



Insurance Insights Q&A: Residential Mortgage Loans (RML) Reporting with Clearwater Analytics

In this Q&A, Adam Beeler, Head of Institutional Sales at Angel Oak Capital Advisors, and Christina Spagnolo, Senior Solutions Consultant, Alternative Assets at Clearwater Analytics, discuss Clearwater's evolution into a comprehensive solutions provider for insurance companies.

Clearwater Analytics is the leading provider of web-based investment portfolio accounting, reporting, and reconciliation services for institutional investors at thousands of organizations. The firm aggregates, reconciles, and reports on more than \$6.4 trillion in assets daily. Its clients include corporate treasuries, insurance companies, investment managers, banks, governments, and other institutional investors.

Q: Can you discuss the evolution of Clearwater Analytics and its products? How has the insurance company vertical grown?

A: It started with a couple of gentlemen at Clearwater Advisors who built out the technology for reporting on their clients' books. Many of those clients expressed interest in expanded reporting capabilities, and Clearwater Analytics was spun out of that as a separate, distinct technology organization in the mid-2000s. We began primarily in the corporate space with reporting for bonds, Treasuries, and money market funds. We quickly realized that there was widespread demand for consolidated reporting, aggregation, and reconciliation, particularly among insurers and asset managers, so we expanded our reporting to clients in different verticals in the late 2000s. In the early 2010s, we saw a need for more advanced insurance reporting, so we expanded our services and began offering automated pushbutton Schedule B reporting, Schedule D reporting, and consolidated National Association of Insurance Commissioners (NAIC) reporting for our insurance clients. Today, we continue to expand our support and functionality for alternative investments.

Q: Are your insurance company clients asking about residential mortgage loans? How are you thoughtfully addressing the reporting side of that?

A: An important part of my role is talking with every prospect and/or client that has alternative investments or is thinking about adding them to their portfolio, so they always come across my desk. I have not spoken with a single life insurance company or asset manager recently who is not asking about residential mortgage loans (RMLs) or commercial mortgage loans (CMLs). Among our current clients, we have more than 152,000 RMLs already supported on the Clearwater platform and more than 50,000 CMLs for which we do full book reporting, from aggregation and reconciliation to general ledger and automated Schedule B reporting. RMLs seem to be top of mind for all our clients.

Q: Could you walk through risk-based capital (RBC) calculations for RMLs and how Clearwater is helping thread that needle?

A: We've supported RBC calculations for a long time in a variety of mechanisms. Historically, we would pull in the delinquency status of the loan, as that's the primary determinant of its NAIC rating—you take that and multiply it by a couple of other factors, including book value, which produces the RBC. I've found that a lot of asset managers don't understand that.

Those that do, like Angel Oak, are able to provide their clients with trusted information, but a lot of insurers come to us unsure how to calculate RBC or what inputs are required for insurance reporting. They often need help getting that information from their asset managers, pulling it into their books, and adding it to their Schedule Bs. We find that most new clients that are invested in RMLs are doing their Schedule Bs by hand, which is a very painful process, so Clearwater is able to provide them with reporting solutions.

As I referenced previously, historically we pulled the loan's delinquency status either from the asset manager or the servicer and relied on that factor to make the downstream NAIC calculation. However, we've recently built out the flexibility to do checks on that data. Using the payment date, for example, Clearwater can independently validate whether the servicer status is correct. We often see that servicers are delayed in updating that information, which can have a big impact on insurers' RBC calculations.

Q: How does Clearwater integrate the servicer data—whether a firm has one or ten servicers—to create one set of normalized data?

A: Servicer data is one of the most challenging pain points that we see for clients investing in these assets. Because of its tediousness, more firms are outsourcing this task, but that creates a secondary challenge of having to pull in that data, check it, integrate it with the rest of your system, and report on it—so the challenge is just shaped a bit differently. In this instance, Clearwater Analytics can capitalize on one of our key differentiators: our ability to aggregate and normalize data across all assets. We are agnostic to the data source itself, and regardless of the shape it's in when we receive it, we'll normalize it and create a standard set of clean data.

As I mentioned earlier, servicer data is inherently more difficult—it may be delayed, only come in once or twice a month, or look different than you would expect for bonds and Treasuries in those types of assets. As a result, there needs to be an underlying expertise and ability to decipher that information. We have been doing this for nearly two decades and have the internal expertise required to translate and normalize data into one clean set, regardless of how many servicers are involved.

Q: What are you hearing from your insurance company clients about assets like debt service coverage ratio loans, home equity lines of credit (HELOCs), second-lien mortgages, closed-end second mortgages, and prime jumbo mortgages?

A: What we hear across the board are some of the same common pain points that will resonate with HELOCs and second-lien mortgages. All our insurance clients and asset managers who are investing in these more complex structures—whether it’s HELOCs, second-lien mortgages, multiple properties, multiple owners, residential transition loans, or loans that have non-interest-bearing portions of the principal, or even restructuring of their loans—often require additional modeling, accounting, and reporting considerations. Part of the job of our mortgage loan team is making sure that we’re constantly evolving to meet those needs so that regardless of how the assets are structured, they all fit into the same overall architecture of the system.

We’ve recently built out a loan management side as well. A lot of clients think of Clearwater as an accounting system, which is not incorrect. We’re very good at accounting, general ledger, statutory reporting, and NAIC reporting, but we haven’t historically supported the management side of loans. Our system now allows you to manage the loan master characteristics when, for example, you restructure a loan or add a HELOC or a second lien to that mortgage, and still see it all wrapped up.

Q: What’s next for Clearwater? Where do you think the puck is going, so to speak, specifically in the insurance company vertical?

A: We’re seeing increased demand from insurance company clients to get all teams across the organization operating off one set of data—not just for mortgage loans but for their entire investment books. It is very cumbersome for an insurer to have to go to one system for mortgage loans, another for bonds and Treasuries, etc. Then there’s the pain point of having your accounting and operations teams working off one set of data and your loan team working off another set. There’s a lot of potential disjointed information and hiccups in that data, so we’re seeing more insurers come to us and ask, “How can you help us do everything in Clearwater?”



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For more information about Clearwater Analytics, including a demo of its solutions, visit clearwateranalytics.com.

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