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THE TIME IS RIGHT

Advantages of integrating repo, securities lending and collateral management

A Q&A with Rich Hochreutiner

Rich Hochreutiner,
Global Head of Collateral,
Swiss Re

ADVANTAGES OF INTEGRATING REPO, SECURITIES LENDING AND COLLATERAL MANAGEMENT

FIS sits down with Rich Hochreutiner, Global Head of Collateral, Swiss Re, to understand his vision for integrating repo, securities lending and collateral management..

Q1. Why is securities finance important for insurers and what are the goals of the program?

A1. Our securities finance program serves three main purposes at Swiss Re. First, it is a means of reducing bank risk. As part of our cash management activities, we include reverse repo rather than letting cash sit unsecured with a bank. Second, the repo market provides us with funding resilience. The chances of being able to borrow cash is infinitely higher on a secured basis than on an unsecured basis, particularly in times of market or name-specific stress. The third goal is yield enhancement. Using securities lending to generate welcome extra revenue in these times of low yield is increasingly important for asset managers, insurers and pension funds. Every basis point counts, especially for long-term investors..

Q2. How have you organized your treasury, securities finance and collateral management businesses at Swiss Re?

A2. We believe that aligning these lines of business is a crucial success factor – not only for the insurers but also for most other participants in these markets. It is no longer feasible to have separate silos for treasury, fixed income and equities with derivatives collateral management on the side. The traditional model simply isn't smart enough anymore. We started combining onto one central platform back in 2009, which allows us to benefit from the intrinsic synergies and avoid paying a spread to the market.

As an example, you could use repo to raise cash for variation margin, thereby removing the need to sell long-term investments. Or you could use the securities lending market to transform the securities you have to obtain securities you need. Having all investments available to transform into the collateral you need minimizes the probability of needing to go into the market and paying a fee to do so – you'd rather share the savings within the group.

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Q3. What drives the choice between insourcing your securities lending program vs. using an agent lender?

A3. Of course, critical mass is a deciding factor whether to do something in-house or to outsource to an agent lender. I believe that solution provider companies like FIS can significantly impact the decision whether to outsource or not by offering innovative, cost-effective solutions that lower entry barriers for new market participants. If you can cover multiple facets of the market with one system, that is welcome simplification. Personally, I believe that focusing on your own positions will generally lead to better returns rather than being one of many in a large program.

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Insurers must have effective funding and liquidity management. If you are doing cash management using repo then adding in securities lending is a small step. It's not a complicated business. If you already manage interest rate risk of decades, then you can probably manage short-term interest rate risk.

Why not use the collateral management system you need for derivatives collateral to also manage securities lending? If you are doing asset management, then you already have people moving securities and cash. The process to start lending and borrowing is not much different. Having the expertise is one component but you need the organizational alignment and a modern infrastructure to do it effectively. A platform should cover securities lending, repo and derivatives collateral, be regulatory-compliant and provide seamless connectivity to the market infrastructure. A modern system that solves these problems is a great way to get started and will find the support along the process chain and within the control functions.

Q4. How will UMR for OTC derivatives impact firms like Swiss Re? What will be the impact on securities finance?

A4. UMR will add some complexity because of the amount of documentation adaptation, but operationally, Swiss Re is well prepared because we have consolidated securities lending, repo and collateral management on a single system in FIS® Securities Finance Trading and Collateral Platform (formerly Apex Collateral) that can already accommodate the changes. I could imagine that, surprisingly maybe, the requirement to exchange non-cash initial margin for OTC derivatives may push additional people into the securities finance market. If you're doing collateral management for initial margin (IM) with multiple counterparties, you may as well do securities lending. The structure of the market would benefit from new participants.

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Repo and SBL markets are the way to create a universe of securities needed for IM. Firms will be using systems that provide a central platform for securities finance and collateral, more and more. The decision to centralize these disciplines is both an organizational and an infrastructure question. We are all concerned how regulations stop people getting on and doing their business. However, this regulation could paradoxically have a positive effect on securities finance.

Q5. What other factors will influence your business over the coming years?

A5. SFTR will continue to be a topic over the coming years for insurance companies and other non-bank firms. The buy-side community has six months longer than the banks to be compliant, by October 2020. As Securities Finance Trading and Collateral Platform users, we are relying on FIS to provide an effective solution. We are also currently evaluating FIS' reporting solution that plugs directly into Trade Repositories, bypassing any need for another layer of data aggregation which could create friction. We believe such a direct approach could be the most efficient for reporting the business of our EU-based companies. There are many complexities to SFTR reporting and FIS has designed a simple but effective solution.

Q6. How important is the choice of a vendor partner to support your business goals?

A6. In my experience, the main selling point of FIS is that is has a great team of people. Being able to have a discussion with someone who understands what you need as a buy-side firm and can challenge you is a huge advantage. Securities Finance Trading and Collateral Platform has really rich functionality with all the components we need for securities lending, repo and cross-product collateral management. This is what people need more than ever.

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About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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