Insurance Asset Management

Spring 2020

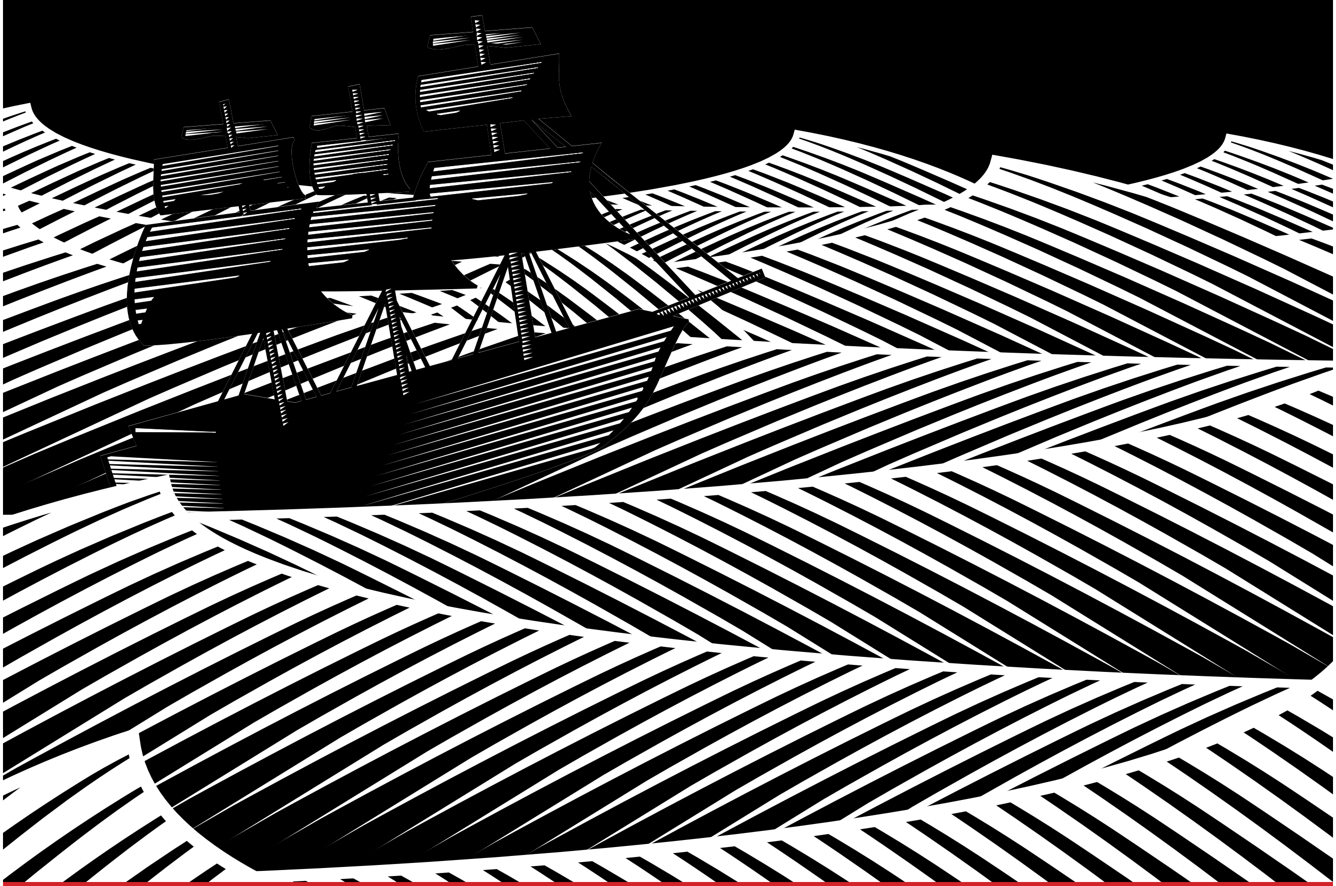
Italy
Cattolica Assicurazioni provides a view from Italy

Climate
Update from the Climate Bonds Initiative on green finance

IAM conference
A review of the latest thoughts from leading industry professionals

All hands on deck

Insurers face an uphill battle to address climate change concerns, consolidate investment returns and stave off cyber attacks in 2020



RISK METRICS
Is there an over-reliance on ex-post risk metrics to determine investment risks?

DIVERSITY
The state of play regarding diversity on insurance investment boards

IAM AWARDS REVIEW
An overview of the prestigious winners and their talents

Editorial Comment

It's a new decade, and I hope you are all ready for what the months ahead will bring in the insurance industry and for the exciting projects *Insurance Asset Management* will offer. The brand continues to go from strength to strength, as we look to continue offering comprehensive and breaking news coverage from across the insurance industry, maintain excellence in digital coverage and look to expand the *Insurance Asset Management Awards* and the *Insurance Asset Management Conference*. Indeed the latter, in its inaugural year, was warmly received.

This year, I'm hoping, will bring a range of positive developments in the insurance space, particularly around, increased disclosure of climate-related investments among insurers, the review of the Solvency II Directive, accounting standard improvements and improved risk metrics to determine the effects of certain assets within a portfolio, to name but a few.

Our cover feature in this first issue of 2020, looks at the main themes insurers will have to navigate going forward, and the risks they will have to combat to ensure healthy investment portfolios. One interesting topic that emerged in 2019 is around insurers' heavy reliance on ex-post metrics to determine investment risks. *Insurance Asset Management*'s feature on p.24 explores this concern, particularly around a lack of robustness with historic data and the reliance on a single sequence of historic outcomes. Are insurers in the current climate sufficiently prepared for the risks that are about to hit them? Historic data is obviously useful in the grand scheme of things, but perhaps it only offers appropriate information at that given time?

Throughout 2019, we were obviously inundated with information about climate change risk, and quite rightly so, but another issue cropping up time and time again was around investment board diversity across the institutional finance divisions. In my eyes, I don't believe insurance industry investment boards are as diverse as they could be, and we could potentially see more of a shift throughout 2020. Our feature on p.63 looks at the benefits a diverse investment board can bring to insurers and ultimately their clients.

> I hope you are all ready for what the months ahead will bring in the insurance industry, and for the exciting projects *Insurance Asset Management* will offer

Enjoy this issue, and I hope *Insurance Asset Management* continues to play a key part in your insurance lives.

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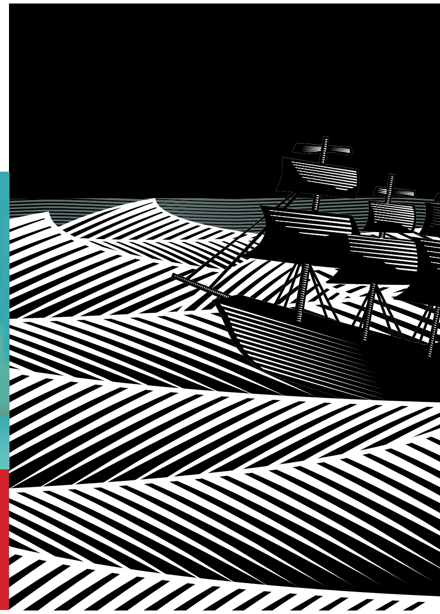


Spring 2020




News focus

Total European insurance premiums increase by 6.2% to €1,311bn - Insurance Europe

Life sector premiums grow by 6.7% to €764bn, P&C up 5.7% to €407bn and health rises 4.8% to €140bn

Written by **Adam Cadle**

Total insurance premiums in Europe increased by 6.2% in 2018, to €1,311bn, due to relatively strong growth in all business lines, according to Insurance Europe.

In the life sector, premiums grew by 6.7% to €764bn, health rose by 4.8% to €140bn and P&C increased by 5.7% to €407bn. Total premiums in Europe rose for the six years to 2018 at an average rate of 3.8% each year.

The robust growth in 2018 was also due to positive results in most European markets. The three largest markets — the UK, France and Germany — together accounted for 58.2% of all premiums in Europe, or 1.1% more than the year before. All three markets recorded solid increases in premiums: 15.9% in the UK, 3.7% in France and 2.2% in Germany.

The Nordic and central and eastern European markets also contributed to the strong result, with growth of 5.2% and 3% respectively for the two blocks. After two years of decline in premiums, Italy, Europe's fourth largest market, registered premium growth of 3.2%. Only two markets recorded a decline in premiums in 2018: Poland (-0.8%) and Liechtenstein (-14.5%).

Globally, premiums continued to expand in 2018, growing 4.8% to $5,193bn, after a 5.6% increase in 2017. Growth in the Asia-Pacific region, the world's largest insurance market in terms of written

Globally, premiums continued to expand in 2018, growing 4.8% to $5,193bn, after a 5.6% increase in 2017

premiums, slowed to 4.2% in 2018 from 6.2% in 2017, while North America increased 5.1% after rising 3.9% in 2017. Premium growth in Latin America and the Caribbean dipped to 3.3% in 2018 after strong growth of 9.8% the year before, while growth in the Middle East and Africa slowed to 2.2% from 6.7% in 2017.

Total claims and benefits paid to customers by European insurers increased by 3.1% to €1,069bn in 2018, after growth of 8.8% in 2017. The total paid in claims and benefits in 2018 was equivalent to €1,769 per capita or €2.9bn per day. The five largest European markets (the UK, France, Germany, Italy and the Netherlands) accounted for 75.4% of all claims and benefits paid in 2018, up 0.1% on 2017. In 2018, the average amount per capita spent on insurance in Europe grew €121 or 5.9% to €2,169, of which €1,264 was spent on life insurance, €232 on health and €674 on P&C insurance. Average insurance penetration in Europe amounted to 7.45% in 2018, an increase of 0.21pp compared with 2017.

> Insurers continued to invest predominantly in debt-like products, notably government and corporate bonds

Life insurance penetration, which increased 0.14pp to 4.35%, contributed greatly to the rise in penetration. Health and P&C penetration increased by 0.01pp and 0.05pp to 0.8% and 2.32% respectively. The total investment portfolio managed by insurers in Europe decreased by 1.5% in 2018 to €10,186bn.

The most significant declines were in the Netherlands (-5.2%), the UK (-4%) and Germany (-2.1%), but slight decreases were also seen in France (-0.7%) and Sweden (-0.6%). By contrast, Italy registered growth of 2.6% and Spain of 2.4%.

The sluggish annual growth in insurers' total investment portfolio can be explained by falling equity prices in all European markets and bond prices in a number of European countries due to rising spread levels. This was only partially offset by a general increase in total premiums in Europe, especially in the UK, France and Italy.

The strategic asset allocations of insurers' portfolios did not change significantly in 2018 compared with the previous year. Insurers continued to invest predominantly in debt-like products, notably government and corporate bonds.

Insurance Europe director general, Michaela Koller, said: "The body remains committed to working with European and global policymakers, regulators and supervisors to ensure that Europe's insurers have a regulatory framework in which they can innovate and thrive."

News in brief

- Swiss insurance group, Helvetia, has announced the acquisition of a majority holding in the Spanish insurer, Caser. Helvetia revealed that it hopes the move will considerably increase its market share in Spain, strengthen its attractive non-life business and expand its distribution capabilities.

- Nippon Life has signed a syndicated loan agreement for an offshore windfarm project to be implemented in Akita Prefecture by Akita Offshore Wind Corporation, a special purpose company (SPC) formed primarily with investments from Marubeni Corporation and Obayashi Corporation.

- EXOR NV, the holding company of Italy's Agnelli family, has confirmed it has entered exclusive discussions with Covéa regarding a possible all-cash acquisition of Partner Re. In a statement on its website, EXOR said: "These discussions are ongoing and there is no certainty that they will result in a transaction. EXOR will refrain from further comment until the final outcome of the discussions is known."

- The Indian Government is to float part of the country's largest life firm, LIC. Finance minister Nirmala Sitharaman said the government has outlined an offer for sale of equity shares via IPO.

- President of the Insurance council of Australia (ICA), Rob Whelan, will be leaving his position as CEO. Whelan will continue to serve as CEO while the ICA Board searches for his replacement.

EC EVP calls for every EU country to have insurance guarantee schemes under SII

Policyholders, taxpayers, and insurance sector 'would benefit'

Written by **Adam Cadle**

European Commission (EC) executive vice president Valdis Dombrovskis has called for every EU country to have insurance guarantee schemes to plug a gap in EU insurance law.

Speaking at a conference organised by the EC on the 2020 review of Solvency II (SII), Dombrovskis said that "there is no EU-wide resolution regime for the insurance sector in the event of distress, and no minimum EU rules on insurance guarantee schemes".

He argued that insurance guarantee schemes "would benefit policyholders, taxpayers and the insurance sector as a whole" and said this should be an addition to SII.

"We are already testing the water with a proposal for dealing with insolvency in the motor insurance sector. EU institutions are now discussing this at the trilogue state. The Commission has also requested EIOPA's advice on insurance recovery and resolution."

Dombrovskis stated that the SII review will not be just a technocratic exercise. "Europe's insurance sector is too important for that – for our economy and society. Protecting policyholders remains vitally important."

Speaking at the same conference, Insurance Europe president and CEO and chair of UNIQA Insurance group Andreas Brandstetter said that, SII, "one of the world's most prudent and conservative prudential regimes", in his eyes, "does not need prudential enhancements".

Brandstetter stated that "what SII needs today is a targeted and focused review, in three areas: reducing barriers to long-term business and investment, making proportionality work in practice and reducing the burden of reporting".

In addition, Brandstetter said that fixing issues with how SII treats insurers' long-term business is vital.

"This means addressing the problems of measurement and capital treatment for long-term savings and guarantees are lower than SII currently assumes," he underlined.

"Capital is calibrated above what is actually justified by the risks. This matters because, in many cases, it can lead to consumers simply no longer having access to the products that they value."

> Today, very little proportionality is applied in practice. This must be addressed so that the framework really works for all entities

Making proportionality a practical reality – rather than a theoretical principle is also key, he argued.

"Proportionality is an important overarching principle included to avoid unnecessary costs which ultimately customers pay for. Today, very little proportionality is applied in practice. This must be addressed so that the framework really works for all entities to reduce costs and preserve a diversified and competitive European market, for the benefit of consumers."

On the regulatory side, Brandstetter said meaningful reductions must also be made to the regulatory reporting burden to streamline and simplify reporting requirements.

"Reporting requirements are not only overly burdensome, but significant elements of them are simply not used. We must therefore identify what information is actually useful for supervisors and consumers."

Brandstetter concluded: "Europe has been set on an ambitious path towards a sustainable future, and the insurance industry can and should be a key contributor. We have the ability to support Europe's goals, and play a key role in the transition to a sustainable economy. We can only do this to our full potential if we get SII right."

Looser EU-UK deal would be credit negative but 'manageable' for UK insurers

'No-deal' outcome would be more severe, especially for UK life insurers - Moody's

Written by **Adam Cadle**

A looser EU-UK trade agreement would be credit negative but "manageable" for UK insurers, Moody's has said, however a 'no-deal' outcome would be more severe, especially for UK life insurers.

In an FAQ on the impact of Brexit on insurers, Moody's said that "slower economic growth would hold back discretionary insurance purchases, but the impact on the sector's credit strength would likely be limited overall".

Moody's said a 'no-deal' outcome would lead to slower economic growth likely exacerbated by financial market volatility.

"This outcome would likely lead to more severe trade disruption and would therefore have a more severe negative impact on both the UK and EU economies. The likely consequent contraction in insurers' premium income and underwriting profit would be correspondingly greater."

Moody's added that the UK life sector would be more affected due to its high asset leverage which would be affected by market volatility.

"This would push up life insurers' capital requirements while reducing their asset values, a double negative for the sector's Solvency II (SII) capital position. UK life insurers' SII rates at YE18 and H119 remained comfortably above 100%, giving them a robust cushion to absorb any short-lived market volatility."

> Slower economic growth would hold back discretionary insurance purchases

On 31 January 2020, the UK left the EU and entered an 11-month transition period.

French life insurers under pressure to cut bonus rates

Low interest rates continue to hit industry hard

Written by **Adam Cadle**

French life insurers are under pressure to cut bonus rates as low interest rates bite.

According to AM Best, low interest rates and flattening yield curves are putting pressure on French life insurers' traditional operating models, with the consequent solvency considerations and regulatory concern prompting them to reduce bonus rates to euro-denominated contracts and diversify their revenue streams in favour of capital-light products.

Ghislain Le Cam, director, analytics at AM Best said that "significantly reducing bonus rates on traditional savings products would enable insurers to protect their margins on core traditional savings business while also encouraging policyholders to redirect their savings toward capital efficient unit-linked products, which have the potential for better performance".

AM Best added: "Efforts by insurers to diversify their business away from interest rate-sensitive products toward low risk, capital-efficient ones should be helped by the adoption in 2019 of the Plan d'Action pour la Croissance et la Transformation des Entreprises Law (the PACTE Law)."

Latin America's insurance markets expected to rebound in 2020

End of commodity price super-cycle and political instability have previously held back economies

Written by **Michael Griffiths**

Economies in Latin America are expected to rebound in 2020, helping the insurance markets in these countries to realise their growth and potential, according to a new report published by AM Best.

The report, entitled *Latin America: Economic and Political Risks May Subside in 2020*, highlighted that countries in Latin America have had two years of low growth and headwinds due to several factors – including the end of the commodity price super-cycle, political instability and the resulting policy uncertainty, lower global and regional growth, as well as volatile investment flows.

The insurance markets have "remained resilient" despite these challenges, according to AM Best, with GDP growth forecast to be 1.8% in 2020, following 0.2% in the previous year, and 1.0% back in 2017.

AM Best said that "the economies of the countries in Latin America are diverse and dynamic" and suggested they have "great potential" owing to abundant natural resources.

The report indicated insurance penetration rates in the region average 2.3%, which given the low penetration rate, gives the region significant potential for growth. AM Best noted that premium growth, however, which peaked at $165bn in 2013, had been below trend in recent years.

Furthermore, four of the top five markets – Brazil, Mexico, Colombia and Venezuela – have not reached the level of 2013 premiums in recent years.

The report revealed Brazil, the largest market by premium, had recorded $75bn in 2013 and was approximately down by half in 2016, before rebounding slightly in 2017. The region's second largest market, Mexico, has largely stagnated over the last few years, while AM Best noted Venezuela's market has collapsed completely, and unlikely to recover for "some time".

For the two largest insurance markets in Latin America, however, and for most of the region, AM Best said it is expecting an improvement in the economic environment, both externally and domestically, while a decline in political policy uncertainty could further boost the region's insurance environment.

In October, AM Best had reported that Argentina's capital controls could create more uncertainties for insurers.

Capital controls imposed by Argentina's government to combat economic instability could limit the growth prospects and business opportunities for domestic insurance companies, AM Best stated.

> The economies of the countries in Latin America are diverse and dynamic

In commentary, entitled *Argentina Capital Controls: More Uncertainties for Insurers*, it was also suggested the capital controls could undermine the efficiencies of the carriers' operations.

AM Best has noted that the new restrictions on foreign currency transactions to stop money from flowing out of the country is an attempt to stabilise reserves – which are being depleted as Argentina supports the peso.

Insurers' commitment to carbon divestment wins favour with activist groups

AXA, Allianz, Swiss Re and SCOR all praised

Written by **Adam Cadle**

Insurers' commitment to carbon divestment won favour with activist groups in 2019, with AXA, Allianz, Swiss Re and SCOR all on SIGWATCH's annual rankings of the brands most praised by NGOs.

SIGWATCH has been compiling annual rankings of brands most praised and most criticised by NGOs for the last ten years. The rankings are based on its monitoring of nearly 10,000 NGOs and their campaign actions over the previous 12 months. According to the analysis, AXA (3rd), Allianz (4th), Swiss Re (6th) and SCOR (10th) rank highly as a result of their commitment to disengage from the coal producing and coal-dependent power companies.

All four insurers are commended for strengthening their stance against fossil fuels, praised for pledges to not only divest but also to phase out the insurance and underwriting of coal and other fossil-fuel related businesses.

Commenting on the rankings, Robert Blood, founder and managing director of SIGWATCH said: "Finance firms are the star performers in this year's most praised rankings. As Greta Thunberg and climate activists call on business leaders attending this year's World Economic Forum to end the "madness" of investing in fossil fuels, AXA, Allianz, Swiss Re and SCOR are showing the way. By praising them, NGOs are rewarding them for a job well done and encouraging others in their sector and beyond to follow their example.

"This year we expect activist groups to ramp up their campaigning against the fossil fuel economy and the businesses that fund it. It will be interesting to see if they are able to replicate their success in securing commitments in coal to also exit oil and gas."

> This year we expect activist groups to ramp up their campaigning against the fossil fuel economy

Generali added to UN's Net-Zero Asset Owner Alliance

Decarbonising investments by 2050 the aim

Written by **Michael Griffiths**

Italian insurance group, Generali, has been added to the United Nations-convened Net-Zero Asset Owner Alliance, bringing the total assets managed by Alliance members to over $4.3trn.

Four months after 12 of the world's largest pension funds and insurers committed to decarbonise their investments by 2050, Generali has joined the Alliance alongside the Church of England's three investment bodies, with the group now numbering 18.

The Alliance has finalised its governance and objectives for 2020 and will focus on three core areas – which include advancing its measurement and public reporting, engaging with portfolio companies on a net-zero target, and engaging policymakers towards policies supporting net-zero economy ambitions.

Generali Group CIO and CEO of asset and wealth management, Tim Ryan, said: "We are proud to be part of the Net-Zero Asset Owner Alliance. It is about walking the talk and further aligning our investment portfolio to our long-term commitments. As a financial services operator we feel the responsibility of contributing to achieving carbon neutrality by 2050."

Thai life insurers face greater strain from lower returns

> Prudent business strategies should allow the insurers to better optimise their risk-return positions without sacrificing a solid capitalisation level

Capital-adequacy ratio expected to stay steady with adoption of new capital regime

Written by **Adam Cadle**

Thai life insurers' capitalisation may face greater strain from investments in riskier assets as they have increased their holdings of higher yielding assets to counter a prolonged period of subdued investment returns, Fitch Ratings has said.

The ratings agency said, however, that it expects their capital-adequacy ratio to stay steady after the adoption of a new capital regime later in 2020, supported by a reasonably strong capital position with a relatively large low-risk investment portfolio and timely adjustment of business strategy.

Domestic life insurers are expected to gradually ramp up their risky asset investments to offset a decline in investment returns on government bonds. Various insurers have developed real-estate projects such as office buildings and health-related facilities to generate more favourable and stable income flows. The industry has also moved its investments into corporate bonds and higher yielding instruments.

Life insurers' corporate debentures accounted for about 22% of total investment assets by end-Q319 with over 10% in stock and real-estate trust units, according to Thailand's Office of Insurance Commission. Other investible assets probably include foreign securities, policy loans, and direct investments in real-estate properties, Fitch said.

Fitch added that it expects domestic life insurers to set aside stronger capital due to stricter factor-based market risk charges in the second phase of the country's risk-based capital (RBC) framework. The risk charges for equity investments in accredited stock exchanges may rise to 16%-50% from 16%-20% in the first phase. Property investments' risk parameters will rise to 9%-19% from 4%-16% while that of commodity will increase to 50% from 15%. Interest rate risk will also be assessed at a more granular stress level with greater detail.

The changes remain in line with the results of a market impact test in 2017, which highlighted market risk as having the largest impact on the industry's capital-adequacy ratio for the next capital framework.

Fitch said it believes the local life insurance industry's capitalisation will not deteriorate significantly, even though the insurers with larger risky-asset holdings will be prone to a thinner capital position under the more stringent new capital rules. Rising asset risks should be partly limited by having the main portion of the industry's invested assets in high-quality fixed-income securities. Thailand's life insurance industry has consistently maintained more than 80% of its total investments in government and corporate bonds since 2015. The industry's capital-adequacy ratio of 387% under the current RBC framework at end-Q319 remained much higher than the regulatory minimum of 140%. "Furthermore, prudent business strategies should allow the insurers to better optimise their risk-return positions without sacrificing a solid capitalisation level," Fitch Ratings added.

Regulators urge major banks and insurers to accelerate LIBOR transition

Firms must transition to alternative rates after end-2021

Written by **Adam Cadle**

The PRA and FCA have both warned major banks and insurers to cease links with LIBOR, as part of a push to meet a 2021 deadline of moving away from the benchmark.

In a joint letter to nominated senior managers of major banks and insurers supervised in the UK with responsibility for LIBOR transition, both regulators said: "The intention is that sterling LIBOR will cease to exist after the end of 2021. No firm should plan otherwise."

Although several important milestones were met last year, as highlighted in the appendix, greater momentum is needed, and 2020 will be a key year for transition, the regulators added.

"Orderly and timely progress requires individual firms to actively engage with the wider transition efforts in the market – both those of the authorities and of industry. We expect to see clear evidence of this engagement from the beginning of Q1 2020."

The Working Group on Sterling Risk Free Reference Rates (RFRWG) has set out a series of targets for 2020, including to enable a further shift of volumes from LIBOR to SONIA in derivative markets, supported by a statement from the Bank and FCA encouraging a switch in the convention for sterling interest rate swaps from 2 March 2020; cease issuance of cash products linked to sterling LIBOR by end-Q3 2020; and significantly reduce the stock of LIBOR referencing contracts by Q1 2021.

> The intention is that sterling LIBOR will cease to exist after the end of 2021. No firm should plan otherwise

In addition, EIOPA has launched a new discussion paper addressing for the first time the subject of the ongoing changes to the new benchmark rates (or IBOR transitions).

IBOR transitions will primarily affect liability valuations, derivative valuations as well as the structure of numerous (existing and new) financial and insurance products.

EIOPA said: "The focus of this paper is to primarily address the issues identified within the EIOPA Risk free rate (RFR) environment. We are building on the existing RFR methodology and we propose options and solutions for consideration.

"In particular, we highlight the potential impact of the IBOR transitions on the definition and the use of the Credit Rate Adjustment (CRA) currently applied on the RFR term structures. Furthermore, we propose options and a coherent approach for dealing with the new term structures calculated with the new benchmark rates for all currencies."

Stakeholders are invited to provide EIOPA with their feedback by 30 April 2020.

People on the move

AILEEN MATHIESON

Global Head of Insurance, Aberdeen Standard Investments (ASI)

ASI has appointed Aileen Mathieson as its new global head of insurance following the retirement of Stephen Acheson. She will take responsibility of ASI's global insurance remit in addition to her previous responsibilities as global head of strategic platform investment solutions. Mathieson joined ASI in April 2019 from Zurich Insurance Group.

KERRIE MITCHENER-NISSEN

Head of Product, The Asset Management Exchange (AMX)

AMX has announced the appointment of Kerrie Mitchener-Nissen as head of product. She will be responsible for managing existing solutions as well as new product development, to support the expanding range that AMX can offer its clients. She joins from J.P. Morgan Asset Management where she served for 13 years.

Picture by: Twocoms / Shutterstock.com

MARK CARNEY

Finance Adviser for COP26

The Bank of England (BoE) has announced that outgoing governor, Mark Carney, has been appointed as Boris Johnson's finance adviser for COP26. The appointment will help build a sustainable financial system to 'support the transition' to a net zero economy. Carney's key focus will be to mobilise the action across the financial system needed to help achieve the 1.5°C goal of the Paris Agreement.

JAMES MILLARD

Chief Investment Officer, Hiscox

Specialist global insurer, Hiscox, has announced the appointment of James Millard as its new chief investment officer for the group. He will be responsible for overseeing the management of $6.4bn of assets, implementing overall investment policy and directing all portfolio management, research, trading and strategy. Previously, he was chief investment officer at Skandia Investment Group.

CHRISTOPHER WOOLARD

Interim Chief Executive, FCA

HM Treasury has appointed Christopher Woolard as interim chief executive of the FCA, following advice from the FCA board. He is set to take on the chief executive role following Andrew Bailey's departure, after Bailey was announced as the next governor of the Bank of England in December. Woolard is currently the FCA's executive director of strategy and competition.

HUGH SAVILL

Director of Regulation, ABI

ABI director of regulation Hugh Savill is to retire in October. In his current role, Savill has accountability for relations between the insurance industry and the BoE on prudential regulation, for relations with the FCA on conduct regulation, and also for taxation issues affecting insurers. He was temporary director of investment affairs for 18 months before moving into his current role in 2012.

Opinion

On the need for a more balanced proposal to revise SII

"Unnecessarily high capital buffers not only lead to higher costs for insurers, they also impact on the position of insurers as institutional investors. This role is important in European terms, among other things for achieving the European 'Green deal' objectives, including investment in the energy transition. For policyholders, higher capital costs ultimately lead to higher premiums."

Richard Weurdin
Dutch Association of Insurers general secretary

On 2019 natural disasters totalling $232bn in economic losses

"Following two costly back-to-back years for natural disasters in 2017 and 2018, there were several moderately large catastrophes but strong capitalisation has allowed the re/insurance industry to comfortably manage recent losses. However, as socioeconomic patterns further combine with scientific factors such as climate change or extreme weather variability, the potential financial costs at play are only going to increase, so building resilience is key."

Andy Marcell
Aon Reinsurance Solutions business CEO

On the need for TCFD recommendations to remain as 'voluntary' standards

Insurance Europe

"This would provide insurers with the flexibility to provide information in an effective manner according to each company's specific characteristics, risk profile and intended users of information. The recommendations should not become an informal layer of duplicative disclosures on top of existing regulatory disclosures and tools already available in a given jurisdiction to deal with climate-related risks, eg with respect to the governance, actuarial and risk management functions."

On increasing thresholds at which SII applies to small insurers

Association of Mutual Insurers and Insurance Cooperatives in Europe

"Proportionality is embedded in the Solvency II Directive and the Delegated Regulation, but its application has been limited. This has resulted in a disproportionate regulatory burden, particularly for small and medium-sized insurers (many of which are mutual), which does not properly reflect their risk profile or provide commensurate policyholder protection."

On his role as Boris Johnson's finance adviser for COP26

Picture by: Twocoms / Shutterstock.com

Mark Carney
Outgoing BoE governor Mark Carney

"The UK's global leadership in financial services provides a unique opportunity to address climate change by transforming the financial system. To seize it, all financial decisions need to take into account the risks from climate change and the opportunities from the transition to a net zero economy. The UK has a plan to do just that, and I look forward to working with the private sector, HM Government, the BoE and all stakeholders to help make this promise of sustainable finance a reality."

Soapbox

What next?

Written by Adam Cadle

So, the UK has left the European Union and entered an 11-month transition period during which it aims to negotiate a new long-term economic relationship with the bloc. Whichever way you voted, I believe it got to a point whereby progress had to be made and we all had to move on as a country.

For the insurance industry, a number of questions remain however. The decision is not quite as straightforward as it sounds, and as the UK government has said it will not be a 'rule-taker', this could have profound impacts on the UK insurance industry.

In time, the UK government may choose to diverge by not adopting changes to EU insurance regulation and in this scenario, the EU may decide that the UK solvency regime is no longer equivalent to its own Solvency II capital value. Will the UK seek to deviate from the Solvency II risk margin which life insurers feel penalises them, given their high exposure to longevity risk through annuity books?

> As the UK government has said it will not be a 'rule-taker', this could have profound impacts on the UK insurance industry

According to Moody's, a relaxation of risk margin requirements would likely reduce UK annuity writers' reliance on transitional measures for in-force business written before 2016, and on longevity reinsurance for new business.

In addition to the debate, it remains to be seen how European insurers with large UK operations are to be affected. The UK's withdrawal from the EU passporting regime may have no direct impact on their UK operations, but where moving from full EU membership to a looser EU-UK free trade agreement slows UK economic growth, European insurers' UK subsidiaries could experience a decline in revenues and underwriting profit, like their domestic competitors.

Will UK insurers find it harder operating in the EU when the transition period ends? This is also another interesting question, but Moody's states that those UK insurers currently operating in the EU will not be affected as they operate via locally regulated subsidiaries rather than through passporting.

"UK insurers' EU subsidiaries will therefore be able to keep writing new business, leading to minimal direct impact on premium income," it said. "The EU subsidiaries will also be able to accept transfers of legacy life policies written by their UK parents for EU-based policyholders, and take over the job of servicing them. This would reduce policyholder uncertainty."

As Prime Minister Boris Johnson has said it is 'a new dawn', but in what sense will it be a 'new dawn'?

Throughout the whole Brexit pathway, no one has been quite sure what to believe, where it will take us and what the effects will be on the industry.

Now it is done, we are still not sure what effect Brexit will have on insurance policy. It is certainly interesting times for the country, and it is helpful ratings agencies, like Moody's, are publishing information around the different scenarios that may arise so preparations and contingency planning can at least be made.

THE **GREEN BONDS MARKET** IS NO LONGER *black* AND *white*

The coming decade of transition could reshape how debt finances the low-carbon world

WRITTEN BY **AXA IM HEAD OF INSURANCE SOLUTIONS UK CHRIS PRICE**

The challenge facing society has rarely been more clear-cut as we head into a new decade. At AXA Investment Managers, we believe that climate change will be a defining theme of the next ten years and financial institutions must be ready to lead or prepare to be laggards.

For insurers the challenge is two-fold. First, they must address the impact of 'Green Swans' – unpredictable climate events that can damage public and private infrastructure. Second, their investments may be contributing to climate change, and risk being devalued if the low-carbon economy leaves them behind.

We believe this will be a decade where leadership pays. That's why we have embraced Green Bonds – debt designed to finance projects that deliver a positive climate impact. Bond proceeds are set aside for eco-friendly investments, but returns are backed by the issuer as a whole. It's little surprise the sector has drawn sustained interest from insurers.

The Green Bonds market – skewed towards investment-grade, euro-denominated debt – passed the €500 billion mark in 2018. Momentum has continued from some of the world's biggest names[1]. Apple priced its first EUR Green Bonds in November, seeking €2 billion for more energy efficient products and reduced emissions at suppliers[2]. And insurers are issuers as well as investors: in September we saw the first by a European insurance firm, as Generali raised €750 million.

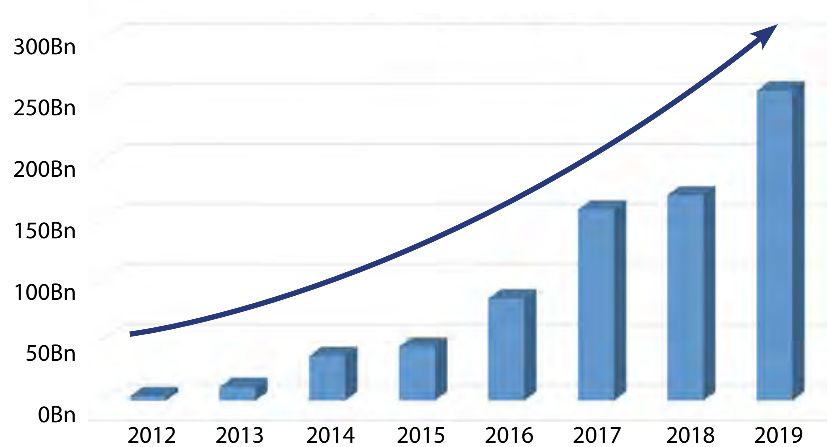
We have built capability in this area because we believe Green Bonds are an excellent tool for investors who want a transparent solution to support a low-carbon economy without sacrificing financial returns.

The trend is positive, but it is also constrained. The chart below shows Green Bond issuance is strong and accelerating – up 49% in 2019 – but it is still dwarfed by the wider corporate bond market. In a single record week in September, global issuance of corporate bonds topped $140 billion[3], more than half of the Green Bonds total for the entire year ($255 billion)[4].

Given how important it is to retain the purity of the eco-friendly rationale for Green Bonds, this leaves a gap in the market during what will be a decade of transition.

The low-carbon economy will require not only exciting innovations from start-ups, but also concerted efforts by the incumbent, carbon-intensive businesses that have powered our industrial age. It is vital that they join the journey, and that is why we have taken a lead and proposed a new form of debt: Transition Bonds.

ANNUAL GREEN BOND ISSUANCE (USD)



Source: Climate Bonds Initiative data Feb 2020

It's not good enough to simply focus on the green end of the spectrum, or the brown part for that matter. We think investors should look at how the global economy moves to one from the other. In 2019, we issued a call to action to establish this new asset class and then devised a set of guidelines that allowed us to deliver a Transition Bond in a private placement on behalf of AXA Group. This funded €100 million of loans made to initiatives in carbon-intensive sectors by Crédit Agricole. They estimate the underlying projects should abate carbon emissions by about 26,500t CO_2 annually.

Our innovation continues in climate scenario analysis. AXA IM has been working with AXA Group and fellow investors to develop advanced

> Green Bonds are an excellent tool for investors who want a transparent solution to support a low-carbon economy without sacrificing financial returns

methodologies aimed at testing whether a portfolio can be consistent with a temperature increase of ≤1.5° as called for under the Paris Agreement. We have established that this is a viable and valuable goal – more refinement and research will follow.

All of this is taking place in a context of steadily increasing regulatory pressure. In the UK for example, the UK Prudential Regulatory Authority wants evidence that insurers are working to manage climate risks and reduce their potential impact, while designating senior managers to take on responsibility for that[5]. Measures are being put in place across Europe[6].

This underscores the importance of engagement and stewardship in fixed income – whether Green Bonds or conventional – another area where AXA IM seeks market leadership. We toughened our oversight of issuers' climate policies in 2019, with 40% of engagements focused on the topic.

And that taps in to one of the key themes in the coming decade. Whether it is participating in the rise of Green Bonds and Transition Bonds, pursuing in-depth climate analysis of portfolios or driving best practice at issuers, it is by working together at the forefront of the low-carbon transition that leading investors, asset managers and companies can deliver change – while shaping it to their mutual benefit.

In association with

AXA Investment Managers

[1] *"Green bond market breaks half-a-trillion-dollar barrier" Environmental Finance 13 November, 2018*
[2] *"Apple raises €2bn in green bonds" Financial Times 8 November, 2019*
[3] *"Corporate bond issuance sets global record" Financial Times 6 September, 2019*
[4] *"Record 2019 GB Issuance $255bn!" Climate Bonds Initiative 16 January, 2019*
[5] *"Enhancing banks' and insurers' approaches to managing the financial risks from climate change" UK PRA Policy Statement PS11/19 April 2019*
[6] *"ESG: France's Article 173: taking stock" IPE January 2019*

All hands on deck

Insurers face an uphill battle to address climate change concerns, consolidate investment returns and stave off cyber attacks in 2020

WRITTEN BY **MAREK HANDZEL, A FREELANCE JOURNALIST**

As it strides into the third decade of the twentieth-first century, the list of risks facing the insurance industry is more extensive than it has ever been.

But the inventory is not just wide-ranging. It is also a convoluted mesh. A growing number of issues — from unprecedented geopolitical concerns and monetary policy, through to evolving customer demands and the threat of InsurTech — are now so intertwined that it is almost criminally negligent to assess them in isolation.

Nevertheless, there are some risks that company boards would do well to pay particularly close attention to in 2020, given the immediate threat they pose to both reputation and investment strategies.

Ensuring security

In its *2020 Europe Insurance Outlook* report, EY identifies cyber security as a critical issue for the industry.

In the case of Europe's non-life and P&C businesses, EY argues that successful digital transformation programmes, aimed at seizing the opportunities offered by the cloud, can help insurers better compete with InsurTech start-ups and other non-traditional players. At the same time, life companies are looking to simplify products and give policyholders a better customer service by utilising tech to its full potential. These new levels of digitisation come, however, at a price.

"To progress on their digital journeys, insurers must also enhance their cyber security frameworks," warns the report. "The recent past has demonstrated how insurers can be targeted. The number, frequency and sophistication of such attacks will only increase as the industry launches new digital offerings."

EY adds that enhancing the way that the sector validates and protects data and reacts during a crisis is therefore vital. This, it says, can be done by better monitoring of internal operations and external industry events, which can be flashed up by up-to-date early warning systems.

Richard Jefferies, insurance client manager at insurance tech consultancy, Northdoor, says that a major systemic cyber attack may be the next major event that rocks the insurance landscape. The best way to protect businesses against

> It might be better to hold risk assets but keep an eye on loss prevention

hackers, he advises, is to strengthen operational resiliency and properly assess supply chain risk.

"A lot of the cyber incidents have happened due to a weakness in the supply chain," says Jefferies. "We've seen lots of organisations say that they really need to understand the strength and resilience of their supply chains. That's a big potential risk area that they need to firm up."

Cyber attack incidents have also led to large cyber claims from policyholders, and Jefferies says that many of Northdoor's insurance clients have increased demands on clients to demonstrate their own supply chain resiliency.

Mercifully, there is low hanging fruit that organisations can still pick in their efforts to improve digital security. "Some solutions might be very easy to implement — such as old systems that have not been touched for a while, or out of date patching that can be exposed to an outside attack," explains Jefferies. "You can very quickly switch the systems off or update the patching."

Downside risk mitigation

While downside risk mitigation was on most insurers' minds in 2019, Tim Antonelli, multi-asset strategist at investment firm Wellington Management, says that the subject will be even more important this year given the need to protect gains made in the bull market.

However, he cautions, insurers should be wary of de-risking too soon. "In a world where every basis point matters, it might be better to hold risk assets but keep an eye on loss prevention," he says.

In Wellington's view, there are five possible strategies to employ: targeting asymmetrical returns; being dynamic with a multi-strategy equity solution; engaging selectively in private markets; monitoring late-stage private equity; and considering derivatives.

Jefferies also recommends patience when addressing portfolio exposure to BBB credit. Although many insurers may be considering reducing exposure to greater credit risk at this stage in the cycle, he argues against moving out of the BBB segment altogether in the current low-yield environment.

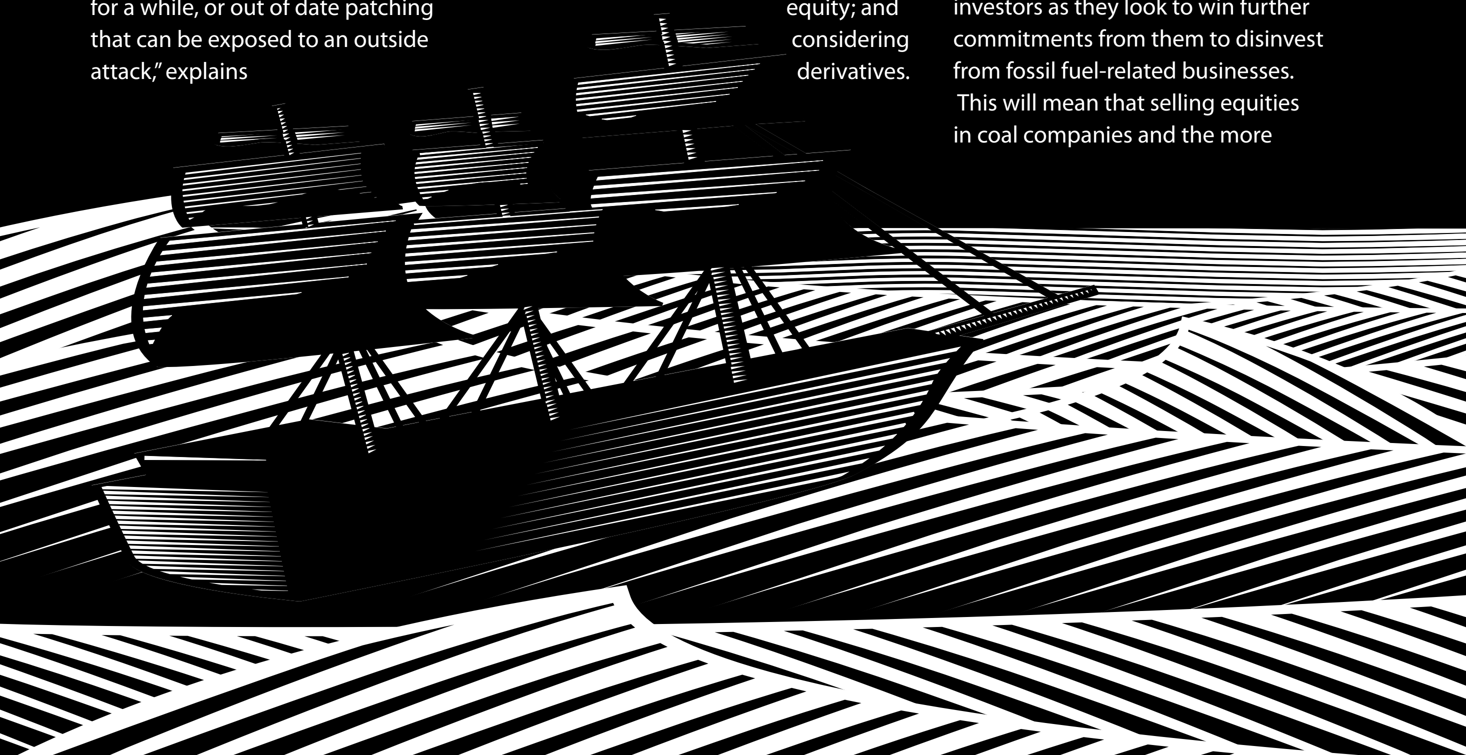
"Most BBB issuers have strong incentives to retain their investment-grade ratings. Effective research can determine which credits will be able to meet deleveraging targets and retain their ratings," he says.

Climate concerns

In a wider investment context, climate change has now crept up on CIOs to become one of the main — if not the number one — issues when planning asset allocation.

Robert Blood, the founder and managing director of SIGWATCH, a global research and strategy consultancy that tracks the actions of activist groups, says that environmental campaigners will be ramping up the pressure on investors as they look to win further commitments from them to disinvest from fossil fuel-related businesses.

This will mean that selling equities in coal companies and the more



extreme limits of oil and gas will no longer be enough to satisfy climate change lobbyists. Shale gas and deep-sea drilling will also be deemed total no-go areas for investors.

"Coal was the easy divestment decision," says Blood. "The big decision is not which bit of oil or gas you exclude, it's whether you finally succumb and agree to pull out of all of it. That is the real test of seriousness about climate change — if you have major investors pulling out of all fossil fuels and not simply coal."

In order to satisfy environmental activists in the short-term, CIOs have to do two things, in Blood's view. Firstly, they have to reduce, and ultimately, end their investments in fossil fuels as a whole. Secondly, they have to switch their investments to renewables and other industries that are working on reducing human reliance on fossil fuels for the world's increasing energy needs.

However, Blood warns that environmentally-driven investment could be a never-ending story, as there is a whole line of industries that are perceived to have an outsized carbon footprint.

"Even if you pull out of fossil fuels, the next big problem that environmentalists have is deforestation, which is linked to industrial agriculture and to meat eating, as a lot of industrial agriculture is used to produce animal feed," he says.

"So if insurers think that getting out of fossil fuels means that they've done climate change, then they don't know what's going to hit them."

Antonelli says that despite fast growing interest in climate risk all around the world, even the most forward-looking insurers are still in the early days of integrating climate risk management into their investing practices. This process, he says, needs to speed up, as there are three important variables that could affect both the pricing of assets and of insurance companies themselves — well before physical climate risks manifest themselves.

The first of these is disclosures. "As global investor disclosures become more commonplace, capital markets will probably invest in "good corporate citizens" and disinvest from "bad citizens"," predicts Antonelli.

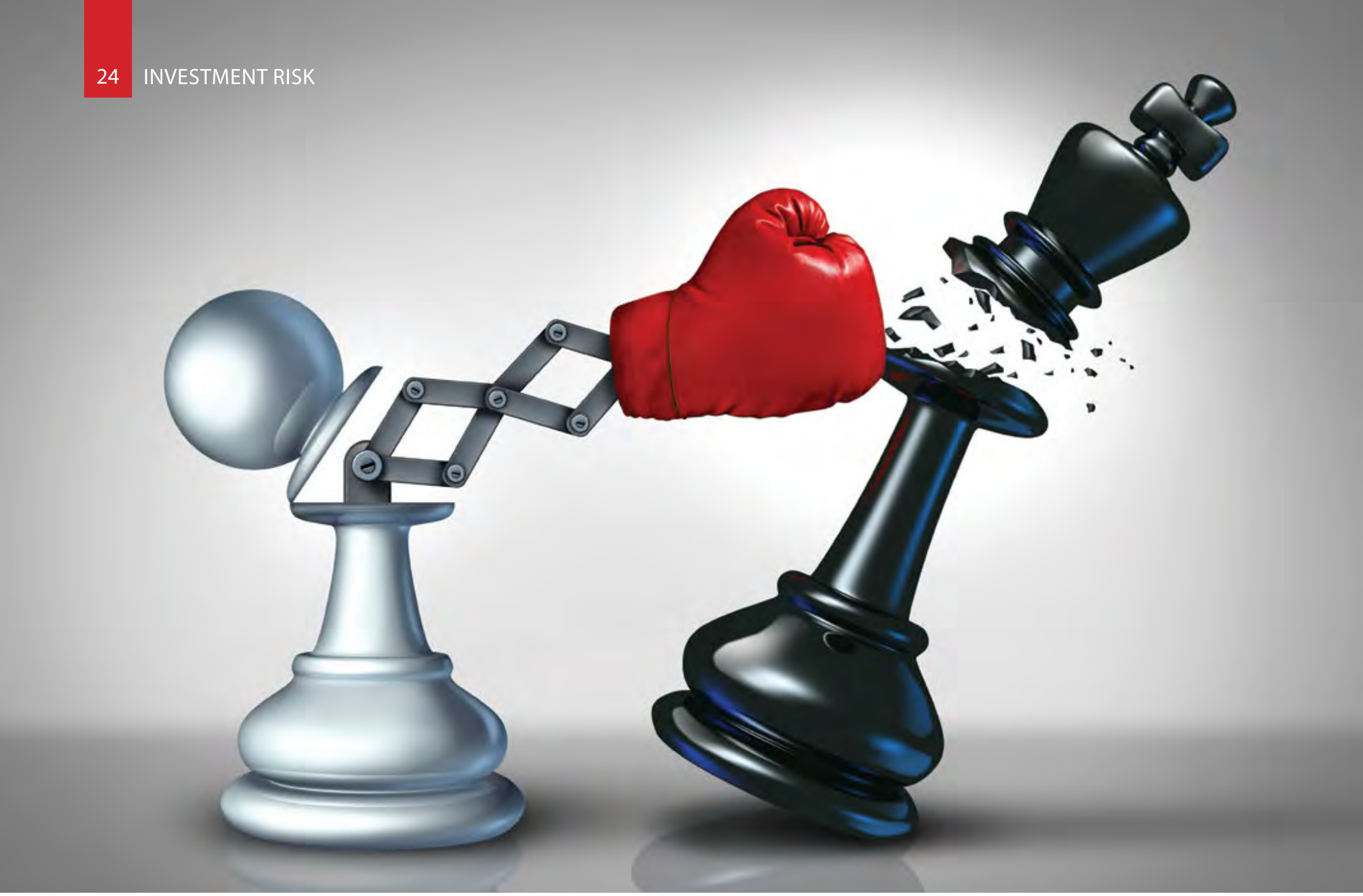
Secondly, climate-related litigation is on the rise, meaning that one major verdict or settlement could lead to a mark-down of assets for an offender and its peers. Thirdly, credit rating agencies may start to adopt a more pro-active approach to ratings, based on each issuer's climate risk mitigation techniques. "It will be important to have a fixed income manager that can conduct this analysis before purchase," says Antonelli.

The green agenda is now also moving into under-writing. It is not enough to just divest your funds from fossil fuel businesses now, says Blood. Insurers will be expected to stop providing cover to those businesses as well. This new development has come about as climate change activists have recognised that divestment of capital has a slow effect on changing energy consumption behaviour. If you cancel cover however, then there is an immediate result in terms of a company's ability to carry our their everyday activities.

"This is the one thing that insurers have always resisted," says Blood. "It's one thing to tell your investment manager to sell your shares in a coal firm, to then saying that you're not going to cover their coal plant anymore. That's a very in-your-face conversation. You're doing it to you client, rather than some distant stockbroker."

Difficult discussions lie ahead.

The big decision is not which bit of oil or gas you exclude; it's whether you finally succumb and agree to pull out of all fossil fuels and not simply coal



Out with the old, in with the new?

David Adams looks at whether there is an over-reliance on post-risk metrics to determine investment risks among insurers

WRITTEN BY **DAVID ADAMS, A FREELANCE JOURNALIST**

Insurers' investment strategies have long been a source of stability in the sometimes fragile, interconnected financial system. But more recently, following years of low interest rates and unreliable yields, those investment strategies have changed, as insurers have found it necessary to search for better returns. The question is, has this development been matched by an evolution in insurers' approaches to investment risk management?

Findings from Schroders' *2019 Institutional Investor Study*, broken down by sector, revealed that, by the end of 2018, 56 per cent of the 156 respondents working for insurance companies intended to increase allocations to private assets during the next three years, citing a need for diversification and higher returns as primary reasons to do so.

Between one third and half of respondents said they expected investments in infrastructure equity, private equity, private debt and real estate investments to deliver returns of between six and ten per cent. These four asset classes were also picked out as those to which respondents anticipated increasing allocations most during the next three years.

A good understanding?

But how well do insurers really understand the risks related to these asset classes; and how these changes in investment strategies might affect their risk profiles?

Research published by the consultancy bfinance towards the end of 2019 suggests many lack a full understanding of the risk implications of these changes – and that many insurers may lack an understanding of how to go about improving management of the investment risks created by new strategies.

bfinance conducted the study with 13 members of the Association of Financial Mutuals (AFM) – a small but varied sample, containing a mix of small and very large entities. Two findings stand out. One is that 62 per cent of respondents consider historic realised volatility to be a good proxy for current portfolio risk. The other is that there appears to be no correlation between the size of a company and the sophistication of its investment risk management processes.

The bfinance report on the research acknowledges that historic data on realised risk has a useful role to play, but adds that its use as a risk metric is limited: "inaccurate estimation of risk is likely, due to the reliance on a single sequence of historic outcomes". bfinance suggests insurers should make more use of implied metrics, enabling assessment of a wider range of outcomes by simulating implied portfolio returns. They suggest more robust risk analytics will be needed if insurers are to understand overall exposures to risk premia across all asset classes.

The bfinance findings also raise concerns about how investment risk management is addressed within insurance companies. Responsibility for this task is often split between different functions; while there may be variations in methods and frequency of risk assessment and reporting within the business, creating an incomplete or uneven picture of risk exposures. bfinance suggests there is a need for clear ownership of investment risk management within a business; and that firms need to use reporting templates that provide clarity and consistency.

Neil Holmes, director, insurance client consulting, at bfinance, says it appears that many insurers do not allocate adequate resources to investment risk management. His colleague, bfinance risk solutions manager Ruben Mutsaers, says some insurers admit they rely on risk reporting from asset managers, meaning the latter are effectively reporting on themselves: a clear conflict of interest. Mutsaers says some insurers also appeared to be drastically underestimating the potential losses they could accrue when investing in some asset classes.

> One of the drawbacks with traditional risk measures such as volatility and value-at-risk is that they are backward-looking

"We're addressing those key questions and trying to educate people who haven't come across these questions before," he says. "But there's clearly quite a long way to go in terms of improving investment risk management within the sector."

Clara Yan, insurance asset liability management director at Schroders, also sees weaknesses in the approaches taken by many insurers to investment risk management. "One of the drawbacks with traditional risk measures such as volatility and value-at-risk is that they are backward-looking and don't necessarily provide a forward-looking view on the risks the portfolio is facing," she says, pointing out that these metrics cannot encompass the impact of factors such as trade wars, political disruption, or financial risks related to climate change initiatives.

"In our view, insurers could benefit from supplementing their traditional risk analysis with relevant market scenarios that would help them to understand the risks they are facing on possible future events," Yan continues.

Dhiran Dookhi, director of the insurance investment team at Willis Towers Watson, also believes many insurers are over-reliant on historic data and backward-looking analysis. He is also concerned that some insurers are using the same approaches to assess risks related to liquid and illiquid asset classes.

He outlines some of the limitations in such approaches: a lack of historic data in relation to investment in illiquid asset classes, delays in risk assessment and reporting processes and a reliance on largely manual, spreadsheet-based assessment methods.

Above all, Dookhi suggests, there is a general lack of resources for and expertise in investment risk management. "Insurers are aware of the issue and it is a growing problem, particularly given they are investing more in illiquid assets," he says. "The key is developing that forward-looking view. They're trying to identify which risks could they anticipate in the future that could threaten the investment portfolio and the business model. It's important to have a very clear risk management framework for these investment risks.

"It's about having the right blends of skills and experience; and being able to anticipate risks as they arise."

Regulation

But Dookhi does expect some progress in this area to be driven in part by regulatory requirements. He highlights the publication of the Prudential

Regulation Authority (PRA) *Consultation Paper CP22/19*, in September 2019, which set out expectations for how insurers should manage illiquid assets and related risks, in accordance with the Prudent Person Principle (PPP) set out in the PRA Rulebook.

The PPP sets standards for prudent investment by UK Solvency II firms, in relation to activities including portfolio diversification, use of derivatives, exposure to non-regulated markets, risk concentration, asset-liability matching "and the security, quality and profitability of the whole investment portfolio".

It states that a firm must have adequate governance and risk management systems and must be able to demonstrate it is only invested "in assets and instruments the risks of which it can properly identify, measure, monitor, manage, control and report". The CP also recorded the PRA's observation of inconsistencies in the way the PPP is applied by different firms; and highlighted its concerns about insurers' investments in illiquid, "non-traded" assets.

> There are requirements from the PRA to have risk identification for any new illiquid asset classes you want to put in your portfolio. There will certainly be gaps for a number of insurers that they will need to address

"I'm sure the consultation paper will turn into a supervisory statement over the next few months," says Dookhi. "There are requirements from the PRA to have risk identification for any new illiquid asset classes you want to put in your portfolio. There will certainly be gaps for a number of insurers that they will need to address."

This will present some firms with very difficult challenges. "For some insurers, where the gaps are small, I'd expect them to close those fairly quickly," says Dookhi. "But if there are bigger gaps, around getting the right skills and building longer term systems to aggregate the data, that may take a little longer."

One way or another, insurers must improve investment risk management, to safeguard their own financial security and stability and the interests of their clients; but also to protect the broader financial system and economies across Europe and beyond.

"I think ten years ago no insurer had to do this," says Holmes. "There is now a need to do so. People's knowledge and desire to understand is a lot greater, by necessity and by practice."

Insurers need to harness an understanding of these risks, through application of in-house and/or external expertise. A failure to do so would represent historically atypical recklessness within an industry more often characterised by prudence and caution.

A green future

Adam Cadle talks to Climate Bonds Initiative CEO Sean Kidney about green finance and what needs to be done before it's too late

WRITTEN BY **ADAM CADLE**

Q What are the most critical aspects for green finance over the coming year in your opinion, and also in both of your lines of work at the Climate Bonds Initiative and the EU Technical Expert Group on Sustainable Finance at the EC?

According to the IPCC we have to cut global GHG emissions 50 per cent in the next 10 years. That means we are going to have to tackle rapid reductions in every sector of the economy, not just energy and transport. We now need to map out rapid transition pathways for manufacturing industries, for steel and cement, and for agriculture. We need to develop transition pathways so we can better choose the investments we need to make right across the economy. The EU Taxonomy has started the work of mapping areas we need to invest, creating essentially a "Procurement Plan for Paris". That needs further work, and the negotiation with industries and countries of industrial transition plans that will support those investments. All of this will involve investing trillions of dollars of capital. Lucky for us we have that capital available – and vast slabs of global savings are invested in zero or negative interest bonds, and are looking for even modest yields.

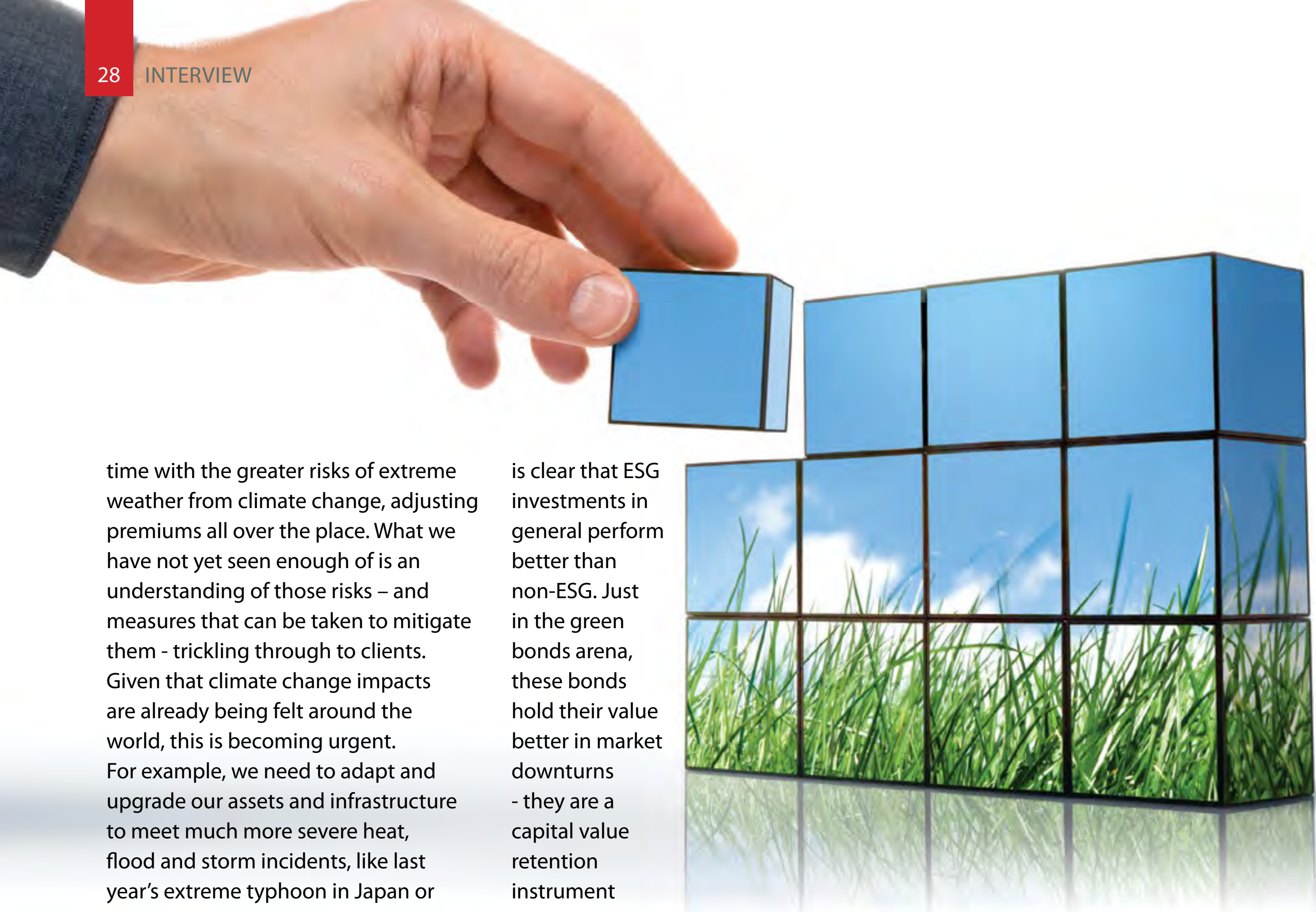
Q Are governments effectively taking advantage of the green bond market?

This is only just beginning. Some governments have started issuing sovereign green bonds, with $25 billion issuance last year. That will grow quickly in 2020. Others governments are focusing on incentives for green bonds. The Chinese government, for example, is experimenting with incentives like discount capital at the liquidity lending window of the central banks, if you post green bonds as collateral. The EU has an action plan for sustainable finance with a whole range of measures to drive capital to sustainability solutions. But the real work to be done is at the real economy level, where there is great opportunity for regulatory measures such as mandating low-carbon concrete for public sector buildings, or giving building developers extra height for zero-net-carbon towers would spur green asset creation.

> **We need to develop transition pathways so we can better choose the investments we need to make right across the economy**

Q How would you say the insurance industry is faring as an institutional investment space in the fight against climate change?

The re-insurance liability industry and been grappling for some



time with the greater risks of extreme weather from climate change, adjusting premiums all over the place. What we have not yet seen enough of is an understanding of those risks – and measures that can be taken to mitigate them - trickling through to clients. Given that climate change impacts are already being felt around the world, this is becoming urgent. For example, we need to adapt and upgrade our assets and infrastructure to meet much more severe heat, flood and storm incidents, like last year's extreme typhoon in Japan or Australia's summer firestorms. The insurance asset management industry has been slower to move, although we've seen some important headline announcements from the likes of Axa, Aviva and Allianz. The question now is what role can they play in ensuring not just that their portfolios are adjusted to address climate risk (and opportunity) but how can they ensure, at a societal level, that investments in climate change solutions will happen to mitigate broader investment universe risks and to deliver adequate volume of places for them to invest with yield.

Q What would you say to those asset managers and CIOs concerned that they might not reap the same returns through ESG investing compared to their current asset portfolio?

This is a somewhat 20th century shibboleth. The evidence overall is clear that ESG investments in general perform better than non-ESG. Just in the green bonds arena, these bonds hold their value better in market downturns - they are a capital value retention instrument – and are a premium product in secondary markets. But a lot green investments will be even simpler: like infrastructure investments, governments will use regulatory and blended finance measures to ensure risks are mitigated in return for fast action, What we are going to see is a flood of high level investment opportunities designed specifically for pension and insurance fund portfolios. Insurance funds just need to make sure their asset allocation strategies allow them to take advantage of these opportunities.

> **The evidence overall is clear that ESG investments in general perform better than non-ESG**

Q What are your own personal ambitions in your role over 2020?

This is a pivot year for the global economy and, frankly, for our species. As the IPCC has very clearly said, to avoid utterly catastrophic climate change we have to reduce emissions 50 per cent in the next 10 years – that means a nearly 10 per cent drop in emissions, every year. The race has started. Getting there will involve investing some $60 trillion in green transition. This is going to be a huge investment boom, if we can get the train moving. If we don't ….

My personal ambition is to help get the train moving. Fast.

Insurance Asset Management Awards 2019

28 NOVEMBER 2019

The Waldorf Hilton, London

THE WINNERS

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OVERVIEW

The Insurance Asset Management 2019 Awards held at the Waldorf Hilton, London, rewarded all those who have excelled in the insurance industry and who have displayed exemplary levels of innovation in this space.

Comedian Imran Yusuf conducted the evening, presenting trophies to all the winners. Congratulations to the prize winners and a very well done to all those shortlisted firms.

Thanks must go to our sponsors Pictet Asset Management and State Street Global Advisors SPDR. The judges also played a huge part in helping to determine the winners.

We look forward to welcoming you all with open arms again in 2020 and rewarding all those that continue to excel in the insurance asset management and investment space.

Visit **www.insuranceassetmanagement.net** for more details and to read all the latest news and commentary.

JUDGES

Adam Cadle
Editor
Insurance Asset Management

Daniel Blamont
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Phoenix Group

Robert Kubin
Chief Executive Officer
PZU Investments

Prasun Mathur
Head of Shareholder Investments
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Neil Parry
Investment Manager
Beazley Group

Hugh Savill
Director of Regulation
Association of British Insurers

Deepak Seeburrun
Head of Insurance EMEA
HSBC Global Asset Management

Ying Ye
Chief Investment Officer
Allianz Insurance plc

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INSURANCE COMPANY OF THE YEAR
Phoenix Group

INVESTMENT STRATEGY OF THE YEAR
LV=

ESG INVESTMENT STRATEGY OF THE YEAR
Schroders

INSURANCE CONSULTANCY OF THE YEAR
EY

PASSIVE MANAGER OF THE YEAR
SPDR ETFs

ACTIVE MANAGER OF THE YEAR
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Royal London Asset Management

FIXED INCOME MANAGER OF THE YEAR (over €100bn AUM)
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ALTERNATIVES MANAGER OF THE YEAR
M&G Investments

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Aviva Investors

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INNOVATION PROVIDER OF THE YEAR
Pictet Asset Management

DIVERSITY AWARD
HSBC Global Asset Management

FIXED INCOME MANAGER OF THE YEAR
(over €100bn AUM)
Aberdeen Standard Investments

The Fixed Income Manager of the Year (over €100bn AUM) award recognises the provider that has displayed innovation in this area to take advantages of opportunities out there, but also has the performance numbers to prove its expertise.

The firm recognised for its excellence in this space at the latest Insurance Asset Management Awards was Aberdeen Standard Investments (ASI). Currently managing a total of c£300bn across a broad range of assets on behalf of insurers, the firm is a clear leader. From active government bond strategies to broad private credit expertise, the firm has it all, with 159 fixed income professionals across 11 countries.

Its investment approach is underpinned by proprietary in-depth research, and as a result of this philosophy, the firm can demonstrate superior stock-picking strength and credit underwriting, delivering significant value of public and illiquid credit portfolios. Deep credit expertise combined with 200 years of insurance heritage allows ASI to take advantage of market mispricing and construct portfolios of bonds suited to insurer needs. It has been at the forefront of implementing Solvency II- compliant strategies for insurance clients. ASI currently manages over £25bn in annuity assets managed with reference to Solvency II and its focus is to deliver long-term value, minimising downgrades and defaults with an eye on balance sheet and capital impacts.

Other key highlights around the firm's performance, is post Solvency II, it delivered significant value for a large UK insurer through a buy and maintain strategy focused on improving the diversification and risk-adjusted yield by investing in illiquid private asset classes and also creating bespoke mandates for public assets tailored to our client's requirements. This resulted in the evolution of the insurer's annuities credit book from a £0.5bn, plain-vanilla, sterling, fixed income book at YE16 to a £7bn+ book at YE18, comprising a mix of non-sterling/sterling assets, private/public market assets constructed using advanced optimisation and cashflow matching techniques. This also included diversification into illiquid credit allocations including infrastructure debt, private placements, CRE debt, supranationals and local authority loans.

In public credit, diversification to non-base currencies including to EMD, with appropriate cross currency hedging and efficient collateral management solutions, delivered a significant matching adjustment improvement for our insurance clients. Development and implementation of internal credit rating frameworks designed to support insurers keen to pursue a credit strategy incorporating private credit assets. This has enabled ASI to grow its illiquid credit book from £1.5bn+ at YE15 to £7bn+ at YE18.

Over the past 12 to 18 months, ASI has also made significant allocations of + £300m to sustainable investments including green bonds, as part of the illiquid credit allocation for annuity books.

The judges were particularly impressed with the firm's comprehensive solutions offerings.

Congratulations to all at the firm on outstanding performance and a highly successful year.

RISK MANAGEMENT FIRM OF THE YEAR

Aberdeen Standard Investments

The Risk Management Firm of the Year award, rewards the provider that has provided innovative solutions to truly help insurance companies to manage, or remove, its risks.

Aberdeen Standard Investments (ASI) is, by construction and by heritage, an expert in working with insurers to manage asset and liability risk alongside regulatory capital. It also has a unique track record of delivering risk management and de-risking solutions across the full spectrum of industry requirements – whether carefully executing hedging strategies, designing new capital efficient asset allocations or retirement products, or helping to maintain a robust balance sheet to support corporate activity. It is on the back of this that ASI deservedly won this award.

All insurers face a consistent set of risk management themes, but their specific requirements are typically idiosyncratic. Thus, ASI works collaboratively with its insurance clients to understand not only the risk outcome they wish to achieve, but also the internal and external factors which drive that outcome: Their balance sheet, their liability profile, their regulatory context and any other constraints. ASI then combines its insurance expertise with its deep capital markets experience to design solutions which are innovative, practical, effective and cost efficient. ASI places no premium on complexity for its own sake, and its objective is always to apply innovative approaches to deliver the risk outcome required by the client in as transparent and robust a way as possible.

The majority of this capability sits within the ASI Multi Asset Solutions team, which uniquely combines ALM portfolio managers, quantitative risk modellers, and capital modelling experts.

Key highlights from the year include the implementation of a stochastic strategic asset allocation optimisation framework which combines best in class external tools with proprietary insight to design risk targeted multi asset portfolios which allow insurers to efficiently invest across a spectrum of public and private markets taking explicit account of their risk and capital requirements.

ASI also implemented over £14bn notional of de-risking trades throughout 2018 and 2019 across sovereign and sub sovereign bonds, interest rate derivatives, and equity options and futures on behalf of clients. These have driven value by reducing shareholder capital requirements, protecting policyholders, and enabling strategic corporate activity.

On top of this, a framework for managing fixed income assets under Solvency II's Matching Adjustment rules which minimises the risk of cash flow mismatch and mitigates material regulatory risk for insurance clients has been developed, while still allowing portoflio manager discretion to be applied to the asset management process. This framework is applied to over £9bn of fixed income assets.

The judges were impressed with ASI's work around risk targeted multi asset portfolios and its work on these de-risking trades.

Well done to ASI on an outstanding award's contribution and to a firm that has excelled in the risk management field.

Insurance Investment and Risk Management Solutions

Introduction

This short article provides an introduction to the increasingly sophisticated insurance investment and risk management solutions that global insurers ask of their asset managers to manage economic risk and regulatory capital requirements while generating returns in a complex and challenging market environment.

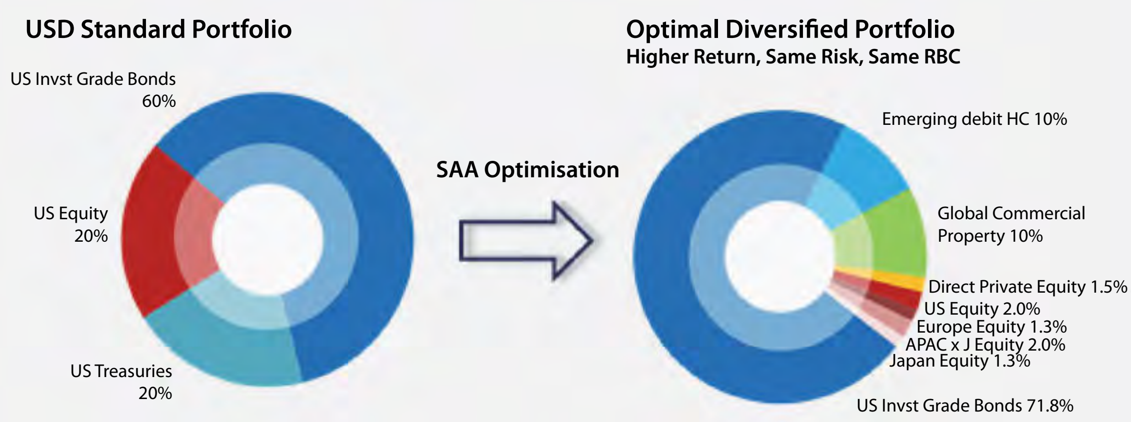
Setting a Risk Appetite

The first step for an insurer towards implementing a robust risk management framework in an ALM context is articulating a risk appetite. Starting from the insurer's chosen measure of risk – this could be economic or regulatory capital, or a traditional measure of economic risk for example - insurers identify the amount and type of risks to which they are currently exposed, and then quantify their tolerance to each exposure. An insurer might decide, for example, that they have no appetite for interest rate risk and currency risk, but are happy to be exposed to a targeted level of credit spread, property and equity risk. Alongside these market risk metrics, insurers must also incorporate their liquidity risk appetite into this framework.

Insurance Asset Manager Core Risk Management Services and Solutions

Some of the core risk management services and solutions that insurance asset managers now typically provide to their insurance clients, and which form the building blocks for insurers' specific investment and risk management solutions, are set out below.

- **Capital and Liability Aware Strategic Asset Allocation (SAA)**
  » Sophisticated stochastic Economic Scenario Generator long term investment models are usually combined with pragmatic insurance liability modelling, allowing insurance asset managers to project the insurer's balance sheet forward over long time periods. Portfolio optimisation tools, can then be used to identify efficient asset allocations designed to achieve typical insurer objectives e.g. generate target



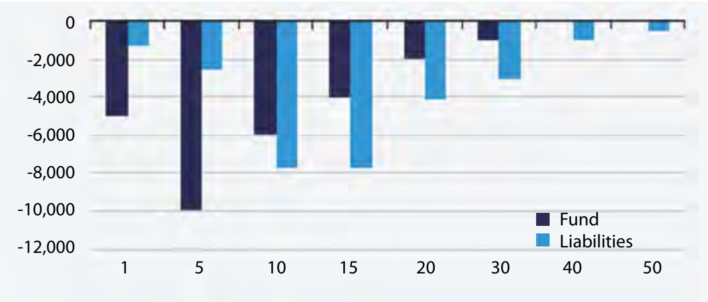
Expected Return 5Y	**3.63%**	**+82bps**	**4.45%**
Asset — Liability Return	**0.84%**		**1.66%**
Volatility	**4.43%**	**Same**	**4.43%**
HK Market RBC*	**14.99%**	**Similar**	**14.75%**

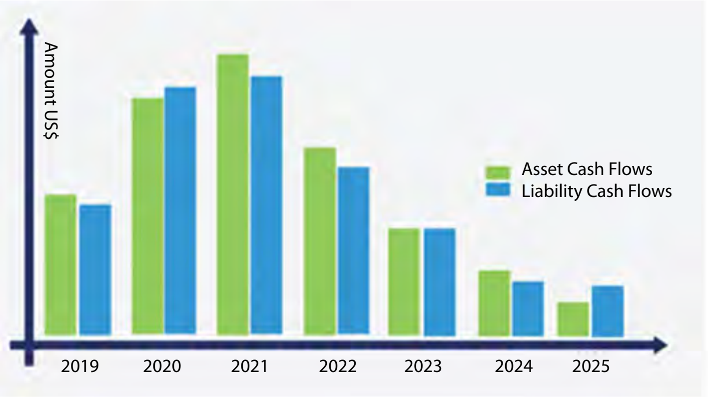
* QIS2 Market capital charge includes Interest Rate, Equity, Real estate, FX and Credit Spread
Source: HK RBC QIS2 Technical Specifications. Aberdeen Standard Investments, Jul 19

expected returns within specified volatility and economic capital limits while taking into account ESG, climate risk and liquidity considerations.

» The SAA is customised for each insurance client and market. The purpose is to provide an optimised asset allocation according to specific insurer objectives and constraints, whilst fully embedding the local markets and regulatory context in the solution.

» A key input into this process is a set of expected returns and risks of a large universe of liquid and illiquid asset classes, and insurance asset managers require strong expertise forecasting these metrics. These assumptions are often based on the views of global strategy teams, updated on a regular basis and serve as key inputs to the Economic Scenario Generator.





- **ALM hedging programmes**

» The development and implementation of static and dynamic hedging programmes designed to achieve target equity, FX and interest rate market risk goals, have been put in place across Europe and the US and are increasingly in demand globally.

» Insurance asset managers have developed varying customised hedging overlay strategies to mitigate different market risks (and the associated risk based capital requirements) faced by insurance companies. The design of each strategy takes into account each insurer's assets, liabilities, risk appetite, and local regulatory framework.

- **Liability aware investing**

» Finally, given a prescribed liability profile, asset allocations designed to closely "match" the profile according to insurer specifications are developed. These strategies might combine SAA and ALM hedging approaches, or be constructed to cashflow match the liability profile within defined tolerances, for example.

» A cash flow matching strategy can be based on a mix of asset classes (liquid and illiquid) and derivatives. Typical solutions utilise robust quantitative methods to support and enhance the qualitative judgement of a discretionary portfolio manager, taking into account multiple goals and constraints and dependent on the insurer's liability profile. One common type of liability aware strategy involves the construction of a buy and maintain credit portfolio which can be designed to:

1. Maximise the portfolio yield;
2. Match liability cash-flows;
3. Minimise the risk based capital charge, whilst;
4. Avoid credit defaults and downgrades.

Conclusion

In this short article, we have briefly described some investment and risk management capabilities and solutions that global insurers are increasingly demanding of their asset managers. Successfully delivering against these objectives requires asset managers to develop a unique combination of insurance industry knowledge and experience with regulatory, quantitative and markets expertise.

The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested.

EMERGING MARKET MANAGER OF THE YEAR

HSBC Global Asset Management

The Emerging Markets Manager of the Year award recognises the firm which has truly embraced the emerging markets space to the benefit of its UK/European and global insurance clients.

With over $117.1bn in emerging market assets worldwide, managed by over 200 dedicated professionals in 10 emerging market locations, the leader in this field is HSBC Global Asset Management.

Challenges exist in the industry. Existing capital market mechanisms such as green bonds are perceived as a sub-optimal and expensive solution to deliver portfolio returns and to have a meaningful impact. In addition, universal owners are exposed directly and indirectly to climate and sustainability risks across the financial system and to emerging markets in particular.

The firm's array of products and solutions includes a comprehensive range of EM debt and equity strategies which help with this issues, and its global EM debt offering includes hard and local currency strategies (and blends of the two), investment-grade, corporate, inflation-linked and total-return strategies.

On the EM equity side, HSBC Global Asset Management offers one of the longest running and most differentiated frontier markets equity offerings in the industry, with a dedicated team of investment professionals devoted to this resource intensive asset class. The firm is also strategically expanding asset management activities in Asia with the aim of capturing expected opportunities from the region's development for our clients.

HSBC Global Asset Management applies three steps to make an EMD total return strategy more efficient in terms of the SCR market. This involves an optimisation of the bond portfolio to reduce SCRspread, which results in approximately a 15%-25% reduction in spread. Secondly, hedging only the USD exposure to EUR (as opposed to using a EUR-hedged share class), reduces SCR FX by typically around 20%, omitting or limiting CDS to sell protection, further reducing SCRspread. The result is a SCR Market of around 15% to 18% depending on positioning. EM currency return potential is still available.

Furthermore, the firm has launched the HSBC Real Economy Green Investment Opportunity (REGIO), enabling investors to align their financial objectives with real economy impact to deliver against the Paris Climate Agreement and Sustainable Development Goal agenda. Emerging markets have an urgent need to attract investment to tackle climate change mitigation and adaptation and enable the energy transition. In addition, emerging markets are more likely to suffer the cost of climate change and less able to self-finance solutions. A final challenge to address is the fact that existing capital market mechanisms such as green bonds are perceived as a sub-optimal and expensive solution to deliver portfolio

REGIO provides a vehicle for investors in sustainable finance that is diversified across geographies and sectors with a blended finance objective

returns and meaningful impact.

The goal of HSBC Global Asset Management's fund, however, is to harness $500-700m investment capital to support climate-aligned investments that deliver real economy impact in lower Gross National Income (GNI) countries by investing in green bond issuance from primarily non-financial issuers in eligible emerging markets. The fund targets real economy issuers in global emerging markets (GEM) to increase access to climate finance and promote the development of sustainable capital markets by broadening the range of issuers. Designed as a closed-ended fund, REGIO provides a vehicle for investors in sustainable finance that is diversified across geographies and sectors with a blended finance objective.

The fund creates a greater breadth and dept of green and sustainable bond issuance for investors to access EMD markets. The fund also benefits from several levers to channel capital to achieve impact – partnership with leading DFIs, technical support to assist emerging issuers and assure impact in line with the fund's sustainability objectives, and engagement from HSBC's investment team (portfolio managers and credit analysts) directly with issuers, brokers and other market participants. The ultimate aim is to deliver competitive risk/adjusted returns in EMD, promote sustainable finance and build the market for green and sustainable bonds.

HSBC Global Asset Management also frequently publishes white papers and engages in regular meetings and events covering regulatory developments.

The judges applauded HSBC Global Asset Management for its broad range of skills in this area and for helping a large number of insurers to navigate the emerging markets space. A richly deserved award.

HSBC Global Asset Management

DIVERSITY AWARD OF THE YEAR

HSBC Global Asset Management

The Diversity Award goes to the insurance company or asset manager that has recognised the importance of diversity in its workforce, or is instrumental in driving forward diversity in other ways, whether this be through its marketing, events, or through products designed to be more inclusive.

The judges decided that HSBC Global Asset Management is head and shoulders above the rest due to its comprehensive approach in this area. Diversity is in its roots. Founded more than 150 years ago to finance trade between Europe and Asia, HSBC has always brought different people and cultures together. It has around 229,000 employees serving 38 million customers in 67 countries around the world, and believes that diversity benefits customers, business and people.

By identifying opportunities around how it can more effectively deploy its diversity, the firm can deliver greater returns to customers, its people, its communities and its shareholders, demonstrating value in a number of areas.

Firstly, customer-centricity. Its customers are at the heart of what the firm does. Customers are from all walks of life who want to see themselves reflected in the firm's offerings and feel that it understands them. To connect the diverse customers to the kinds of opportunities, products and services that work for them, HSBC must consider different perspectives and insights.

Secondly innovation. By harnessing differences of opinion, thinking styles, background and culture, the firm can drive innovation, enabling sustainable business growth and commercial success. To continue to be relevant, adaptive and innovative, it must seek out divergent thinking and leverage the full potential of all of its people.

Thirdly decision-making and risk management. A diverse workforce will help HSBC to see things from a broader perspective, avoid group-think and better identify and mitigate risk.

Fourthly collaboration. The firm is building an environment where people are open to new ideas and cultures, and where individuals feel they can speak up to help the firm remove barriers to success. In a complex and everchanging market environment, working together across borders, stakeholder groups and between business areas is essential. An inclusive environment enables collaboration, transformation and better solutions for everyone.

Lastly talent. Building an inclusive culture where individuals feel they can realise their potential will enable the business to attract and retain the best people. Talented people have choice over where, when and how they work. To position itself as an employer of choice, it needs to nurture an environment where people feel they can be themselves and perform at their best.

Inclusion in action means that HSBC has an organisational environment where individuals are valued, respected and supported, and where the richness of ideas, backgrounds, styles and perspectives that all of its people bring drives business value. Individuals feel comfortable

sharing their differing viewpoints in a safe and comfortable environment free from discrimination, bullying, harassment and victimisation.

The firm's employee networks mean its employees lead voluntary global networks which bring together employees with shared characteristics and common interests. They aim to make sure everyone feels included, and can help HSBC to address internal challenges and opportunities. The Ability network is dedicated to leveraging the diverse skills and abilities of employees and carers of individuals with both visible and invisible physical and mental health challenges. The Balance network supports the recruitment, development, advancement and engagement of a gender-balanced workforce within HSBC and the Embrace Network for ethnicity and race helps the firm to attract, retain and engage a more diverse range of talent, and educates on embracing inclusion to support a more ethnic and multicultural workforce.

In addition, the firm's faith network promotes and supports religious tolerance, the multi-generational network assists HSBC goals by promoting cross-generational understanding, the working parents and carers' network promotes educational activities offered by family experts and the LGBT+ network promotes and supports an inclusive environment through progressive programs and practices that facilitate LGBT+ employee engagement in the workplace.

Improving gender balance is also at the heart of all that HSBC does. Previous group chief executive, John Flint, signed up to the 30% Club CEO Campaign commitment to reach 30% women in senior leadership roles across the bank globally by 2020.

Lastly, the firm also supports The Diversity Project which is an industry-wide initiative whose purpose is to accelerate progress towards an inclusive culture in the investment profession.

Diversity is now a key part of the institutional investment industry and it will only continue to gain more traction as the markets continue to gather pace. It is clear that HSBC

> *Diversity is in its roots. Founded more than 150 years ago to finance trade between Europe and Asia, HSBC has always brought different people and cultures together*

Global Asset Management is already well into this journey and has set the bar high in this area for other firms to follow in its footsteps.

Well done to all involved.

HSBC Global Asset Management

INVESTMENT STRATEGY OF THE YEAR

LV=

This award recognises the insurance company or asset manager that has implemented an investment strategy that sets the standard for the rest of the industry to follow. While creating returns might be the ultimate measure of success, the judges for this category also wanted to consider how an investment strategy aligns with a company's objectives.

Getting the strategy right is one of the biggest challenges an insurance company or asset manager must overcome, particularly given the current economic environment, and the judges said this company had provided a 'detailed analysis of a well-thought-out strategic change.' The winner of the Investment Strategy of the Year is LV=.

A mutual company formed in 1843, LV= has become a leading financial services provider that employs 1,700 people. The group has approximately £13bn in assets under management, and provides its customers with a variety of products across insurance, investment and retirement solutions.

Having last reviewed the investment strategy in 2017 the team recognised the concentration in UK holdings .

The strategy was reviewed again in 2019, when LV= significantly changed the strategic asset allocation of its three Smoothed Managed Funds – boosting expected investment returns, while keeping investment risk broadly unchanged.

By diversifying the portfolio and introducing four new asset classes, the insurer shifted away from concentrated UK holdings, which had represented 80-90% of assets – halving this proportion across the portfolios – and managed to increase its expected investment return by 90-100 Basis Points (BPS) for each year over the medium-term.

LV= mitigated the impact on investment expenses by divesting from its expensive property allocation, and in pursuing overseas investments, the group has also managed capital requirements – all while still manoeuvring the portfolio into a more resilient position for any long-term shocks.

LV= also minimised any timing risk by staggering its implementation over three time periods, allowing in particular for the large divestment in property. In moving to the new funds, the group considered responsible investing criteria to evaluate fund managers.

In significantly changing its investment strategy, LV= has overcome several constraints to ensure its customers have still received tangible benefits – fundamentally developing stronger expected returns for the same level of risk.

Congratulations again to an exceptional winner in the Investment Strategy of the Year category, LV=. This insurance company continues to shine in all that it does, and has set a number of strong markers in the insurance space for others to follow.

ACTIVE MANAGER OF THE YEAR

Morgan Stanley Investment Management

Morgan Stanley
INVESTMENT MANAGEMENT

The Active Manager of the Year Award recognises the company that has demonstrated consistent outperformance as well as an innovative approach to its investment strategy.

For this year's winner, the judges were quick to highlight this company's breadth of depth in active strategies, and a very clear strategy for the case study it submitted – in which outperformance was clearly measured with a strong focus on returns. As our 2018 winner in this category, Morgan Stanley Investment Management (MSIM) has made it back-to-back wins for the Active Manager of the Year.

MSIM has been actively researching and investing in equity markets since 1975. The manager's fundamental equity capability is comprised of several investment teams – each focused on different ways of active equity investing, with most strategies having typical active shares in excess of 80%.

MSIM believes active management considerably improves their ability to achieve risk objectives, participating in up markets as well as reducing volatility in downturns. The group suggests active management is now more important than ever, helping to add value for clients through innovative strategies and processes, and in-depth research.

MSIM has proven its skill in active management, with 88% of the group's equity assets coming from strategies that outperformed its benchmark over the last year, 83% over the last three years, and 96% over the last five years.[1]

MSIM highlights the Global Opportunity equity strategy managed by the Global Opportunity team, also operating separately managed accounts for insurance clients.

This strategy seeks long-term capital appreciation, by investing in high quality, established and emerging companies that it believes are undervalued at the time of purchase. The team seeks sustainable competitive advantages and long-term growth that creates value (rather than focusing on short-term events) with stock selection informed by rigorous fundamental analysis. The investment process integrates analysis of sustainability with respect to disruptive change, financial strength, environmental and social externalities and governance (also referred to as ESG).

The team shapes its culture through four core values – intellectual curiosity and flexibility, perspective, self-awareness and partnership – promoting a sustainable and repetitive investment process. Incentives encourage long-term alignment with clients, and its disruptive change research helps find big ideas and portfolios.

Differentiated thinking, long-term focus and active approach have resulted in strong results over time for MSIM.

The company is a thoroughly deserving winner in the Active Manager of the Year category and stands head and shoulders above the rest.

[1] *MSIM as at 30 June 2019.*

PASSIVE MANAGER OF THE YEAR AWARD

SPDR ETFs

STATE STREET GLOBAL ADVISORS
SPDR

The Passive Manager of the Year award celebrates the manager that demonstrates strong returns, provides excellent customer service and shows a true understanding of the needs of their clients.

The judges felt that SPDR ETFs was the clear leader in this area. With 35 years of indexing experience, the business has a wealth of experience and it is backed by the strength and access of State Street Global Advisors, the third-largest asset manager in the world with ~$2.95trn in AUM. In 1993, SPDR created the first US exchange-traded fund (ETF), SPY, which tracks the S&P 500 and is the largest ETF and most liquid security in the world. Over the decades, SPDR has demonstrated stability, reliability, and a track record of innovation. Putting the client first has been a cornerstone of State Street's culture for more than 200 years.

As industry pioneers, SPDR has maintained thought leadership in the ETF space. Total assets under management in ETFs amount to over $4.76trn globally and the ETF market is set to grow significantly, increasing by 15% per annum for the next three to five years. The European ETF market is still dominated by equity ETFs, However, fixed income ETFs and their usage are on the rise.

SPDR ETFs has introduced innovations including a full range of sector-focused ETFs, convertible bond and Emerging market debt ETFs, suiting insurance companies , which have begun tp recognise the many potential applications of ETFs and how they can help to solve the challenges they face. ETFs can be used to quickly provide diversified exposure that can shift the duration, credit quality or yield in a portfolio, and SPDR has a range of fixed income ETF exposures that cover a diverse array of credit exposures and maturity segments.

ETFs can also be used during portfolio restructures to manage the associate portfolio risks such as interest rate and credit risk. The ability to manage out of market risk is a key consideration and ETFs can be leveraged to gain specific market exposure on an interim or longer terms basis.

At the end of the transition period the investor has the option to redeem the underlying bonds in-kind from the ETF. SPDR ETF continuously displays excellence in all these areas. Finally, ETFs can provide a liquidity sleeve for portfolio management flexibility. Intraday liquidity and standard T+3 settlement provides a buffer to absorb expected and unexpected cash management requirements. This allows cash allocation to be kept to a minimum which in turn mitigates out of market exposure and cash drag.

SPDR ETFs is truly at the heart of the passive investment management industry and is setting a number of markers for others to follow in this field in terms of performance and achievement.

Well done to all involved at the business on a highly successful year, and helping insurance companies to use ETFs to address various challenges, particularly the continued search for yield in a tough economic environment.

TECHNOLOGY FIRM OF THE YEAR

Clearwater Analytics

clearwater

The Technology Firm of the Year award recognises the firm that is a leader in the field of insurance technology. Clearwater Analytics has more than $3trn assets on its platform, 1,000 direct clients, 12,200 sub-clients, 30,000 system users across 29 countries, 1,250+ active custody feeds, 250+ investment manager and broker feeds and 50-60 third-party vendor feeds. It is a winner.

Clearwater services more than 700 insurers and has more than 60 clients across 13 countries in Europe, of which more than 50 are insurance firms. Clearwater's solution, focused on the asset side of the balance sheet, helps insurers streamline their investment operations and maximises their investment portfolio data. Clearwater uniquely combines a world-class product for investment accounting and reporting with client-centric servicing.

It offers one product only, which is used by all clients. It is a 100% cloud-based solution and is accessible anytime and from any location that has internet access.

Challenges addressed by the solution include maintaining an in-house investment operations team and technology platform with the necessary accounting and reporting expertise; aggregating and accessing accurate portfolio data across multiple entities and clients to monitor performance and facilitate strategic decisions; slow and manual operational processes; handling investment portfolio increases as daily processes grow more complex and disjointed and expertise and system updates to keep up to date with regulatory changes.

Insurers using Clearwater gain benefits through automated operational processes. Clearwater automatically reconciles 95% of transactions and eliminates manual in-house tasks and spreadsheets. With Clearwater, insurers receive daily aggregated, reconciled data across legal entities, portfolios, investment managers, and custody banks. This daily aggregation, independent validation and reconciliation provides complete transparency into the investment portfolio and allows insurers to operate a lean, efficient investment operations team. It is a solution that seamlessly scales and grows as the investment portfolio increases, employee headcount changes and new custodian connections are built, and has fast onboarding and low start-up costs.

Keeping pace with regulatory changes is key so clients do not risk missing important industry updates and reporting changes. Monthly product enhancements ensure both clients and the solution are prepared for updates before they happen. For example, Clearwater's solution for Solvency II includes the application of EIOPA business validation to promote an accurate and efficient filing process, inclusion of supplementary client-specific data points, EIOPA Pillar III QRT templates to assist with filing and integration with a firm's Solvency Capital Requirement (SCR) software.

The judges emphasised how effective the technology has been in aiding insurers. Well done.








Absolute Return Fixed Income:
GAINING YIELD

SOLVING THE BOND RIDDLE

The possibilities on offer within absolute return fixed income strategies at a time of tighter regulation and low-yields

CUSHIONING THE HEADWINDS

Lynn Strongin Dodds explores how insurance companies are accessing absolute return fixed income strategies

In association with

PICTET 1805
Asset Management

Solving the bond riddle

The possibilities on offer within absolute return fixed income strategies at a time of tighter regulation and low-yields

WRITTEN BY **ANDRES SANCHEZ BALCAZAR, HEAD OF GLOBAL BONDS, PICTET ASSET MANAGEMENT**

For non-life insurance companies, bonds are an investment staple. And for good reason. Insurers' liabilities – current and future expected losses from claims – tend to be of short duration, between two to four years on average.

Which means the ideal return-generating, or liability-matching, asset is one that is exceptionally liquid, produces stable streams of income, and holds its capital value.

The trouble is, fixed income markets are not as dependable as they used to be.

In fact, in the decade since the US housing market crash, fixed income investors have had to abandon several of the beliefs they once held dear. It turns out, for instance, that negatively-yielding bonds are no longer an absurdity. Thanks to sustained quantitative easing, the volume of fixed income securities trading at negative yields has never fallen below US$6 trillion since 2016. (The figure leapt to as high as US$17 trillion in September last year).

Also consigned to history is the notion that developed government bond markets are oases of calm.

On one eventful day in May 2018, the yield on Italy's two-year bond spiked by more than 150 basis points, the sharpest one day sell off in more than 25 years. This was preceded by the US 'flash crash' of October 2015, which saw yields on 10-year Treasuries move up and down by 160 basis points within just 12 minutes. As the US Federal Reserve warns, such episodes will be more frequent in future as passive investing and algorithmic trading gather pace.[1]

On top of wafer-thin yields and higher bond market volatility, insurance companies face an added complication. The definition of a diversified bond portfolio has also had to be torn up. That's because the various fixed income asset classes that constitute the global bond market[2] have been tracking one another more closely in recent years. The correlation of the returns of US Treasuries, corporate debt and US dollar-denominated emerging market bonds has been higher in the past three years than in the past 10.

It is unlikely that insurers can accommodate this new reality for much longer. Holding a more volatile portfolio, or one that contains a greater proportion of higher yielding but lower quality bonds, is an impractical and potentially risky option. Not least because regulations such as Solvency II have made it costly for insurance firms to hold riskier assets.

But there is an alternative to traditional bond portfolios, and comes in the form of an absolute return fixed income (ARFI) strategy.

Designed to control risk

ARFI strategies' appeal has much do to with their approach to risk. They are designed to produce a better trade-off between bonds' inherent risks and their prospective return and preserve capital whenever markets stumble.

To achieve that, they use techniques and processes generally unavailable to buy-and-hold investment managers.

A distinguishing characteristic is that they are not tethered to reference bond indices. Investment targets often take the form of a percentage gain over Libor or inflation over a specified period. This gives ARFI portfolio managers the freedom to seek returns from a wider variety of sources. That includes changes in interest rates (duration), bond issuer creditworthiness (credit premia) and movements in currencies. Emerging market bonds and currencies, investment and speculative-grade bonds, and other credit instruments such as credit default swaps consequently form part of the investment mix. In diversifying sources of risk and return in this way, ARFI strategies are better equipped to deliver investment gains across all phases of the economic cycle.

ARFI portfolios also give greater emphasis to containing risk. Unlike traditional fixed income funds, many ARFI strategies use a wide variety of sophisticated investment and risk-management techniques. They make extensive use of interest rate and credit default swaps and other derivatives to temper the volatility of bond returns. The aim is to deliver a bond-like return from a portfolio that is less volatile than a traditional fixed income investment.

At a time when regulatory oversight is tightening, these are outcomes insurers increasingly value.

Solvency II regulations which came into force in 2016 have made it more expensive for insurers to invest in riskier securities to boost yields.

> ARFI strategies offer new possibilities. They can provide higher yields than traditional government bond-heavy portfolios but with a degree of risk control that regulators favour

The Solvency Capital Ratios (SCRs) assigned to bonds such as speculative grade and emerging market debt are now in the region of 20 to 30 per cent. This means insures would need to set aside some US$20 million to US$30 million per US$100 million invested, rendering such assets close to unaffordable in many cases.

This is where an ARFI allocation could help.

What the tighter regulatory framework also does is favour strategies that deploy strong risk controls. Contained within the rulebook is what is known as the 'look-through' principle. This is designed to encourage insurers to make more efficient use of their risk budgets. Genuine diversification is rewarded, as is the systematic hedging of investment risk.

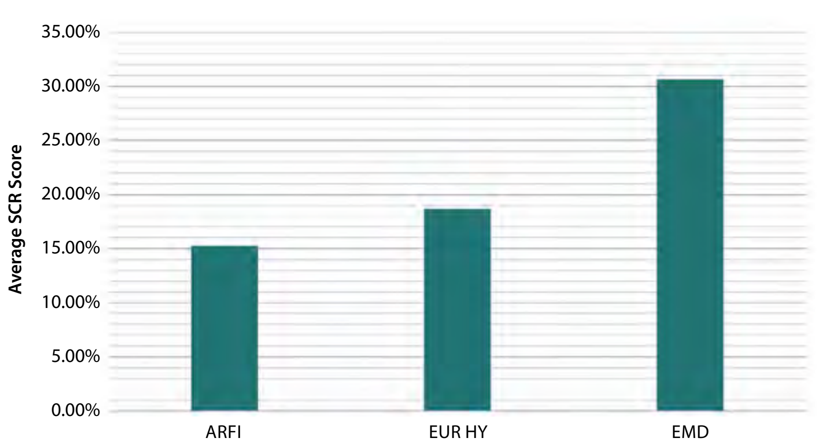
The most diversified and risk-sensitive ARFI portfolios tend to fare particularly well under the new framework. By spreading capital across the broadest range of countries, currencies and fixed income securities, these portfolios can generate returns that are both less volatile than - and independent of - those of the broader market.

The result is that, in most cases, ARFI strategies incur lower SCRs than many other popular yield-generating assets. Using historical data from our own bond portfolios, we find that for every US$100 million insurers invest in an ARFI strategy, they must set aside about US$10 million in reserves. For investments in high yield bonds and emerging market debts, however, the capital cushions required are far plumper.

So it appears, then, that even in a world of paper-thin yields and tighter regulations insurers still have attractive investment options. ARFI strategies offer new possibilities. They can provide higher yields than traditional government bond-heavy portfolios but with a degree of risk control that regulators favour. An investment tailor-made for the new normal.

Andres Sanchez Balcazar, Head of Global Bonds

AVERAGE SCR RATIO



Source: Pictet Asset Management, Average SCR ratio calculated March 2016 – December 2019 Representative Funds: ARFI: Pictet - Absolute Return Fixed Income, EUR HY: Pictet - EUR High Yield & EMD: Pictet - Global Emerging Debt

[1] See 'Inexplicable spikes still imperil Treasury market: Fed's Brainard', Reuters, Dec 3, 2018 https://uk.reuters.com/article/us-usa-fed-brainard/inexplicable-spikes-still-imperil-treasury-market-feds-brainard-idUKKBN1O21VP
[2] As defined by the range of Bloomberg Barclays global bond indices.

In association with

PICTET Asset Management 1805

Cushioning the headwinds

Lynn Strongin Dodds explores how insurance companies are accessing absolute return fixed income strategies and the benefits on offer

WRITTEN BY **LYNN STRONGIN DODDS, A FREELANCE JOURNALIST**

As the past few years have demonstrated, it is difficult to predict the direction of monetary policy and credit cycles. Many pundits expect rates to stay at the same depressed levels this year due to the US election and a spluttering eurozone economy. As a result, insurance companies, who are heavily dependent on government bonds, need to rethink their game plan and widen their remit. Absolute return fixed income (ARFI) strategies are one option.

In many ways, insurers do not have a choice but to look outside their traditional comfort zone. "We are in a low yield environment and in the latter stages of a credit cycle and fixed income markets are changing with significant increases in corporate and emerging market bond issuance," says JP Morgan Asset Management head of international fixed income insurance Prashant Sharma. "This presents challenges for insurance companies and they have to be nimbler and more flexible to eke out higher returns. Absolute return fixed income offers an efficient way to access a broader opportunity set as long as you can get comfortable with the underlying securities."

What's on offer

As with many investment products, the ARFI umbrella covers a multitude of labels. Sometimes referred to as unconstrained or total return, the overall aim is to generate positive incremental returns in the region of 2% to 4% and to preserve capital. Although it will depend on the insurer's mandate, most ARFI funds include government, investment grade corporate, emerging market and high yield bonds as well as currencies and derivatives to manage both short and long exposures.

"There are different funds that sit on the spectrum but these are strategies that are not tied to a benchmark and or structural asset allocation," says Aviva Investor senior portfolio manager, AIMS (Aviva Investors Multi-Strategy) Joubeen Hurren."The benefit is that they offer genuine diversification relative to a traditional fixed income strategy. For example, our fund targets cash plus 3 on a three-year rolling basis and we have all the tools to deliver positive returns whatever the weather – new interest rate regime, volatility or the end of the credit cycle."

Pictet Asset Management head of global bonds Andres Sanchez-Balcazar also notes that while these strategies should deliver a high percentage of the upside of a typical beta strategy, they should also provide a cushion against the headwinds. "It is difficult to predict when the Federal Reserve or European Central Bank will hike rates especially with economies that are being dominated by geopolitical risks," he says. "However, insurance companies have a fairly good idea what returns they need and they do not need to hit them out of the ballpark. They are happy to have a sensible return but they also want a degree of downside protection. You need to be aligned with the risk profile of your client".

This is why Sanchez-Balcazar believes that although illiquid securities have a part to play, they should only have a minor role. "The illiquid bucket typically includes loans, non-agency mortgages, single B or triple C bonds and some of the smaller emerging market countries depending on the managers' expertise," he adds. "However, they should not account for more than 20% to 25% of the portfolio because they are correlated with the risk cycle"

One reason is that insurers along with other investors do not want to be a forced seller if markets conditions suddenly turn. Moreover, they have to be careful about security selection due to Solvency II regulations which came into effect four years ago. For example, high yield bonds carry around a 20%-25% capital charge while securitisation is higher although the introduction of the Simple, Transparent and Standardised (STS) securitisation framework is expected to change this. Introduced last year, the rules apply to deals issued on or after 1 January 2019, and eliminate the separate rules in the Capital Requirements Regulation, Solvency II and the Alternative Investment Fund Managers Directive that apply respectively to banks, insurers and fund managers.

The STS catchment is homogenous pools such as prime residential mortgages, credit card receivables and auto loan pools. These bonds will carry a lower risk weight of 10% compared with 15% for non-STS senior bonds. Unsurprisingly, it does not include the

predictability.

An investment survey conducted by LCP last year covering 22 non-life insurers holding over £100 billion of assets showed that the average asset allocation to absolute bonds was 20% although some went as high as 40%.

By contrast, these products are not seen to be as well suited for life insurers because they have longer duration assets and need specific assets to match

> Absolute return fixed income offers an efficient way to access a broader opportunity set

their time horizons. That is often done with government bonds or high-quality investment-grade credit instruments. "There could also be challenges with life companies that back liabilities with profit participation because in a year where you have good excess returns you may have to pay policyholders but if the returns are bad, then you may have to use shareholder funds as a guarantee," says Sharma.

With-profits funds essentially invest in an array of assets, typically equities, bonds, property and cash. They operate in a similar way to a multi-asset fund, but they use guarantees, which are set at the start of the fund, and are the minimum sum assured. They also operate a process called 'smoothing', which is when returns are held back during a good year, to add to the pot during a bad year.

more complicated products or higher risk managed collateral loan obligations and commercial mortgage backed securities.

Industry participants believe that this should give a boost to the European ABS market and encourage insurers, who have been sitting on the sidelines, to step back into the arena. They will not only benefit from securitised debt's so-called complexity premium over public bonds but also secured, floating-rate returns and liquidity, particularly at the senior end of the capital structure.

"We do think that the STS regulations will lessen the impact on securitisations but in general absolute returns are treated reasonably fairly under Solvency II – around 15% to 20% of capital charges - which is commiserate with other bonds," says LCP investment partner John Clements. "There is more than one way to skin a cat and the underlying securities will depend on the manager but insurers should look under the hood to see what they are investing in. There may be two products that generate similar levels of return and risk but some may be more expensive from a capital charge point of view."

Insight Investment head of insurance Solutions, Simon Richards also notes that under the Prudent Person Principle for Solvency II, insurers have to demonstrate that they fully understand the risks of a fund in which they are invested. "In order to achieve this, they will require full transparency on the underlying securities, often including a detailed look-through on a line-by-line basis," he adds. "The larger insurers are likely to have dedicated teams in-house to review this, but the smaller ones are often more constrained from a resource perspective and may need specialist support from their asset manager."

Non-life/life

In terms of sectors, non-life as well as their property and casualty counterparts seem to be the most interested within the insurance community because they have shorter duration portfolios. They are looking for lower volatility, a consistent return profile and some element of

Insurance Asset Management Conference 2019

As the industry approached the end of another exciting year of development, our conference provided one last opportunity for insurers to get stuck into the biggest investment questions. With insights provided from chief investment officers, asset managers and policy directors, a packed room in London jumped straight into the matters at hand

WRITTEN BY **MICHAEL GRIFFITHS**

The inaugural Insurance Asset Management Conference took place on 28 November 2019 and addressed the key regulatory and investment challenges facing global insurers in 2020.

Insurance leaders gathered at the Waldorf Hilton in London and wasted no time in delving into the industry's most pressing topics – from the tracking of data to alternative investment strategies, and fixed income trends to the most crucial regulatory policies.

There was also much to discuss for a packed room on arguably the insurance industry's greatest challenge of the decade, and the subject likely to only grow in prominence as we head into the next: climate change.

An international variety of speakers brought along a fascinating array of perspectives, covering the latest green investment trends and the role the industry can play in building and financing a more sustainable society – with of course, throughout the day, a progressively larger angle on how insurers can integrate ESG into their investment strategies.

Sustainability

Professor Karel Van Hulle of KU Leuven and Goethe University Frankfurt kicked off proceedings, and immediately looked towards the 2020 review of Solvency II. He outlined the importance of revising a regulatory regime allowing insurers to adopt an investment strategy that supports the needs of a changing society. Van Hulle was quick to note the necessity for the right long-term investments in the face of the increasingly visible effects of climate change.

"We need to reorient our investment strategies in the direction of a more sustainable society," he said. "We need an EU taxonomy for sustainable activities, and labels for sustainable financial products, such as green bonds. It is very important that in Europe we try to develop standards in this area that, with the absence of US involvement, can be used as global standards."

Van Hulle also described a need to create a set of 'high-quality non-financial reporting standards' which he suggested with international reach, could increase the contributions that insurers make to sustainable and social growth.

The former head of insurance and pensions at the European Commission also indicated that green investments, however, should not be developed at the expense of policyholders, and spoke of adapting a regulatory regime that is 'more fit for purpose.'

"Insurers should be able to adopt an investment strategy that supports the needs of a changing society – with more emphasis on citizen's needs and investment in the real, digital and sustainable economy.

"The Solvency II framework will therefore become greener, with more emphasis on the long-term vision. We should try to concentrate this review on the fundamental issues and not lose ourselves in technicalities."

Tracking data

An engaging discussion on the Q4 Bond Compass provided by State Street Global Markets was next delivered by head of macro strategy, Michael Metcalfe, and senior credit sales executive, Josh Gibbs. The pair provided the room with insight into how investors are positioning $10trn of fixed income assets.

The premise centred around the methods adopted by State Street Global Markets to track its data. Metcalfe spoke of focusing on institutional investors for the persistence in their behaviour.

"Typically, for a large institutional manager to shift their position it takes weeks or months, not days, Metcalfe said. "Knowing what an institutional investor did months ago is very helpful to see what they're going to be doing in the next couple of months, because they're gradually shifting positions.

"If you looked at much faster money, hedge fund behaviour in particular, that behaviour tends to be more fleeting." Metcalfe described another consistent data tracking source – one that uses web scraping technology to monitor price changes across millions of items sold by online retailers.

"It aggregates them into something which mirrors the official inflation data, but in real-time. It's suggesting now that inflation is falling rapidly, even in economies perceived to have higher inflation."

These ideas around data flowed perfectly into the next panel, and an important theme to come out of the day.

Fixed Income Assets

"We have been witnessing a lot of political trends moving against free trade, and against monetary and fiscal orthodoxy, so that will impact returns over time between countries and asset classes," commented Pictet Asset Management head of global bonds, Andres Sanchez Balcazar, in the next discussion.

Speaking on the fixed income panel, sponsored by Pictet Asset Management, and chaired by Hymans Robertson's head of insurance investment and ALM, Ross Evans, Balcazar indicated the

> Insurers should be able to adopt an investment strategy that supports the needs of a changing society

strong credit performance in Europe could 'restart another credit cycle,' and that one of the most striking things was 'how stable the returns for emerging market credit had been.'

Describing the sector heading into 2020, Balcazar added: "Steady as it goes in this period – that will be favourable for fixed income tax."

An engrossing conversation continued with Beazley Group investment manager, Neil Parry, who highlighted that not all credit cycles end in the same way. He suggested expectations for risk assets had been muted going into 2019, and if any investor had taken the opportunity to de-risk their portfolio, they would have suffered a

> One of the main things we must do is guard against being overly defensive in predicting the next downturn

large opportunity cost in returns.

"One of the main things we must do is guard against being overly defensive in predicting the next downturn," he added. "It really comes back to the simple things – get more diversification into the portfolio, then you'll be able to deal with a multitude of scenarios and be very aware of the risks."

Another positive message emerged from former Canopius Group co-CIO and current head of investment risk at Lloyd's of London, Achilles Sofroniou, who commented: "There's a great opportunity now for investment functions to be more towards the front of the business strategy for a lot of these non-life companies."

Lloyd's of London senior investment manager, Francois Jolly, highlighted his belief that the main challenge in the fixed income space is on the liquidity side – indicating that credit positions are, ultimately, driven by credit spreads.

"Looking across the physical space, and different sectors, and different phases of the credit cycle, you have to be a lot more selective than you have been in the past," he suggested.

Head of investment solutions at L&G, Sumit Mehta, weighed in on the challenges in this area too, suggesting an importance for firms not to lose track of their own investment philosophies. He told the room: "We've got to be honest to ourselves around our ability to manage assets in jurisdictions and asset classes outside our expertise."

Alternatives

Following a reflective and optimistic tone from the morning's discussion, attention in the afternoon switched to the alternatives space. Chaired by Chartered Insurance Institute director of policy and public affairs, Matthew Connell, the panel explored how insurers can obtain high returns while still incorporating alternative investments into their portfolios.

Phoenix Group head of investment strategy, Daniel Blamont, suggested the main challenge is trying to maintain diversity, and quality, without being 'tempted by the easy stuff.'

"We've been successful in originating equity release mortgages, local authority loans, and certain types of corporates," Blamont described, before also warning: "You can end up with a relationship with one certain sector, and it's very easy to go back to the same people."

Aviva UK Life head of private assets, Prasun Mathur, conveyed a similar message, telling the room about his firm splitting portfolios into different liability pools.

"We've been investing in private assets for ages, so with a defined creditor's appetite, it automatically limits our ability to get across the table with other kinds of credit." He added: "Compared to those who understand as they invest, we understand and then invest, and that constraints the scope quite a bit."

In terms of approach, PZU head of private debt, Tomasz Mrowczyk, suggested: "Our view is to be more aggressive in terms of structure – not assuming we have a strong conviction regarding credit." Mrowczyk also labelled emerging markets as places with a 'transition economy,' and said: "The transaction structure, especially in the private credit space, has to be much more conservative compared to Western Europe."

AXA UK head of liquid assets, Yi Xing, also spoke about expanding geographically. "In the liquidity space, we don't just invest in UK deals – we invest in global government bonds, and have a global credit mandate," Xing commented. "If there is something significant and new on the market, you have to prepare enough collateral to meet your obligation."

ESG

With the investment strategies visited in the alternatives panel turning increasingly global, Mathur highlighted the collective issue facing firms around the world, commenting: "There is a lot going on behind the scenes in terms of how we integrate climate change and ESG into our investment decision-making frameworks. There is plenty that can be done, and plenty that will be done in this space."

The clearest message emanating from each of the day's speakers surrounded ESG, with unmistakable confidence in a belief that with work to implement new and relevant policies now well under way, developments were still to come. This came to fruition in the afternoon's keynote speech by PRI director of policy and research, Will Martindale, who delved into ESG regulation and its implications across the sector. He called the idea that it's now a requirement to integrate ESG issues into investment decision-making 'no longer controversial.'

"At some point there is going to be a recalibration of the amount of atmospheric carbon that policymakers will accept," Martindale said. "And when that happens, we think markets will be volatile, it will be disruptive, and that for many it's going to be costly – unless we act now."

Martindale did touch on the more positive, cooperative nature of ESG's integration into the insurance industry. "We're seeing policymakers reach out to welcome the expertise from the investment community, and policymaking has been a genuinely collaborative effort."

This idea flowed into the last session of the day, chaired by ABI director of regulation, Hugh Savill. During the final panel, the ESG discussion soon shifted from the regulatory aspect of Martindale's speech, and into the approaches that insurers have adopted to incorporate sustainable investing into portfolios.

"A big part of focus now is switching to engagement," commented Allianz Insurance CIO, Ying Ye, as the panel debated the gains to be made from insurers implementing ESG influenced policies. "We believe climate protection is a social necessity if we all want to secure a future for the next generation," Ye poignantly added.

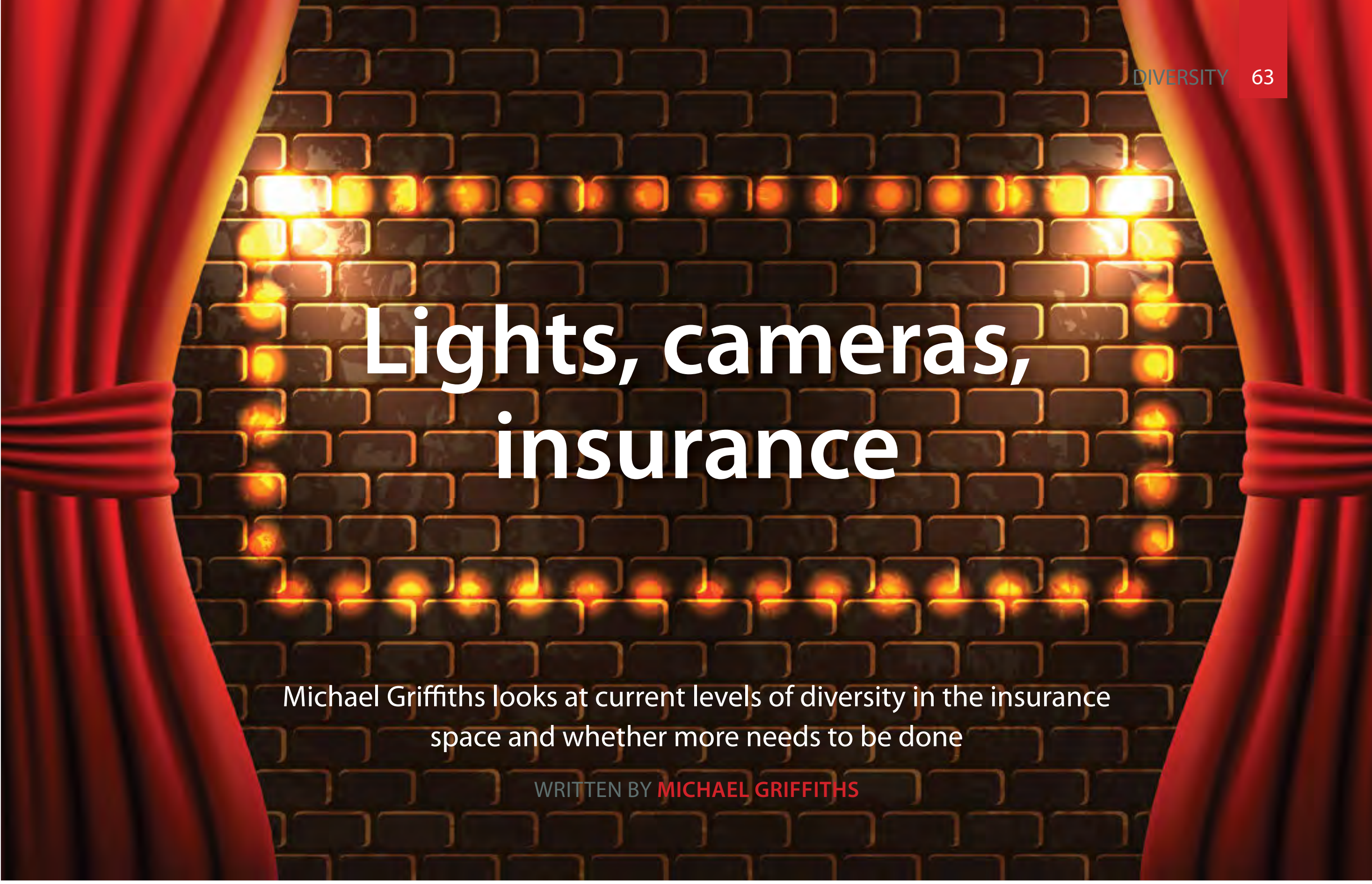
Foresters Friendly Society CIO, Corrado Pistarino, suggested the whole point of ESG is to 'recognise there is a broader set of commitments as an industry.'

"If you are convinced you are an ESG driven firm, this should be embedded into your DNA," Pistarino said. "We have tried to incorporate ESG as a discipline in our insurance portfolios. We have external managers for managing the assets, so we rely on their scoring. The general approach is an exclusion approach."

LV= capital initiatives and investment director, Emily Penn, also accepted a reliance on external managers for ESG integration, but added that the industry must quickly embrace change.

She explained: "We've always taken the approach to outsource. Most our assets are with a sole asset manager with relatively strong ESG credentials, so to date we've very much piggybacked off the back of that. But now, we've got to that point in our evolution where, along with other companies, it's recognised that this isn't good enough. We need to take our own stance, and form our own views."

Chairing, Savill captured the balanced takes and where the responsibility for implementing ESG ultimately lies, with a closing remark: "This is something we should be doing ourselves, but we also expect the norm to be set by the regulators – the two can work in hand in hand."



Lights, cameras, insurance

Michael Griffiths looks at current levels of diversity in the insurance space and whether more needs to be done

WRITTEN BY **MICHAEL GRIFFITHS**

A mild morning in Los Angeles on 13 January. Film lovers across the world have turned their eyes towards the news coming out of Hollywood, to the clicks and flashes of camera shutters, and to the glitz of the Oscars. The 2020 nominations have just been announced.

Global excitement, however, would quickly become a chorus of criticism; there were no women nominated in the best director category. Again. In fact, in the entire 92-year history of the Oscars, only five women have ever received a nomination for the best director. Only one has ever won. It is safe to say that in Hollywood, there is still work to be done to improve the inclusion of female directors. But away from the lights and cameras, can the same be said about the boardrooms of the insurance sector?

Last November, the latest *Hampton-Alexander Review* – which provides figures for the number of women on FTSE 350 boards – revealed that 35.1% of the non-life insurance sector's board members were female. In life insurance, the figure dipped to 29.6%, while in the wider financial services sector, 30.9% of the FTSE 350 boards were women. Each figure reflected an increase from the 2018 review, but are these numbers high enough?

UK life and pensions leader at EY, James Tufts, says: "We can always do more, but that's not to say there isn't a huge amount already being done, and an impetus to make progress. In time, we expect specific action to result in more women in senior leadership and at board level, more diversity throughout the workforce and a reduced gender pay gap – but this change won't happen overnight.

"It requires strong leadership to drive progression, and focused efforts to create long-term change. Improving diversity and inclusion is a business imperative, not a 'nice to have.' Insurers have woken up to the need to drive stronger diversity and inclusion within their sector. There is a long way to go, and we need to accelerate the pace of change, but insurers are heading in the right direction."

A close-up shot

Acting in a leading role has been Lloyd's of London, whose work on improving diversity has even created an annual three-day diversity and inclusion event for the insurance industry, the Dive In Festival, which celebrated its fifth year last September. Part of the insurer's work is the Inclusion@Lloyd's partner network initiative, which supports networks within the insurance market focusing on different types of specific diversity and inclusion needs.

The initiative has brought six networks together to promote collaboration across the insurance space, one of which is the Insurance Cultural Awareness Network (iCAN). Senior associate at DWF LLP, Kishan Mangat, co-chairs iCAN, an industry wide independent network that supports multicultural inclusion across the insurance sector.

She tells Insurance Asset Management: "We're seeing these initiatives about board members trying to create more inclusivity across the market, but when you compare them to an iCAN event we did on the BAME pay gap, I noticed a disparity. We approached various senior management figures to be on the panel, and it was difficult to secure anyone willing to talk freely about those topics. I think a lot is appearing to be done, but whether it's actually making a meaningful impact, I'm not entirely sure."

Mangat describes several iCAN initiatives that do support multicultural inclusion in the insurance sector, including an online mentor platform that connects board level individuals to junior members of the network – in turn helping to build relationships at each end of the industry. Another is a partnership with a recruitment agency which led to a jobs board on the network's website.

"We're hoping to widen the pipeline for people already in insurance, or looking to get into the industry, and as a result we're getting a more multicultural demographic," Mangat says.

She explains iCAN's work with other networks within the insurance space – including the Insurance Families Network (IFN), the Gender Inclusion Network (GIN), and Link (an LGBTQ network). Each is a partner of Inclusion@Lloyd's, and Mangat believes the key to seeing a greater impact is by connecting with these other projects promoting inclusive behaviour.

"What you really need to do in order to have some sort of impact is to connect with these other networks. We did an event with IFN, and I could see they clearly take a different approach to their network as more of a lobbying group – focused on going out to different insurance firms, asking if they've got the correct policies in place. I thought that fitted well with the work iCAN had been doing."

She adds: "I think this year is about more collaboration – so that people aren't just working alone, and everyone is on the same page. Hopefully then, we'll see more of an impact that way."

Zooming out

Looking at a wider shot of the financial services sector, at the beginning of February, the Parker Review – published by Sir John Parker, EY and the Department of Business, Energy and Industrial Strategy – revealed 37% of surveyed FTSE 100 companies had no ethnic minority representation on their boards, and described the latest pace of progress as 'slower than hoped.'

Adjusting the lens further away, a different resolution altogether could lie in science. Hogan Assessment Systems is a global leader in personality tests, and chief science officer, Ryne Sherman Ph.D., has spent years researching the role of personality in career pursuits and workplace performance.

Describing data-driven personality

assessments, which use personality traits to predict performance, Sherman tells Insurance Asset Management: "Decades of research demonstrate there are no practical group differences in personality assessment scores. Men get the same scores, on average, as women. People of all different ethnic groups get the same scores.

"In other words, personality assessment is blind to gender, race, religion, ethnicity, sexual orientation. Selecting people for jobs based on their personality scores is fair, unbiased, and inherently increases diversity because it eliminates the biases introduced by resumes, letters of recommendation, or interviews."

But does Sherman think such

> Like all industries in financial services, work is being done at many levels to improve diversity and inclusion in the insurance sector, but the question remains: Will it move the dial?

assessments have helped to improve diversity at boardroom level?

"Absolutely they have. Despite our efforts, however, many companies make decisions at the top leadership level via other processes. Some companies will even ignore the objectively unbiased personality assessments and go with their subjective gut instincts. So, because personal biases creep in, we haven't been as effective as we should be at improving diversity at the senior leadership level."

In the science, perhaps, there is something the insurance sector can learn. Promoting diversity and sharing practices across different networks appears to be under way, but could increasing personality assessments play a supporting role for the insurance industry?

Sherman adds: "A good place to start would be by educating HR and talent VPs about the utility and validity of personality assessments. Companies that don't use assessments, or that use assessments that aren't data-driven, are highly susceptible to biased and unfair hiring practices. Education around personality assessments and best practices in personnel selection would go a long way towards alleviating these biases."

The message from the experts looks to be clear. The right initiatives and practices to improve diversity exist, but only as a snapshot; implementing real change across the sector remains an obstacle. The uncertainty persists in 2020 over whether the insurance sector can attract more diverse talent.

Insurance partner at executive search firm Odgers Berndtson, Charlie Thompson, comments: "One barrier to attracting talent to insurance is the fact the industry is very bad at telling it's story – selling a vision of the opportunity to make an impact, do good, have an interesting and varied career, or the social impact that insurance has."

Thompson suggests moving the focus to membership as opposed to shareholders can help to value proposition, adding that this can particularly resonate with younger people, and a more diverse selection of candidates. It's another shift in thinking that could potentially improve the diversity of the cast list for the next generation of insurance talent.

Thompson adds: "The industry is getting better and is changing, but not at enough pace. Like all industries in financial services, work is being done at many levels to improve diversity and inclusion in the insurance sector, but the question remains: Will it move the dial?"

A view from Italy

Cattolica Assicurazioni group chief investment officer Massimo di Tria talks about the Italian insurance market and investment decisions

WRITTEN BY **ADAM CADLE**

Q Can you provide a brief outline of Cattolica Assicurazioni as an insurance company?

Cattolica Assicurazioni is one of the largest players on the Italian insurance market. Founded in 1896 in Verona, Cattolica is currently the sector's only cooperative company listed on the Milan Stock Exchange, where it has been listed since November 2000. With around 3.6 million customers and almost 1,700 employees, the Cattolica Group records nearly € 6 billion in premiums income per annum including both Property/Casualty (PC) and Life/Health (LH). At Group level, Cattolica relies on about 1,400 agencies spread throughout Italy with a network of approximately 1,900 agents as well as more than 6,000 bank branches thanks to bancassurance joint-venture agreements with Italian primary banks.

Q What is your overall investment portfolio structure and what are your main asset allocations in?

The insurance portfolios at Cattolica are managed with a rigorous liability-driven approach. Therefore, it is essential to distinguish PC portfolios from LH segregated accounts since they can be pretty different from a liability standpoint. On the PC side, real assets and private debt together account for about 30% of the portfolio of which more than half is real estate followed by private debt, infrastructures (including renewable energy) and other alternative investments; the rest of the portfolio is invested in fixed-income, with Italian government bonds still playing an important role given their good reward/risk profile; overall duration is not too long in line with PC liabilities and in particular corporate bonds are pretty short in duration as incentivized by Solvency II rules. On the LH side, the segregated accounts are dominated by fixed-income investments with a higher duration of 7-9 years depending on the specific portfolio and related liability profile; therefore, private debt and alternative investments still play a less prominent role despite their tendency to grow in these portolios too.

Q What have the effects of Solvency II been on your investment portfolio?

Solvency II has positively affected the risk culture within the European insurance industry, in particular putting asset-liability management (ALM) as a starting point of any investment process. Nevertheless, such regulatory framework was designed when interest rates where materially higher than today and therefore it seemed acceptable to attach very high risk charges to real assets. Nowadays, it appears instead obvious that forcing insurance companies to sell (or not to buy) real assets in favour of bonds has been suboptimal especially in a period of extreme monetary expansion. Since a couple of years, EIOPA has shown more and more openess to recalibrate the risk charges of real assets, starting from infrastructures and continuing with long-term listed and private equity. As a consequence of this regulatory framework evolution, Italian companies such as Cattolica, which have been initially incentivized to maintain sizeable investments in Italian Government Bonds (BTPs), have started diversifying into direct loans and real assets such as real estate, renewable energy, infrastructures and private equity.

Q We are now in a new decade. How do you see allocations changing?

I think that the investment universe will continue to broaden, including more and more unlisted (private) assets and new decorrelated investment segments such as timberland funds and insurance-linked securities. We

will probably see a deeper focus in harvesting the illiquidity premium as well as what I like to call the complexity premium. While the former is a must for long-term investors like insurance companies, the latter requires training and innovation to be able to manage complex deals not accessible to mass market players. Moreover, I believe that in a globalised world with ultra-low interest rates, some (limited) currency risk could also be beneficial as testified by the Japanese insurance companies' experience. On top of that, ESG approaches will certainly affect portfolios favouring securities issued by sustainable market players consistently with a long-term risk management perspective. Last but not least, ALM and strategic asset allocation could become more dynamic via a smart though parsimonious usage of derivatives for hedging as well as effective implementation purposes.

Q How do you see the Italian insurance market faring over the coming year?

Italy is sadly one of the less developed insurance markets in Europe in terms of non-motor PC insurance, but this can be seen as a great opportunity. Just to mention an impressive example, over 85% of Italian families own a house or apartment but only 3% is insured against earthquakes and floods, although Italy is one of the most exposed European countries to seismic and hydrogeological risks. Therefore, I am very optimist on the PC business growth which could also leverage on technological advancements allowing the development of parametric insurance on the one hand and bespoke coverage (specialty lines) on the other hand. Regarding LH, the Italian market has quadrupled in the last 20 years and there is still room to growth considering that Italians have currently more than 1.5 trillion in bank accounts seeking for moderate risk investment solutions. Nevertheless, low interest rates represent a challenge which could be overcome only with product development and innovation.

Q What are the main aims over the coming years for Cattolica Assicurazioni and for yourself as group chief investment officer?

Cattolica Assicurazioni aims at being a protagonist in fostering the future growth of the Italian insurance market, making sure for it to be innovative and sustainable. Keeping up the pace of the technological developments to better servicing our customers while also satisfying other stakeholders expectations in the long run is our main ambition.

Regarding my personal goals and wishes as a Group Chief Investment Officer (CIO), I hope to contribute to the development of a holistic modern wealth management concept where insurance protection, retirement and investments are bundled in a consistent and efficient way.

Moreover, I truly believe that the role of the CIO should expand beyond the current boundaries towards deeper involvement in M&A and product development.

ALM and strategic asset allocation could become more dynamic via a smart though parsimonious usage of derivatives for hedging as well as effective implementation purposes

Current ponderings on industry themes

On putting sustainability centre stage

Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. We believe that all investors, along with regulators, insurers, and the public, need a clearer picture of how companies are managing sustainability-related questions. This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers' data.

LARRY FINK
BlackRock chair and CEO

RORY MURPHY
MNOPF chair

On MNOPF completing £1.6bn buy-in with PIC

This buy-in enables us to more effectively manage the risks faced by the fund as a whole, providing greater certainty to members that their benefits will continue to be paid in full from the fund. It is also good news for employers in the maritime and shipping industry, who have already saved many millions in deficit contributions over recent years as a result of our improved funding position

On the hunt for a developer of an ESG data tool

It is critical that we begin to take into account biodiversity-related challenges. We believe it is crucial that the financial community addresses this issue in the same way that it has addressed climate change. We hope that the tool we develop will be used by all market players, and that it will become a benchmark tool

JOINT STATEMENT FROM AXA IM, BNP PARIBAS AM, MIROVA AND SYCOMORE AM

On the need for high quality accounting standards to support long-term investing

HANS HOOGERVORST
IASB chair

Fair value through profit or loss became the default requirement for equity investments. Ever since, some stakeholders – especially in the insurance industry – have suggested this accounting treatment is a disincentive for long-term investment in equity instruments as it could lead to more short-term volatility in the income statement. In the AFS category you only recognised profits on equity investment when you sold the financial instrument in question. The category was subject to impairment, but deciding when to impair was subject to judgement and there was wide variety in practice. Some companies only recognised losses after a prolonged decline in value of up to 50%. Despite many efforts, nobody has been able to come up with a robust impairment model for equity investments

On 2019 natural disasters totalling $232bn in economic losses

Perhaps the biggest takeaway from the last decade of natural disasters was the emergence of previously considered 'secondary' perils – such as wildfire, flood, and drought – becoming much more costly and impactful. Scientific research indicates that climate change will continue to affect all types of weather phenomena and subsequently impact increasingly urbanised areas. As the public and private sectors balance an understanding of the science with smart business solutions, this will lead to new advances that lower the physical risk and improve overall awareness

STEVE BOWEN
Director and meteorologist at Aon's Impact Forecasting team

On Gjensidige Forsikring ASA's strong Q4 and full year results

We are pleased with maintaining our superior position in Norway, and improving operations outside Norway. Going forward we will strive to become an even better and more relevant partner for our customers – a problem-solver with an even stronger focus on claims prevention

HELGE LEIRO BAASTAD
Gjensidige CEO

CHRISTOPHE BURCKBUCHLER
Moody's Analytics managing director

On Moody's Analytics launches discount curve service for IFRS 17

Constructing discount curves for IFRS 17 presents insurers with a number of challenges. These include the selection of an appropriate methodology that provides stable and robust valuations of liabilities, and production of curves and necessary documentation to meet reporting timelines. Our new service addresses these challenges and enables insurers to accelerate their IFRS 17 project and production timelines

On Talanx providing €321m of project bond financing

We are consistently driving our strategy forward with the aim of further enhancing and diversifying the proportion of infrastructure assets in our investment portfolio

PETER BRODEHSER
Talanx head of infrastructure investments

ELANA SULAKSHANA
Rainforest Action Network (RAN) Energy Finance Campaigner

On the Hartford insurance company restricting tar sands and coal investing

With this new policy, The Hartford becomes the first mainstream U.S. insurer to restrict support for tar sands oil and coal. In the face of the climate crisis, The Hartford joins a growing movement of insurers taking action to keep coal and tar sands in the ground and accelerate the transition to a low-carbon energy future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