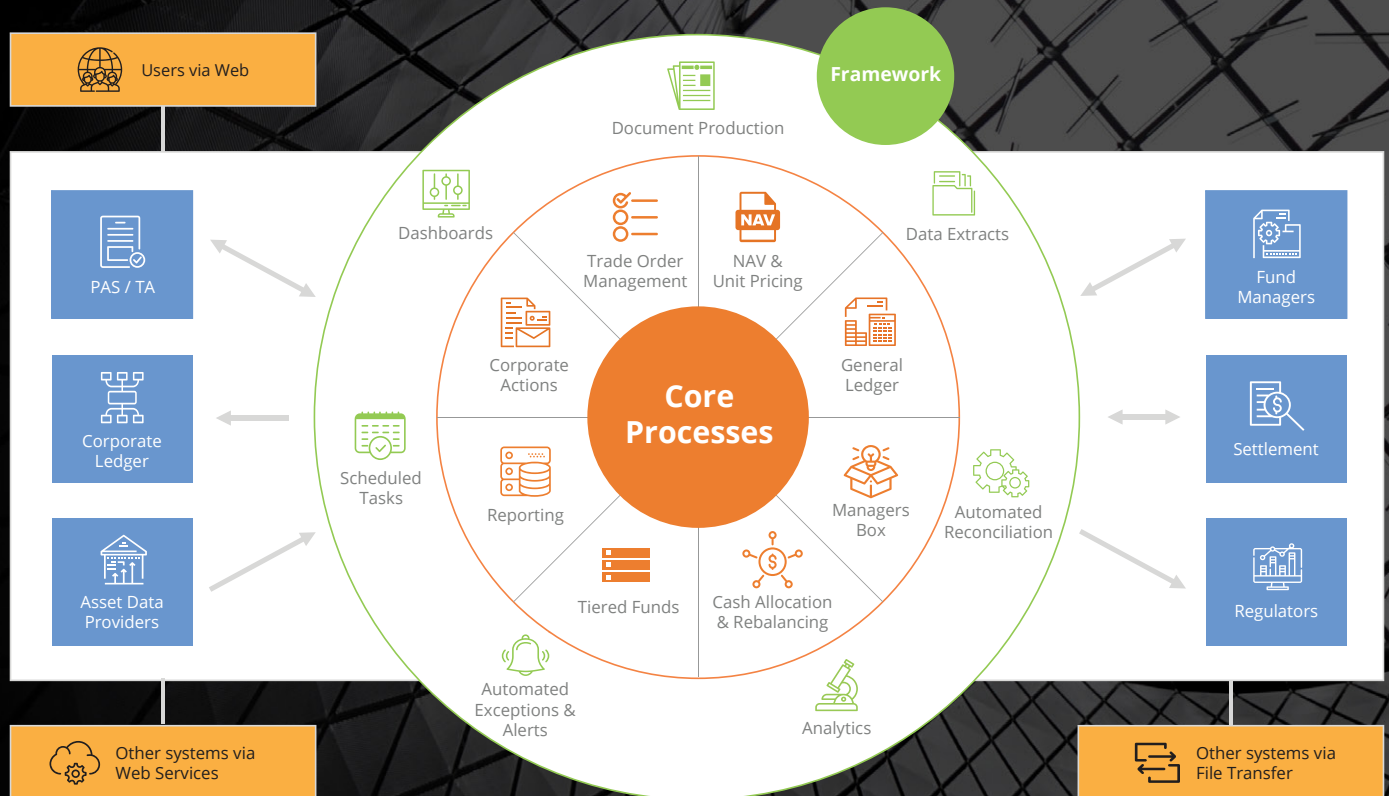
Extra data needed:

- Arrival (mid) price for each external asset trade
- TER (total expense ratio) rates for external assets
- Which fund expenses are to be included in calculations

Invest|Pro™ works out the amount of TER charge for Level 1 unit funds based on the external asset TER charge and the value of holding in that external asset each day. It also works out the transaction cost for the Level 1 charge based on the execution price and the mid-market price.

These charges then go right up the fund of fund structure.

Finding the Optimum Operating Model



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The level of functionality in the Invest|Pro™ platform, combined with FRS' extensive industry knowledge and blue chip client base, allows the team to provide Optimum Operating Model solutions for different regulatory environments around the world. Our model offers flexibility, is modular and provides a comprehensive investment fund administration platform to manage cash flows between the company's member administration system and its external investment managers, as well as calculate fund NAVs or unit prices.

In short the specific workflow for the inclusion of IDD has two parts, firstly to load in additional data including these items: historic mid prices for external asset trades, TER rate data for external assets and then identify what expense types to Include

before then running the transaction cost calculations which is done by choosing choose the funds and time period, then processing an analytics task within Invest|Pro™ to produce the required calculations.

The Invest|Pro™ output is detailed, providing data on each cost on each day. This is automatically achieved and date stamped.

In today's world where various regulations are leading to increasingly individualised actual fund level calculations, Invest|Pro™ can do these calculations reducing operational risk and cost and meeting regulatory requirements, freeing up keyman resources to focus on business growth.

The Unit Linked Software trusted by global
Life and Pensions Companies for 20 years



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