Insurance Asset Management

Spring 2021

Legal & General
A focus on the insurance company's latest investment thinking

Beazley
A fireside chat with the insurer's chief investment officer

Climate policy in the US
Biden's latest strategy and the impact of regulation

Shifting gears

The next moves needed to ensure a strong ESG transition in the insurance space

IAM CONFERENCE 2020
A review of the latest thoughts from leading industry professionals

DECARBONISATION
How insurers are decarbonising their investment portfolios

IAM AWARDS REVIEW 2020
An overview of the prestigious winners and their many talents

Insurance Asset
Management Club

MEMBERSHIP

Membership includes full access to our daily news for an entire year, plus discounts for events

Insurance Asset Management has recently doubled its journalist and research capability, to bring you even better news, analysis, research and insight. To help fund the cost of this and to better serve the industry we have launched the Insurance Asset Management Club.

To access our content online you need to join the Insurance Asset Management Club. This offers unrestricted access to this site, discounts on our events, free copies of our daily email newsletter and copies of our print edition. This will also include social events only open to members.

Editorial Comment

How can an ESG investing transition take place within the institutional investment space, without financial penalties being implemented through direct policy interventions?

How can an ESG investing transition take place within the institutional investment space, without financial penalties being implemented through direct policy interventions? This was a key point raised at our *Insurance Asset Management Conference* last year, and one which I personally believe carries a lot of weight. Our cover feature (p.20) explores this very topic and we analyse the next steps needed for a strong ESG transition to occur in the insurance world. It's not easy, and improvements around terminology and particularly data have to be made.

Following on from this, we also examine how insurers are going about decarbonising their investment portfolios, and the role asset managers play in this process (p.50).

The US forms a key part of the debate on climate change at the moment and despite Joe Biden's presidency being in its infancy, his thoughts on the topic are clear - the US must act. In this issue, *Insurance Asset Management* argues that it is about changing the regulatory mindset of the US that really matters if the country is to become greener.

2020 was a busy year for *Insurance Asset Management* as a brand. We held a virtual award's ceremony with hundreds tuning in, and I am delighted to say the review of these awards is included in this edition (p.28) including a round-up of all the winners. A huge congratulations must go to all of you who took part in this event and a round of applause has to be given to the winners.

The conference we held at the end of November was also a success once again, with a huge number of high level speakers participating. A wide range of topics were explored ranging from COVID-19 and the fixed income world, through to the alternatives space, and the ESG sphere. A full write-up of this conference is included in this issue (p.54), and I look forward to welcoming you on board for this year's event.

Chief investment officers can always be relied on for providing deep insight into exactly what is taking place within the insurance investment space. In this issue, we hear from Legal & General head of investment solutions Sumit Mehta (p.17) and Beazley chief investment officer Stuart Simpson (p.24) about their latest investment thoughts.

Enjoy the read!

Editor
Adam Cadle

The team

Editor
Adam Cadle
+44 20 7562 2410
adam.cadle@insuranceassetmanagement.net

Reporter
Michael Griffiths
+44 20 7562 2427
michael.griffiths@perspectivepublishing.com

Commercial
John Woods
+44 20 7562 2421
john.woods@insuranceassetmanagement.net

Commercial
Camilla Capece
+44 20 7562 2438
camilla.capece@insuranceassetmanagement.net

Design & Production
Matleena Lilja
+44 20 7562 2403
matleena.lilja@insuranceassetmanagement.net

Accounts
Marilou Tait
+44 20 7562 2432
marilou.tait@insuranceassetmanagement.net

Circulation
Elen Phillips
elen.phillips@perspectivepublishing.com

insuranceassetmanagement.net
6th floor, 3 London Wall Buildings
London, EC2M 5PD
ISSN ISSN 2516-8096

PPA Publisher Member
recycle


11


15

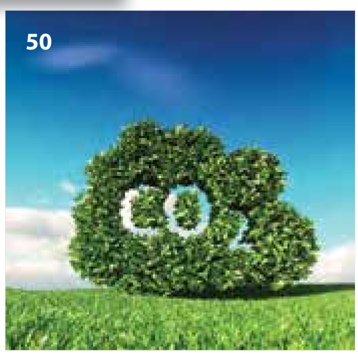

20


24

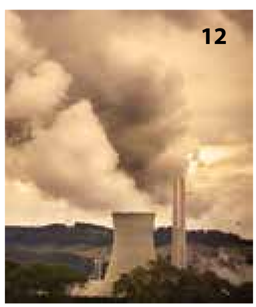

28
Insurance Asset
Management Awards 2020
THE WINNERS
26 November 2020, Online


Insurance Asset
Management Conference
54


17


50


9
06


12


13

Spring 2021

News focus

BoE rules out large cuts in capital requirements after Brexit for insurers

Sweeney says there is 'no appetite to tear Solvency II rules up and start again'

Written by **Adam Cadle**

Insurers are not to expect any large reductions in capital requirements after Brexit, BoE, executive director for insurance, Anna Sweeney, has said, adding that more capital could be "part of the answer" to meeting a £1.7bn bill for COVID-19 claims.

"We are committed to upholding the principles of Solvency II – they are our principles, and given the amount invested by firms in implementing the Solvency II regime, we see no appetite to tear them up and start again," Sweeney commented.

We are committed to upholding the principles of Solvency II – they are our principles

"We are not leaping to conclusions that the industry needs tons more capital, but the issue has highlighted the range of contract uncertainty out there and there clearly needs to be a better understanding of what that looks like."

Looking further into the government's review of Solvency II and capital levels, Sweeney emphasised that the PRA has "not been presented with persuasive evidence that current levels are manifestly too high or too low".

"The sector has so far shown itself

resilient to the financial consequences of the severe shock represented by the COVID-19 pandemic. But equally, the supply of insurance seems in the round to meet demand from the economy."

Sweeney added that the regulator does not think about capital requirements in isolation, but as part of a three pillar regulatory regime (comprising capital, risk management, and disclosure).

"It is not enough to assert that, if only we didn't have to hold so much capital, our policies could be so much cheaper, we could supply so many more of them, and we could expand our investments. If only it were that simple," she argued.

"I do not believe that we have that balance badly wrong at the moment. And we are as open to evidence about what constitutes 'just right' as we are to how best to correct the distortions introduced by the current design and calibration of specific measures in the regime. It is in the interests of firms and the people of the United Kingdom, whose interests the Bank of England exists to serve, that we have that debate and that it be informed not by caricatures of each other's positions, but by a shared understanding of both the costs and benefits of the capital element of prudential regulation, as well as its place in the wider regime."

> I do not believe that we have that balance badly wrong at the moment

As part of the review into Solvency II, the government has been seeking views on how to tailor the prudential regulatory regime to support the unique features of the insurance sector and regulatory approach in the UK.

HM Treasury's review into Solvency II is underpinned by three objectives:

• to spur a vibrant, innovative, and internationally competitive insurance sector,

• to protect policyholders and ensure the safety and soundness of firms,

• to support insurance firms to provide long-term capital to support growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the government's climate change objectives.

The risk margin, calculation of the solvency capital requirement, calculation of the consolidated group solvency capital requirement using multiple internal models, calculation of the transitional measure on technical provisions, and reporting requirements are just some of the elements up for review within the scope of the consultation.

News in brief

■ The volume of gross written premiums in the Romanian insurance market hit RON 11.5bn in 2020, increasing by 5% compared to the previous year. Last year, in the general insurance segment, the value of gross written premiums reached RON 9.28bn, an increase of 6% compared to 2019. At the same time, gross written premiums related to life insurance decreased slightly by 2%, reaching the value of RON 2.22bn.

■ The private US P&C insurance industry reported a 27.5% drop in net income during the first nine months of 2020 to $35.1bn, according to data analytics provider Verisk and the American Property Casualty Insurance Association (APCIA). COVID-19 and a record number of catastrophes in the US impacted the industry. The written direct premium growth slowed to 2.3% for the first nine months of 2020 compared to 4.8% in the same period in 2019.

■ Unipol Group significantly revised its asset allocation during 2020 to reduce the solvency ratio volatility, with the percentage of Italian government securities falling from 50.1% to 42.2% in the portfolio. It also sold some "risky" equity investments in favour of "core Europe" government securities, high-rated corporate bonds and real assets.

■ The Talanx Group generated net income of €673 (923)m in financial year 2020, based on preliminary unaudited consolidated figures, despite coronavirus claims expenses payable to clients.

ILR would have 'limited value', Insurance Europe argues

Its weaknesses include 'a loss of information on mismatches between liquidity needs and sources, and a lack of risk sensitivity'

Written by **Adam Cadle**

A thorough understanding of liquidity sources and needs is required to understand insurers' individual liquidity risk profiles, which a blunt factor ILR would fail to do

An insurance liquidity ratio (ILR) would have "limited value", Insurance Europe has argued.

In its response to a consultation by the International Association of Insurance Supervisors (IAIS) on the proposal for an ILR, Insurance Europe stressed that "its weaknesses include a loss of information on mismatches between liquidity needs and sources, and a lack of risk sensitivity".

"It would, in particular, be inappropriate to apply the ILR beyond the global monitoring exercise for the purposes of micro-prudential regulation. A thorough understanding of liquidity sources and needs is required to understand insurers' individual liquidity risk profiles, which a blunt factor ILR would fail to do."

Insurance Europe added that liquidity risk is already well managed due to the insurance business model, existing regulatory provisions and insurers' integrated approach to liquidity and risk management. Furthermore, it said insurance groups have established liquidity risk management practices and liquidity frameworks tailored to the characteristics and nature of their business.

To avoid an unjustified increase of burden on firms, Insurance Europe has proposed that the IAIS instead leverages on insurers' existing internal liquidity frameworks and promotes industry best practices.

The IAIS chose initially to focus on a one-year stress horizon for the ILR. While this is longer than the horizon used by some analysts and certain regulatory requirements in other sectors (eg, the Basel Committee on Banking Supervision's Liquidity Coverage Ratio (BCBS's LCR)), insurers are relatively less vulnerable to liquidity stresses that resolve over shorter horizons, the IAIS said.

"Some of the largest drivers of insurer liquidity needs, such as policyholder surrenders and catastrophe payments, would result in cash flows that are spread over months or years instead of hours or days.

"The ILR focuses on an insurer's general accounts. Liquidity risk within separate accounts is borne by the policyholder, rather than the insurer. The IAIS may develop separate metrics for monitoring in a future period to capture any potential risk from these products. When determining the parameters of the ILR, the IAIS looked at a number of sources, including the approaches of insurance supervisors, rating agencies, and bank supervisors. For liquidity needs, the ILR would primarily leverage prior IAIS work on systemic risk identification. For the treatment of assets, the IAIS relied most heavily on bank regulation."

EIOPA chair calls for 'single supervisory mechanism for insurance'

Bernardino argues that 'fundamental differences and challenges' remain throughout Europe

Written by **Adam Cadle**

A single supervisory mechanism for insurance is needed", EIOPA chair Gabriel Bernardino has said.

Speaking at EIOPA's 10th anniversary conference, Bernardino said centralisation should come into play around the supervision of the internationally active insurance and reinsurance groups that are present in many member states and worldwide; the supervision of the companies exercising cross-border business under the freedom to provide services; and the supervision of pan-European products like PEPP.

"The ability of national supervisors to ensure high quality and effective supervision is largely influenced by their governance framework, their independence vis-a-vis the national political institutions and the industry, and their capacity to recruit and maintain a sufficient number of highly qualified staff. We continue to have fundamental differences and challenges in these areas throughout Europe," he said.

"While a lot of progress has been achieved over the years due to the common efforts of EIOPA and national supervisors, my personal assessment is that it is impossible to overcome the remaining challenges without a deeper structural reform."

> My personal assessment is that it is impossible to overcome the remaining challenges without a deeper structural reform

MPs to investigate £530m potential sale of LV=

Fears policyholders and members could lose out

Written by **Adam Cadle**

MPs are to investigate the £530m potential sale of LV= to private equity firm Bain Capital amid fears that policyholders and members could lose out.

According to *The Guardian,* the takeover has proved controversial as members and policyholders have yet to be given full details of any benefits they might receive or why Bain's offer was selected over a number of others.

The deal will require approval from 75% of members who vote but LV= wants to override a rule under which at least half of all members must approve demutualisation.

Gareth Thomas, the MP for Harrow West and chair of the all-party parliamentary group for mutuals, said: "Members of the parliamentary group are concerned at what impact the sale will have on LV= members, the insurance industry and competition and choice in financial services. We are also interested in whether the LV= decision reflects weaknesses in the government and regulators' views and support of mutuals."

LV= chairman Alan Cook and chief executive Mark Hartigan have been invited to give evidence, as well as mutual sector experts and financial analysts.

Insurers welcome EU single market for data proposals; call for clarifications on scope

A greater availability of data will lead to 'better digital solutions and analytical models'

Written by **Adam Cadle**

The European Commission's (EC) consultation on the overall objective of creating a single market for data has been welcomed by Insurance Europe, but calls for clarifications on scope remain.

In its response to the EC consultation on its proposals for a Data Governance Act, Insurance Europe said "a greater availability of data could lead to improved risk monitoring and assessment, better customer experiences and increased fraud detection".

"The more data that is available for the common good, the better the digital solutions and analytical models can be," it added.

At the same time, the insurance industry has said the focus should also be heavily about strengthening the conditions for data collaboration and data partnerships.

> There should also be greater clarity regarding the nature of the data sharing services that fall within the scope of the proposed regulation

"There should also be greater clarity regarding the nature of the data sharing services that fall within the scope of the proposed regulation. While the Commission's proposals offer some important clarifications in this regard, this could be made more explicit through the provision of concrete examples."

Insurance Europe said the proposed rules also need to be designed in a way that fully complies with all data protection requirements, and that ensures that data subjects remain fully in control of their data and can freely choose between different providers.

The proposed Data Governance Act sets out rules relating to the following:

- Conditions for reuse of public sector data that is subject to existing protections, such as commercial confidentiality, intellectual property, or data protection;

- Obligations on "providers of data sharing services," defined as entities that provide various types of data intermediary services;

- Introduction of the concept of "data altruism" and the possibility for organisations to register as a "Data Altruism Organisation recognised in the Union"; and

- Establishment of a "European Data Innovation Board," a new formal expert group chaired by the Commission.

UK invests £10m in new green finance research centre

Hubs in London and Leeds to provide 'world-class data and analytics to financial institutions'

Written by **Adam Cadle**

The UK is investing £10m in a new national green finance research centre, the UK Centre for Greening Finance and Investment (CGFI), which will be funded by UK Research and Innovation (UKRI) and led by the University of Oxford.

The government said research hubs in Leeds and London will provide "world-class data and analytics to financial institutions and services such as banks, lenders, investors and insurers around the world to better support their investment and business decisions by considering the impact on the environment and climate change".

"These new green finance hubs will also attract and develop new green finance talent from around the world to the UK's major cities," it added.

Economic Secretary to the Treasury and City Minister John Glen said: "We've set the ambition for net zero – now we must ensure our financial sector has the tools and information to get behind the transition. We're already improving the climate data available by mandating TCFD-aligned disclosures across the economy and implementing a green taxonomy.

"This new centre will advance the UK's leadership in green finance and bring forward the day when firms can access environmental data and analytics for every place on Earth, past, present and future."

> This new centre will advance the UK's leadership in green finance

One of the centre's aims is to help financial institutions shift money away from risky activities that harm the environment, such as coal-fired power and deforestation, towards activities that are less harmful, such as renewable power and sustainable agriculture.

The new physical hubs in Leeds and London will support companies and start-ups commercialise products that can green global finance, including tools that measure storm and flood risk facing properties or the pollution created by companies and the liabilities that result.

The centre will work with finance professions, such as the Chartered Bankers Institute and Chartered Financial Analysts UK, to ensure that every professional financial decision takes climate change into account.

Other institutions will form part of the new national centre, including the Universities of Bristol, Leeds, Reading, and Imperial College, as well as The Alan Turing Institute and the Satellite Applications Catapult, and the Science and Technology Facilities Council. In the summer a full range of financial institution and corporate partnerships will be announced.

Work will begin in April, ahead of this year's COP26 UN climate summit in Glasgow. The CGFI will deliver on commitments made in the UK Government's 2019 Green Finance Strategy.

Storebrand to reduce direct GHG emissions by 32%

Total equity/corporate bonds/real estate targeted

Written by **Adam Cadle**

Storebrand aims to reduce direct GHG emissions from total equity, corporate bonds and real estate investments by 32% by 2025, as well as increase investments in solution companies by 15% in the same period.

The group has committed to transition the investment portfolios to net-zero GHG emissions by 2050.

In its results for Q4 2020, Storebrand said its profit grew by 19% to NOK 1,225m compared to last year. Underlying growth within the core business savings and insurance, a strong insurance result and positive returns from financial markets, as well as disciplined cost control, contributed to the growth in profit.

Total assets under management increased by NOK 42bn (4.6%) to NOK 962bn in Q4, and by NOK 131bn (16%) compared to last year. Solid market returns and sales have driven growth in this area.

The solvency ratio was 178% at the end of 2020, an increase of two percentage points from the end of 2019. This is well above the targeted level of more than 150%. The solvency ratio without transitional rules was 166%, corresponding to an increase of 16 percentage points from last quarter. A higher interest rate level, positive investment returns, as well as a strong group profit after tax strengthened the solvency ratio in the quarter.

> Total assets under management increased by NOK 42bn (4.6%) to NOK 962bn in Q4

Elsewhere, CNP Assurances has set itself climate targets for 2025. It said it plans to reduce the carbon footprint of its directly held equity and corporate bond portfolio by a further 25% between 2019 and 2024, i.e. a target of 60 kgeqCO2 per thousand euros invested by the end of 2024 compared with 80 kgeqCO2 per thousand euros invested at the end of 2019. This reduction target of 25% over five years is in line with the IPCC's 1.5°C trajectories.

Secondly, it said it will reduce the carbon footprint of its directly held property portfolio by a further 10% between 2019 and 2024, i.e. a target of 17 kgeqCO2/m^2 by the end of 2024 compared with 19 kgeqCO2/m^2 at the end of 2019. This target of 17 kgeqCO2/m^2 by the end of 2024 is in line with the 1.5°C trajectories of the Carbon Risk Real Estate Monitor (CRREM3), taking into account the type and geographical location of the properties held by CNP Assurances.

Thirdly, it plans to reduce by a further 17% between 2019 and 2024 the carbon intensity of electricity producers in which CNP Assurances is a direct shareholder or bondholder, i.e. a target of 216 kgeqCO2/MWh by the end of 2024 compared with 259 kgeqCO2/MWh at the end of 2019. The target of 216 kgeqCO2/MWh by the end of 2024 is in line with the 1.5°C trajectories of the One-Earth Climate Model (OECM4), taking into account the geographical location of directly held electricity producers. CNP Assurances thus undertakes to keep the carbon intensity of its portfolio below the decreasing 1.5°C trajectory assessments of the OECM (from 410 to 216 kgeqCO2/MWh between the end of 2019 and the end of 2024).

Lastly, it will engage eight companies (six directly and two via the Climate Action 100+ collaborative initiative) and two asset managers to encourage them to adopt a strategy aligned with a 1.5°C scenario by the end of 2024, i.e. committing to carbon neutrality by 2050 and setting intermediate targets aligned with current scientific knowledge.

"Insurers are already subject to several requirements to integrate considerations about adverse impacts on human rights and environmental issues

EC corporate governance proposals must account for existing EU sustainability rules

Insurance Europe calls for right balance

Written by **Adam Cadle**

The European Commission (EC) must strike the right balance between the benefit of greater transparency and the burden it would impose on companies if it decided to establish an EU-level legal framework for sustainable corporate governance.

In its response to the EC's consultation on sustainable corporate governance, including matters regarding social and human rights, climate change and the environment, Insurance Europe said "such a framework should focus on sectors that are lagging behind in the transition to sustainability and thoroughly consider existing sectorial sustainability rules".

"For example, insurers are already subject to several requirements to integrate considerations about adverse impacts on human rights and environmental issues into their corporate governance frameworks."

Furthermore, it added that the Commission should "carefully assess the impact of measures that already cover the integration of sustainability into corporate governance frameworks for the financial sector: eg the Sustainable Finance Disclosure Regulation and proposals to amend the Solvency II framework".

"This sectoral legislation is currently ignored in the Commission's studies in this area, which risks creating inconsistency and overlaps, especially with initiatives related to the 2018 Action Plan on Sustainable Finance," it underlined.

Länsförsäkringar invests SEK 1.2bn in social bonds

Contributes to 'combatting the effects of COVID-19'

Written by **Adam Cadle**

Länsförsäkringar invested SEK 1.2bn in social bonds in 2020.

In its annual review for 2020, the Swedish insurance company said this "contributes to the financing of combatting the effects of COVID-19 pandemic and increasing access to healthcare".

Operating profit for the Länsförsäkringar's non-life insurance operations was SEK 7,473m compared to SEK 12,001m a year earlier, with investment income recorded at SEK 7,090m (13,199).

The technical result for Länsförsäkringar's non-life insurance operations increased to SEK 2,877m (1,824). Premiums earned after ceded reinsurance rose 6% to SEK 29,399m (27,856). The combined ratio declined to 92.9% (96.3).

People on the move

MARK VERSEY

CEO, Aviva Investors

Aviva has appointed Mark Versey as chief executive of Aviva Investors. He succeeds Euan Munro, who after seven years as CEO of Aviva Investors, will take up a role outside of Aviva. Versey joined Aviva Investors in 2014 and has most recently led, and significantly grown, the £47bn real assets business which includes infrastructure, real estate and private debt markets. Versey also sits on the investment committee of the Investment Association.

CARLOS DE SOUSA

EM Debt Strategist and Portfolio Manager, Vontobel Asset Management

Carlos de Sousa has joined the team as EM strategist and portfolio manager in Zurich. De Sousa is an economist with experience in both emerging and frontier markets, and joins from Oxford Economics. He has also been a research fellow at the Bruegels in Brussels, an economics think tank where he co-authored policy-oriented research briefings.

KAMIL ZABIELSKI

Head of Sustainable Investments, Storebrand

Storebrand has hired Kamil Zabielski as head of sustainable investments. For the past 10 years, Zabielski has worked at the Guarantee Institute for Export Credit (GIEK), both as a specialist in human rights and due diligence, and for the past five years as head of the sustainability team. He also has experience from the Council on Ethics in the Government Pension Fund Global.

CHANTALE PELLETIER

Global Head of Infrastructure in Private Assets, Schroders

Schroders has appointed Chantale Pelletier as global head of infrastructure in private assets to lead the growth and development of the firm's infrastructure investment platform. Pelletier, who will assume the role by the end of March 2021, will also become President of Schroder Aida SAS, the firm's Paris-based infrastructure business, subject to regulatory approval.

MICHAELA JACKSON

Head of Distribution, EMEA, Columbia Threadneedle

Jackson will be responsible for leading Columbia Threadneedle's regional sales and client service functions across wholesale, institutional and insurance channels. She joins from BlackRock, where she was managing director, deputy COO EMEA distribution, and has over 18 years' experience in the asset management industry in Europe.

NEIL DAVIES

Commercial Director, AIG Life

AIG Life has announced the appointment of Neil Davies as commercial director. Davies has over 30 years' experience holding various senior positions in the UK life and retirement sector. He joins from HSBC UK Insurance where he was deputy CEO with responsibility for proposition development across UK life and general insurance. Davies will report to Phil Willcock, chief executive officer, AIG Life.

Soapbox

A defining moment

Written by **Adam Cadle**

Image by: lev radin / Shutterstock.com

The new administration has an opportunity to align US rules with a growing body of evidence that challenges the current mindset of US legislators and regulators

So there we have it. Joe Biden, the 46th US president has been sworn in following four rather tumultuous years for Donald Trump. The Trump legacy is one that I'm sure will cause fierce debate among global historians for years to come, but what is certain is Biden's all too clear intentions to alter a lot of the policies currently in place.

Biden's ambitions to reverse the Trump administration's stance on climate change, immigration and COVID-19 couldn't be more apparent. Indeed, at the time of writing, Biden has pledged $2trn for a push to slow global warming by reducing the burning of fossil fuels, whilst also aiming to make the United States' power plants, vehicles, transport systems, and buildings more fuel efficient and less dependent on oil, gas and coal. As a result, I believe pressures on US and global insurers will intensify as a result of these green policies. Insurers will be targeted for investing in areas like tar sands pipelines and the likes of Liberty Mutual have faced demonstrations from activists because of this. Biden's plans to ban new permits for oil and gas production on federal lands could also have implications for insurers.

It is about changing the regulatory US mindset though that Biden really needs to address. Current US regulation assumes that improving the sustainable characteristics of a company or portfolio means sacrificing risk-adjusted returns. The new administration has an opportunity to align US rules with a growing body of evidence that challenges the current mindset of US legislators and regulators. At present, US companies need only report what management considers to be financially material ESG factors. This means disclosures can vary significantly. In contrast, across the Atlantic, regulators are acting. The EU plans to introduce Sustainable Finance Disclosure Regulation (SFDR) that requires asset managers to make specific, detailed disclosures of how they integrate ESG factors into investment decisions, both at firm and fund level. Reports from companies, pension funds and asset managers will have to be published in line with the Task Force on Climate-related Financial Disclosures by 2025. The UK also said it would issue its first green sovereign bond in 2021, alongside a green taxonomy. Fidelity International investment director Matthew Jennings says: "President-Elect Biden has an ambitious policy platform on climate, tacitly supported by the Federal Reserve which recently joined the global central banks' Network for Greening the Financial System. ESG regulatory changes will be necessary to support this. These won't happen overnight, though a Democrat-controlled Senate (albeit with a slim majority) increases the chances of more progressive candidates being appointed to key legislative and regulatory positions, including the chair of the SEC. Such changes would have meaningful investment implications. There are early signs that Europe's SFDR implementation is increasing demand for strategies that fully integrate ESG. Should a similar trend take shape in the US, it will increase the pool of capital available to more sustainable companies, creating further incentives for firms and investors to place environmental and social considerations at the heart of their decision-making." It's time for the US to act.

In focus: Sumit Mehta

Legal & General head of investment solutions Sumit Mehta sits down with *Insurance Asset Management* to chat about investing, his love for Latin America and India's cricket team

WRITTEN BY **ADAM CADLE**

Q Could you provide an overview of L&G and your day-to-day role?
L&G is the UK's largest provider of individual life insurance products and the biggest manager of corporate pension schemes. For nearly 200 years we have provided financial services to customers across the UK, and now the US. We are strongly driven by our purpose which is to improve the lives of our customers, build a better society for the long term and create value for our shareholders.

I head investment solutions for L&G's Retirement Institutional (LGRI) division that manages ~£85bn AUM. My role is to lead all aspects of investments related to new business, primarily setting investment strategy on bulk annuity transactions, but also risk management and implementation. LGRI's approach is to differentiate ourselves by being solution-focused, and assets are a core part of that. So on a day to day basis, my time is spent equally between supporting my excellent team on transactions, work which obviously has a strong time-sensitive element to it, and more strategic initiatives, where I am always looking to proactively ensure that we remain ahead of the curve when it comes to investments. I really enjoy this mix of transactional adrenalin-pumping work and big picture thinking. Across all our work, collaboration is key, as our role is essentially bringing together all the investment capabilities within the L&G group to our bulk annuities franchise. So I really miss being in the office, as I am usually meeting lots of people through the day, whereas now I am just wedded to Teams!

Q What was your biggest achievement in your role during 2020?
Oh, 2020, what a year! It was an enormous challenge leading teams that were stretched beyond imagination, that were more than ever before crucial to our continuity and leadership in the market, that were dealing with a global pandemic affecting them and their families, at a time when I personally was really struggling to manage childcare and work…seeing the teams emerge from all of this unscathed (and dare I say, even stronger), has undoubtedly been my biggest achievement to date. It was very rewarding to see the culmination of years of patient hiring led by a philosophy of laying out a clear set of values and yet seeking cognitive diversity, and of building a strong team spirit that strengthened rather than weakened in a crisis. For me, it also underscored the importance of family and having a support system; being at home and seeing my young kids grow up every day gave me a strong perspective and sense of calm, and gave me the strength to try and remain positive during low moments.

Q What is your overall investment portfolio structure and what are your main asset allocations targeting?
Our portfolio exists to meet long term obligations to our policyholders, so it is primarily fixed income and is constructed with a large focus on

cashflows. We think of it as having three broad but not necessarily disparate categories: public fixed income: a market that we have years of experience in and feel we understand well; risk-free/liquid assets: that exist to support the liquidity demands of our portfolio including the margining requirements from our significant derivatives portfolio; and alternatives (direct investments): fixed income asset classes that give us crucial diversification, enhanced credit quality, and higher yield.

Q How has the firm adapted to COVID-19 in terms of its investment thinking and direction?

Our investing philosophy is built around the core principle that as long term investors we have a great opportunity to invest in the real economy- what we call inclusive capitalism. And if we look at the post-COVID-19 world from that lens, when we look beyond the short term impacts, we see that those themes are still relevant, and even more so than before. Now is the perfect time to invest in infrastructure and help stimulate the economy, create jobs, and help the country's recovery following the impact of COVID-19. So the key themes that we have always focused on, are to us still the key focus areas going forward: decarbonisation, clean energy, housing, digital infrastructure, to name a few. And in the spirit of inclusive capitalism, this strategy is also beneficial for our policyholders. If we look back at the lessons we learnt from the turmoil we saw in public markets in March - the structural lack of liquidity in credit markets caused markets to become dysfunctional. There was extremely low liquidity, that was only corrected after significant central bank intervention. The liquidity crunch meant that investors sold any asset that they could sell to get liquidity, irrespective of its quality. You can see that compared to investors who solely focus on sourcing assets in public markets, a strategy of diversifying via direct investments was an advantage and held investors like us in good stead. So 2020 has taught us very important lessons for our asset allocation and sourcing strategy. Of course it would be remiss to have any discussion on this topic without looking at the other side of the coin: risk. Again, notwithstanding the fact that corporate default rates have been lower in reality than they would have been without the Fed support, 2020 was a great test of our risk management framework, and again I am really pleased to note that we have only had £25m default losses on our investments since 2007 across the Legal & General Group.

Q What do you see as being the biggest challenge for UK insurers in 2021?

This will sound like a broken record, but the key challenge seems to remain the same every year: finding yield in a world of low rates, while still maintaining our discipline on the long term sustainability of the portfolio. There will also be a greater focus on the long-term impacts of COVID-19 on the key sectors that we look at- what sort of irreparable changes caused by COVID-19 remain even after the world has been vaccinated and what does that mean for positioning? From a macro perspective, I see ourselves spending a lot of time thinking about the "QE endgame"- is inflation the only way out for sovereigns that find themselves in heavy debt, and if so, what does that mean for our portfolios?

Q HM Treasury has issued a call for evidence around SII regulation, with the aim of boosting investment in infra, and meeting climate change objectives. What do you think needs to be changed within SII and how will this affect your investment thinking at L&G going forward?

As a firm we are supportive of the proposed review, and feel that it would be very helpful in enhancing the eligibility set of assets that we can invest in. We also believe that some aspects of the capital regime are overly technical, and moderating those will be beneficial to the industry in terms of resulting in less structuring and simpler operating models.

Q What is your ESG investment thinking at the business?

Environmental, Social and Governance (ESG) factors and impact investing in the real economy are at the heart of our investment approach, driven by a belief that integrating all material information, including ESG factors, into long-term investment decision making can drive positive investment performance and protect against downside risk. Our ESG objectives are clear and ambitious: to target net-zero carbon emission intensity for the portfolio by 2050, showing our strong support of the Paris Agreement. We intend to achieve this both via investing new business premiums at a lower carbon intensity than our current portfolio, and reallocating our backbook. Finally, across the L&G group, we strive to make diversity and inclusion part of our everyday conversations and actions, evidenced by our "50:50 by 2020" initiative.

Q What are your main aims over the coming years for L&G and yourself as head of investment solutions?

I love the intellectual challenge of investing in a liability-aware and robustly regulated context. I don't think it makes it boring, in fact I think it's really interesting and it's not easy to get it right. My vision for it is a radical ambitious approach that seeks to always prioritise the economic risk and returns of the assets we hold, but supported by a strong framework that integrates balance sheet and regulatory considerations. Getting this right needs strong technological capability, in terms of giving our portfolio managers the tools to understand the implications of proposed actions on a variety of measures that might matter to our stakeholders. It also requires developing a high-performing team with skill sets that give us breadth across the variety of asset classes we look at, but also crucially enough depth in each of those for us to proactively manage our risk over the long term. Neither of the two are easy to execute, but I am pleased that we have made huge strides and will continue to do so in the coming years.

Q Away from the day-to-day role what do you do to relax?

I have two young kids so there isn't much time in the day! I am really grateful for the purpose, joy and perspective they give me, and being a father has made me a better human being and leader. I have a passion for photography- I feel it's a lot like my current role as it's both technical and creative! Lockdown has made me realise how important travel is for me from a relaxation point of view- I am happiest when I am in an exotic country (preferably Latin America as I am a big Latinophile!) learning a new culture and the local language, and I have been planning a lot of "cancellable" trips for later this year and next year (much to the amusement of my wife)! I'm a big sports fan- I follow most sports and play basketball. As a Man Utd fan, seeing their resurgence has been one of the rare silver linings in 2020! I feel sport gives us valuable lessons for work and indeed life, and I am always energised and inspired by great success stories especially those achieved against the odds- such as Bucs' win in the Super Bowl and India's cricket triumph in Australia!

I love the intellectual challenge of investing in a liability-aware and robustly regulated context. I don't think it makes it boring, in fact I think it's really interesting and it's not easy to get it right

Photo by: Rahul Sapra / Shutterstock.com

Shifting gears

Adam Cadle explores the next moves needed to ensure a strong ESG transition in the insurance space

WRITTEN BY **ADAM CADLE**

There's no two ways about it. With a greater number of sustainability strategies being integrated within investment portfolios across global economies, the ESG transition is now shifting gears at a faster rate and the figures are there for all to see.

Forty-five per cent of total assets under management in Europe at the end of 2019 were invested in some sort of ESG selection strategy, according to the European Fund and Asset Management Association (EFAMA), equating to €10.7trn, either through exclusion or systematic and explicit integration of ESG risks and opportunities in the investment decision-making process. Furthermore, ESG assets in the US, for example, surged by 42% over 2018, accounting for $17.1trn – or 1 in 3 dollars – of the total US assets under professional management. The trend doesn't stop here. Looking at the global ETF market, ESG ETFs witnessed a 223% growth over the year, achieving a new record of $189bn in AUM. ESG ETFs captured $97bn of flows over the course of 2020 and nearly 200 ESG ETFs were

brought to the market during the same period. Elsewhere, just recently, CNP Assurances set itself climate targets for 2025. It said it plans to reduce the carbon footprint of its directly held equity and corporate bond portfolio by a further 25% between 2019 and 2024, i.e. a target of 60 kgeqCO2 per thousand euros invested by the end of 2024 compared with 80 kgeqCO2 per thousand euros invested at the end of 2019. This reduction target of 25% over five years is in line with the IPCC's 1.5°C trajectories. In addition, Storebrand recently said it aims to reduce direct GHG emissions from total equity, corporate bonds and real estate investments by 32% by 2025, as well as increase investments in solution companies by 15% in the same period.

The group has committed to transition the investment portfolios to net-zero GHG emissions by 2050.

The global insurance industry is in a great position to champion this sustainability. As a driver of social and economic activity, the industry has the mechanisms in place to facilitate sustainable business activity on a macro level. Indeed, the insurance industry is fully aware of the importance of its role. As early as 2012, the UNEP FI Principles for Sustainable Insurance were launched to focus on embedding ESG issues in insurance decision-making, raise awareness of the same with clients and business partners, and promote action with government, regulators and key stakeholders. Many insurers are signatories to these principles.

So, all seems rosy, you might say? While big strides have certainly been made in the ESG arena among institutional investors such as insurers, questions remain about whether the industry can really accelerate away from first and second gear. Three clear obstacles immediately become apparent when discussing ESG trends and these must be dealt with.

Policy interventions

Foresters Friendly Society chief investment officer Corrado Pistarino states that "you cannot engineer a transition of this size without financial penalties being in place through direct policy interventions".

"Rather than regulatory interventions, the most likely scenario, in my view, is a series of robust, globally coordinated policy interventions

"While physical risk is a long-term risk, there is a consensus that the decade up to 2030 will be critical in steering the temperature pathway towards a sustainable goal, by drastically reducing the amount of carbon emissions.

"Rather than regulatory interventions, the most likely scenario, in my view, is a series of robust, globally coordinated policy interventions. Those policy actions, e.g. a carbon tax, would have a significant impact on asset prices and increase portfolio exposure to transition risk. A 10y-horizon is a far more relevant timespan to the medium term investment performance, and investors will become more alert. While ESG criteria are already part of the usual screening process, the amount of financial penalty associated to assets with less benign scores is not entirely clear, and neither is the incentive for a portfolio manager to eliminate them from the portfolio construction process. An increasing risk of policy intervention, clearer in quality and magnitude, is likely to instigate a wave of asset re-pricing, hopefully not too sudden, which will displace certain categories of assets from institutional portfolios. In that scenario, markets would readjust to a new reality where both transition and physical risk are correctly priced, with no need for ad-hoc solvency charges."

Terminology

The second issue to highlight is ESG terminology. Terms like ESG, sustainability and impact investing are often used interchangeably. It is without doubt a fast developing area, and some confusion and overlaps are therefore inevitable. There are established practices - for instance, corporate engagements –, and others that are still in their infancy and more difficult to categorise.

"Extremely popular codes of conduct, like the PRI's or Principles for Responsible Investments, are constructed around the notion of "ESG issues", themselves a loosely defined set of criteria for determining the degree of alignment of an investment to broader societal goals," Pistarino underlines.

"In referring to ESG issues, we tend to conflate those broader societal goals, intimately related to the preservation of the natural capital (the "E") and the advancement of human capital (the "S"), and therefore a value system, with a notion of best practice (the "G") that is rather a mean to an end. The latter emerges from the interaction between two identifiable sets of economic agents ("asset owners" and "corporates"), and does not belong to the same taxonomy. Needless to say, the boundaries between those categories can be someway blurred.

"The term sustainability commonly relates to the UN Sustainable Development Goals. It is not always easy to translate those goals into a filtering process to determine investment compliance, although impact investing, an approach that has been championed by state agencies and development banks for a long period of time, aims to do just that. It often involves operating within a framework that allows for concessionary returns, when the objective is to create positive externalities that cannot be immediately or entirely monetised. As private investors enter this space, the issue is how to identify those thematic approaches that are expected to generate a genuine positive impact wand that at the same time can generate return opportunities."

Data conundrum

In order to keep the wheels firmly in motion around ESG investing, the issue of data must also be addressed. LV= senior investment manager Adam Ruddle agrees.

"We still need more data," he argues. "I think the EU Taxonomy has been a big step forward on this, but we need more consistent data around ratings so that we can hold our asset managers to account and drive business decisions forward."

We are in a situation where investment decision making and asset pricing don't have a reliable measure of true ESG performance and have to cope with incomplete and opaque ESG data and non-structured methodologies. Indeed, from an investor's perspective, such uncertainty could be an important barrier for sustainable investing. Rating uncertainty leads to higher effective risk aversion and higher market premium, as well as lower investor demand. At stock level, ESG rating uncertainty can reduce investor demand for stocks, especially among stocks with extreme ESG ratings.

Data is set to remain patchy for the coming years as investors and companies apply the new rules to their strategies. By 1 January 2022, investors managing ESG-related funds will have to explain how they use an EU classification system, or taxonomy, to determine the sustainability of their investments. They will also have to disclose what percentage of their investments are in line with the taxonomy. The new regulation is expected to radically change how investors and companies report on their environmental performance.

Under its sustainable finance action plan announced in 2018, the EU created the taxonomy to define environmentally friendly investments

“We are in a situation where investment decision making and asset pricing don't have a reliable measure of true ESG performance and have to cope with incomplete and opaque ESG data

and set performance thresholds for companies and industries that seek to reduce greenhouse gas emissions or adapt to a changing climate. The taxonomy assesses 67 economic activities, spanning manufacturing to transport, and is designed to steer companies as they adapt their business strategies to climate change, as well as help investment funds judge sectors based on their environmental performance.

Other initiatives have also been proposed to help paint a clearer picture in this area. In June last year, Insurance Europe called for the development of a centralised public register for ESG data in the EU.

"The availability of high quality and comparable public ESG data is currently rather limited and is insufficient to comply with new regulatory requirements, including sustainability disclosures and taxonomy regulations," Insurance Europe said at the time.

"While the changes planned for the Non-Financial Reporting Directive (NFRD) should ensure that companies under its scope will disclose the ESG data needed by financial market participants, this will not address the need for efficient access to the data.

"Therefore, ensuring the availability of high quality and comparable ESG data should be regarded as a strategic infrastructure project to meet the EU's sustainability objectives under both the Action Plan on Sustainable Finance and the EU Green Deal. The European data register should focus on the ESG data that is necessary for financial market participants to comply with the sustainability disclosures regulation and taxonomy."

For Pool Re chief investment officer Ian Coulman it is about looking at where you can obtain the data analytics from as well for ESG investing. "We have been looking at a variety of different third party providers who can provide us with the information on data so we can do the analysis on underlying portfolios."

There is also an issue around data consolidation here. Companies may have three or four different providers of investment management services when looking at ESG and every one will provide tables and reports on ESG criteria, so how is that data onsolidated and what is that data saying?

Outlook

Direct policy intervention, data transparency, and clarification around terminology are all key areas that must be addressed therefore to ensure a smooth ESG transition of this size. "The recent introduction of the EU taxonomy represents a significant step towards clarity on ESG considerations," Pistarino adds. "Clarity is achieved by limiting the scope of what "sustainability" means. The taxonomy is constructed around the notion of Environmental Objectives (the "E" in ESG). With that, one hopes the industry can move gradually towards shared data sets and classifications, enabling every investor to reach broadly homogeneous conclusions on the carbon exposure of their portfolios and their resilience to the transition to a greener economy."

Improvements in one area would help, but all of the elements need to go hand in hand if we are to really witness the ESG motors revving.

A fireside chat with Beazley

From investment strategies to Solvency II to chess. Adam Cadle gathers the thoughts of Beazley chief investment officer Stuart Simpson

WRITTEN BY **ADAM CADLE**

Q Could you provide an overview of Beazley and your day-to-day role?
Beazley is a specialist insurer, providing a diverse range of insurance and reinsurance services. Formed in 1986, we originally operated exclusively in the Lloyd's market. Today, while our Lloyd's operations remain an important part of our activity, we are a global business with offices in Europe, Asia and across North America. As CIO, I lead Beazley's investment team, which is responsible for all investment activity across the group. Investment assets continue to grow as the business expands and recently passed $6bn. The investment grade fixed income securities, which form the largest element of our portfolio, are invested directly by the team. We use specialist managers for other asset classes and the selection and oversight of these managers is an important part of our role. The investment team has significant discretion to vary investment dispositions, within defined risk appetites, and we seek to respond to changing market conditions to maximise available returns, whilst protecting the portfolio against emerging risks.

Q What was your biggest achievement in your role during 2020?
This was an unprecedented year in many respects and our investments were subject to the volatility in financial markets. We were quick to respond to the growing uncertainty by increasing duration and reducing risk asset exposures in February and March, which reduced investment losses in the first quarter. Hindsight makes clear our dilemma at that point: The global outlook remained highly uncertain, but risk assets were about to ride a wave of monetary and fiscal stimulus, reversing earlier losses and, in many cases, reaching new highs by year end. In fact, we added to our portfolio risk in the second quarter and continued to do so through the remainder of the year. As a result, we were able to benefit from the strong market recovery, achieving a good overall return, while also having reduced the volatility of our returns during the year.

Q What is your overall investment portfolio structure and what are your main asset allocations targeting?
The nature of our business dictates that most of our investment assets are held in US Dollars. Risk constraints include limits on the volatility of investment values, both in isolation and in combination with the present value of our insurance liabilities. These dictate that most of our investments are in fixed income securities of high credit quality and short average duration. This portfolio includes highly liquid sovereign bonds as well as investment grade corporate issuers. At least 75% of assets will normally be invested in this way. The remainder are invested in a variety of asset classes, typically seeking higher returns while accepting some additional volatility, subject to overall portfolio risk limits. The disposition of this 'return seeking' portfolio develops over time, in response to changing market conditions. Current exposures include equities, high yield debt, hedge funds and private lending. Where practical, we are increasingly focusing on passive investment solutions, which

Our investment strategy is designed to be flexible and able to respond quickly to changing circumstances. It was tested by the emergence of COVID-19 and coped well in the unusual market conditions

help to minimise costs and improve liquidity. This has worked well for both equities and high yield debt, where we are content to target the market beta return and retain control over the size and timing of exposures. However, the nature of such 'passive' investments continues to evolve as we develop our requirements for sustainable investment solutions.

Q How has the firm adapted to COVID-19 in terms of its investment thinking and direction?

Our investment strategy is designed to be flexible and able to respond quickly to changing circumstances. It was tested by the emergence of COVID-19 and coped well in the unusual market conditions. Our approach has not fundamentally changed; we continue to balance the search for investment return against the need to manage risk in the context of current conditions. Yields on our fixed income assets are lower than they were a year ago and, in the near term, achievable returns are likely to be lower as a result. We do not target a particular return, which could create pressure to adopt additional risk. We all hope that the particular challenges associated with COVID-19 will be temporary, but the dramatic expansion of sovereign balance sheets, leading to financial asset inflation, has been an issue for many years and is being amplified currently. This will continue to be a concern. General inflation remained low despite monetary stimulus in 2008/9 but, with more of the newly created money going to consumers in the current crisis, the outcome could be different. A dramatic rise in inflation seems unlikely, but even a fairly modest increase in the expected level could unsettle markets. We are carefully monitoring this aspect.

Q HM Treasury has issued a call for evidence around Solvency II regulation, with the aim of boosting investment in infra, and meeting climate change objectives. What do you think needs to be changed within SII and how will this affect your investment thinking at Beazley going forward?

We regularly review opportunities in infrastructure against our investment needs. Perhaps unsurprisingly, infrastructure investments typically have long horizons, which may generate attractive opportunities for life insurers with long tail liabilities, but are often less of a fit with the liabilities generated by our insurance activity, which typically have short duration. As a result, we do not have material exposure to infrastructure investments. The desire of regulators to encourage investments that create a wider benefit for society is laudable, however creating regulatory incentives to encourage particular behaviour may also create unintended consequences, such as the creation of solutions that seek to take advantage of the rules, rather than forming a balanced view of the underlying issues. This may be a particular concern in the area of sustainability, where the investment industry is racing to offer solutions to meet the exponential increase in demand, but the solutions themselves continue to develop rapidly as thinking matures. As a result, prescriptive regulation in this space could quickly become out of date. Insurers have a number of stakeholders, including policyholders and shareholders as well as regulators, all of whom are, and should, be requiring us to demonstrate that we are behaving responsibly in these important areas.

A qualitative assessment is undertaken to determine the extent of exposure to ESG factors and the strength of the company in the management of these risks

Q What is your ESG investment thinking at the business?

We take the view that active consideration of ESG risks is an important aspect of delivering strong long-term investment performance as companies demonstrating a commitment to sustainability generate stronger and more stable returns over time. We have incorporated the consideration of ESG risks in our investment process for a number of years and took the decision last year to strengthen this approach across our portfolio. The majority of our assets are directly managed internally by the investment team and a consideration of ESG ratings and research are an integral part of our investment process. A qualitative assessment is undertaken to determine the extent of exposure to ESG factors and the strength of the company in the management of these risks. This is overlaid by a number of screens that systematically exclude companies that are involved in certain product areas, who are poor ESG performers or in breach of international standards such as the UN Global Compact. Where assets are outsourced to third party managers we undertake an ESG audit to assess whether the funds managed on our behalf can be considered ESG compliant. Where funds are not compliant, we look to transition to ESG alternatives, although this is not possible in some asset classes in the short term, as the market is still evolving. As well as ESG screening, scoring, exclusion of poor performers and transitioning to ESG compliant external solutions, we monitor greenhouse gas emissions across our portfolio, aiming to consistently reduce the carbon footprint of our investments. Details of these measures are outlined in our Responsible Investment Policy which will be published in 2021.

Q What are your main aims over the coming years for Beazley and yourself as chief investment officer?

Beazley is an insurance business, driven by its underwriting. The investment team is here to support the business as it grows. Our role has developed in recent years and will continue to do so, as the requirements of the business change. Investment strategy has the potential to make a significant contribution, for better or worse. My goal is to ensure that we find the right balance between maximising available returns and controlling risk. This requires us to be flexible and responsive, as circumstances can change quickly, whether driven by financial market conditions or developments in the business.Consequently, the nature of our role is principally to respond appropriately to developments as they arise. As a result, the challenges are always different and my role changes from day to day, which is why I continue to enjoy it.

Q Away from the day-to-day role what do you do to relax?

I think normal activity has been suspended for most of us in recent times. Working from home has some advantages, but can make it more difficult to step away from the day-to-day role. Many of my colleagues also have additional childcare responsibilities in the current environment, making R&R particularly challenging, and important, at the moment. We have two active dogs and they are always willing to be entertained, so I get plenty of exercise. Otherwise, I have renewed a long dormant interest in chess during lockdown: not always relaxing, but certainly distracting.

Insurance Asset Management Awards 2020

THE WINNERS

26 November 2020, Online

Sponsored by

CONNING

DWS

PICTET Asset Management

STATE STREET GLOBAL ADVISORS SPDR

WELCOME

The fourth annual Insurance Asset Management Awards event was a virtual affair due to COVID-19 restrictions, but this didn't stop the insurance industry from donning their tuxedos and dresses to celebrate excellence, professionalism and innovation.

Insurance companies, asset managers, technology providers and consultants all tuned in, to see who would be rewarded for their efforts around product provision, innovation, focus on value and customer service.

Congratulations to all the prize winners and a very well done to all those shortlisted firms. Many thanks to all those who helped make the event such a success, particularly our sponsors - Conning, DWS, Pictet Asset Management and State Street Global Advisors SPDR. Your ongoing support allows a fantastic night like this to happen.

We look forward to welcoming you all with open arms again this year at our physical event, and rewarding all those that continue to excel in the insurance arena.

Visit www.insuranceassetmanagement.net for more details, and to read all the latest news and commentary in the global insurance industry as developments continue to be made.

Adam Cadle, Editor

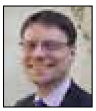
CONTENTS

Insurance Asset
Management Awards 2020

JUDGES

Adam Cadle
Editor
Insurance Asset Management

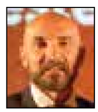
Huayin Liu
Chief Investment Officer
UNA Seguros



Matthew Connell
Director of Policy and Public Affairs
Chartered Insurance Institute

James Millard
Chief Investment Officer
Hiscox

Ross Evans
Head of Investment Solutions
EMEA, Reinsurance Group of America (RGA)



Corrado Pistarino
Chief Investment Officer
Foresters Friendly Society

Neil Holmes
Director – Insurance, Client Consulting
bfinance

Raymond Sagayam
Chief Investment Officer Fixed Income
Pictet Asset Management

WITH THANKS TO OUR SPONSORS

CONNING® DWS PICTET Asset Management STATE STREET GLOBAL ADVISORS SPDR®

insuranceassetmanagement.net/awards

@IAM_insurance #InsuranceAMawards

WINNERS 2020

INSURANCE COMPANY OF THE YEAR
Winner: **QIC Global**

INVESTMENT STRATEGY OF THE YEAR
Winner: **DWS**

ESG INVESTMENT STRATEGY OF THE YEAR
Winner: **DWS**

INSURANCE CONSULTANCY OF THE YEAR
Winner: **EY**

PASSIVE MANAGER OF THE YEAR
Winner: **Invesco**

ACTIVE MANAGER OF THE YEAR
Winner: **Pictet Asset Management**

FIXED INCOME MANAGER OF THE YEAR (UP TO €100BN AUM)
Winner: **Morgan Stanley Investment Management**

FIXED INCOME MANAGER OF THE YEAR (OVER €100BN AUM)
Winner: **Insight Investment**

ALTERNATIVES MANAGER OF THE YEAR
Winner: **Aviva Investors**

INFRASTRUCTURE MANAGER OF THE YEAR
Winner: **Generali Global Infrastructure**

PROPERTY MANAGER OF THE YEAR
Winner: **AXA IM - Real Assets**

MULTI-ASSET MANAGER OF THE YEAR
Winner: **Morgan Stanley Investment Management**

EMERGING MARKETS MANAGER OF THE YEAR
Winner: **HSBC Global Asset Management**

RISK MANAGEMENT FIRM OF THE YEAR
Winner: **Aberdeen Standard Investments**

TECHNOLOGY FIRM OF THE YEAR
Winner: **Financial Risk Solutions**

INNOVATION PROVIDER OF THE YEAR
Winner: **Mirova**

DIVERSITY AWARD
Winner: **Pictet Asset Management**

Insurance Asset Management Awards 2020

Winner

Risk Management Firm of the Year

RISK MANAGEMENT FIRM OF THE YEAR

Aberdeen Standard Investments

With risk management at the top of insurance companies' agendas, de-risking propositions have flooded the market. 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, their risks.

Leading the pack in this field is Aberdeen Standard Investments (ASI). The judges praised the firm's derivatives platform stating it is "ideally suited to the hedging and risk management needs of insurers".

ASI has spent many years and devoted significant resources to developing its derivative structuring and trading capabilities, working hand-in-hand with strategic insurance partners in order to ensure it is perfectly placed to service the derivatives needs of insurance clients, leveraging its dedicated investment execution, insurance ALM and derivative servicing teams. This allows ASI to offer flexible, market leading derivative trading solutions for insurers of all sizes, enabling them to efficiently and effectively manage their market risk and solvency ratios, using the ASI Derivatives Platform.

The firm offers a full spectrum of approaches allowing insurers access to its Derivatives Platform – from full discretion, under which investment decision making is fully outsourced to ASI, through to execution only services in which all analysis structuring and investment decision making sits with the client, with ASI taking responsibility purely for market execution.

In all cases the client makes full use of the ASI market footprint, counterparty management framework, and where required, collateral management services. And of course, under discretionary or advisory arrangements clients also leverage ASI's huge insurance ALM, structuring and markets expertise.

The strength of the ASI Derivatives Platform is driven by a synergistic combination of market practitioners, operational and analytical excellence, and robust technology. By leveraging capabilities from across the business, the firm delivers optimal risk and value outcomes for insurance clients. The Liability Aware Investing (LAI) team, for example, consists of nine ALM and LDI portfolio managers averaging 15 years of industry experience who work closely with the global insurance team and insurance clients to design, structure and implement derivatives based hedging strategies. Year to date, the LAI team have structured and implemented trades amounting to £2.7m of DV01, $15m of equity vega, and £3.7bn of equity futures notional for insurance clients using the ASI Derivates Platform. The ASI investment execution and multi-asset implementation teams are also well supported by dedicated and well-resourced teams covering counterparty management and legal documentation, derivative trade support and full collateral management services.

ASI is a true leader in this field. Congratulations.


For professional investors only.

ALM and the end of LIBOR

In July 2017 Andrew Bailey, speaking in his capacity and head of the UK Financial Conduct Authority, stated that as of the end of 2021 the twenty or so banks who submit fixings for the London Interbank Offered Rate, or LIBOR, would no longer be compelled - or persuaded – to do so. While the robustness and governance of these benchmark rates had been improved markedly following a string of damaging events around and before the Global Financial Crisis, it was no longer credible to suggest that the rates truly represented underlying transaction levels as the market they theoretically represented – that of unsecured term lending to banks – was no longer sufficiently active. With his speech, Mr Bailey put global financial market practitioners on notice – they must begin to prepare for the end of LIBOR

It is customary at this point in articles on this topic to quote one or more unimaginably large numbers, and perhaps develop a well crafted metaphor or two, to impress upon the reader the immense scale and breadth of the impact of LIBOR's end on financial markets. We won't do that here, but will say that LIBOR is ubiquitous, pervasive, and vital to the ongoing function of almost all participants in financial markets.

In this short article we will look at the impact of this momentous event on insurers in the UK. While the challenge associated with the end of LIBOR is a global one, the focus on the UK in this article is hopefully not controversial- the UK has been at the forefront of change for a number of reasons. The government, central bank, and prudential and conduct regulators have been pro-active, visible and absolutely clear that market participants should be prepared to thrive in a post LIBOR world by the end of 2021. In parallel, industry working groups acted decisively to anoint SONIA (Sterling Overnight Index Average), an interest rate benchmark based on actual overnight unsecured lending transactions, as a replacement risk free rate (RFR), allowing liquidity and confidence to quickly build in LIBOR-alternative instruments.

While LIBOR's demise will impact almost all aspects of a typical insurer's business, the focus in this article will be on asset liability management, or ALM.

What has happened so far?

Following Mr Bailey's speech, the initial focus of large, liability focussed institutional investors like life insurance companies and defined benefit (DB) pension schemes was on the exposure embedded in their derivative back books. UK lifecos and pension funds are amongst the world's largest users of interest rate derivatives, and were faced with hundreds of billions of pounds worth of exposure to a benchmark which wouldn't exist in the near future, and the immediate question asked by (and of) them, was "what do we do with this?".

The LDI managers of large DB schemes were among the first to move quickly in size, trading out of LIBOR interest swaps and into strategies based on gilts or OIS (overnight index swaps) referenced to SONIA rather than LIBOR.

Insurers by and large acted more conservatively. A more involved decision making process and governance framework likely had an impact here, while uncertainty around several key factors meant that a mass exodus from LIBOR didn't instantly materialise.

In particular, insurers were keen to understand how a shift in interest rate benchmarks would impact the liability discount rate prescribed by EIOPA under Solvency II, as well as the regulatory perspective on the various options open to them. For example, would stakeholders look favourably on a transition strategy which depended on the so-called fall-back mechanism, under which existing LIBOR referencing derivatives would simply default to referencing SONIA plus a pre agreed spread, or would insurers be required to pro-actively transition their exposures in the market? And would insurers who did pro-actively transition to a SONIA based derivatives hedging strategy be expected to hold basis risk capital indefinitely if their liabilities continued to be discounted on an adjusted LIBOR basis?

The output of various consultations and ongoing communication from regulators meant that clarity soon emerged around these key issues, and several large insurers reduced LIBOR exposure across their ALM hedging books through late 2019 and 2020. It's worth noting that this reduction didn't necessarily mean a direct transition to OIS. In some cases, it just meant collapsing offsetting LIBOR exposures. Elsewhere, the correct transition strategy might vary according to a number of factors: what is the nature of the liability? How much liquidity is available? Is the existing exposure centrally cleared? Is the existing book deep in the money? What are the decision makers' views on the relative value of the hedging strategies available? The answers to these questions can and should drive materially different strategies – moving into funded or unfunded gilt exposures, ETDs, cleared or bilateral OIS, or indeed, not to transition at all.

What next?

As of today, almost all new institutional GBP linear interest rate derivative exposure references SONIA and not LIBOR, while UK insurers have already removed LIBOR exposure from great swathes of their hedging back books. Nonetheless, there is still progress to be made in advance of expected LIBOR cessation by the end of this year. Deep and liquid markets still do not exist in key non-linear interest rate derivatives. In particular, swaptions are used commonly by UK insurers to hedge guarantee costs, the risk margin, and their overall solvency requirement, and markets in non-LIBOR swaptions might be politely described as embryonic. So an obvious next step for the market is a shift in focus to these exposures.

We also await an expected switch from LIBOR to SONIA based liability valuation. A recent PRA consultation paper suggests such a "big bang" style switch might be expected in Q3 of this year. The detailed taxonomy of the impact of this switch is worthy of an article in its own right, but here we'll touch qualitatively on a few of the anticipated impacts.

Quantitatively, this switch might expected to reduce liability discount rates by around 15 basis points. All else equal, a shareholder in an insurance company might view this negatively, expecting increased technical provisions, reduced own funds and an adverse impact on solvency ratio. In practice the picture is more nuanced. The transitional measure on technical provisions (TMTP) will limit the impact on business written pre-2016 (including most outstanding with profits liabilities), while new annuity business will see the shift in liability discount rate largely absorbed by the Matching Adjustment. While a an increase in the required risk margin for this business might be expected, the longevity risk that is the prime driver of that margin is largely re-insured.

So, other than perhaps encouraging laggards to switch to a SONIA based hedging strategy to mitigate basis risk, it remains to be seen whether the impending discounting change will have a material balance sheet impact.

Conclusion

The last three challenging years have seen the UK insurance industry address a range of issues as they prepare for the post-LIBOR epoch in 2022. While there is still work to be done, the big-ticket ALM items: transition of derivatives back books, hedging strategies for new business, and the treatment of liabilities – are being (or have already been) addressed. While outstanding questions remain around non-linear derivative markets, ALM teams across the UK can look toward the end of 2021 with confidence rather than trepidation.

Aberdeen Standard Investments

Insurance Asset Management Awards 2020

Winner

Investment Strategy of the Year

INVESTMENT STRATEGY OF THE YEAR

DWS

Getting the investment strategy right is one of the biggest challenges an insurance company or asset manager has to overcome, particularly given the current economic environment. This award recognises the firms that have implemented an investment strategy that sets the standards for the industry to follow.

Although creating absolute returns is a measure of success, the judges also wanted to consider how the strategy aligns with objectives. They said this winning firm showed good focus on product innovation, as well as high levels of governance and relevance for insurers. The Investment Strategy of the Year goes to DWS.

European insurance investors have been increasingly investing in the private debt market to access alternative fixed income with a relatively favourable capital treatment under Solvency II. To help insurers access this market, DWS launched an innovative solution that leverages Deutsche Bank's (DB) loan book for European private mid-market senior loans.

The co-investment vehicle enables insurers to participate in the attractive mid-market loan segment alongside DB's balance sheet, with DWS assuming the fiduciary role. Of the €545m committed so far, over 75% comes from insurance investors which have acknowledged the diverse and material sourcing capabilities, multi-layered risk management framework and unique alignment of interest.

The DWS and DB co-investment vehicle for European mid-market loans is structured in a way that appeals to insurance investors. Some of the key features it offers are reporting that is pertinent and relevant to insurers, a focus on senior loans, proprietary rating approach, as well as a governance structure that provides full alignment of interest and "skin in the game."

With insurers' interest in steady income, private debt has become a compelling option in the current yield environment and insurers of all sizes and sophistication have begun to invest into corporate, infrastructure and real estate debt. Historically, loans have been underwritten by commercial banks, but as these have become more risk capital-aware, therefore taking less lending risk and partially even withdrawing from certain lending activities at all, credit funds have stepped in to provide financing.

DWS believes a well-defined governance structure makes the vehicle ideal for insurers seeking to invest in this attractive market, with DB investing alongside investors with absolute and relative minimum hold amounts, as well as mechanisms to ensure alignment of interest if loans need to be sold or worked out. The innovation is in the structure. Given the difficulties that insurance companies can have allocating to this asset class, this vehicle has shown it has the potential to deliver an investment solution that is extremely well suited to insurers. Congratulations to all at DWS for an outstanding strategy.

Insurance Asset Management Awards 2020

Winner

ESG Investment Strategy of the Year

ESG INVESTMENT STRATEGY OF THE YEAR

DWS

The ESG Investment Strategy of the Year, open to entrants with a presence in the UK, is awarded to the insurance company or asset manager that can demonstrate it has conscientiously considered its investment decisions in an ethical and fair way, and produced exceptional returns for its clients.

The judges said this firm displayed evidence of both ESG screening in a challenging segment of the investment space, and strong credentials in the High Yield (HY) space, on top of an all-round positive performance. DWS is the winner of the ESG Investment Strategy of the Year.

For years, DWS has successfully implemented different ESG investment approaches in segregated accounts for its insurance clients, in accordance to its specific understanding of ESG. Using this capability, the firm has also created a range of ESG mutual funds for investors, one of which is the DWS Invest (ESG) Euro High Yield Fund.

This Fund applies the DWS Corporate ESG Standards which are mandatory for all ESG labelled DWS mutual funds across asset classes. These Standards set out a transparent set of ESG requirements, excluding corporations which generate any revenues from controversial weapons, those who generate more than 5% of their revenues from tobacco, military defence, adult entertainment, gambling or nuclear power, as well as those who generate more than 25% of their revenues from coal.

The Standards exclude corporations with reconfirmed UN Global Compact Norm violations, and limit exposure to those with severe violations. They allow DWS to avoid corporations which lag behind in their general ESG profile, or ESG best-in-class, and they exclude corporations with a poor carbon transition risk rating.

All the data points needed to filter the investable universe of the fund are provided by the DWS ESG Engine, a proprietary software system that represents a centrepiece in the firm's efforts to integrate ESG into its investment processes for all liquid asset classes (As of year-end 2019 DWS had €451bn in integrated ESG assets).

With DWS' multi-vendor approach, its ESG Engine yields a comprehensive coverage. Starting with the world's 200 sovereign states, there are 3,000 corporations for which there is complete coverage across all vendors. There are 10,000 issuers with "some" ESG information and 13,000 for which, at least, norm violation and sector involvement tests can be applied. The number of securities the ESG Engine can map and handle is beyond 100,000 and covers all securities ever live traded in DWS's systems.

As the understanding of ESG across the sector is subjective, it is DWS's clear set of mandatory ESG requirements to ensure transparency and consistency that particularly impressed the judges.

Congratulations to all at DWS for an exceptional submission. The firm is a clear leader in the ESG investment space.

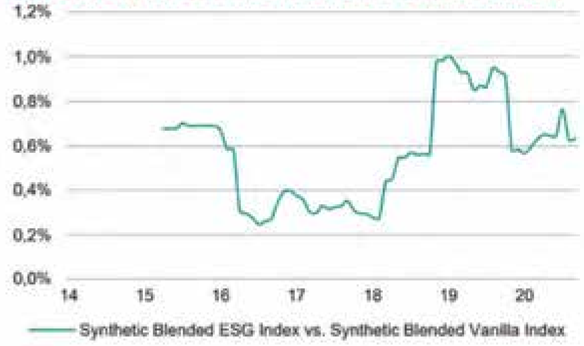
Integrating ESG into Strategic Asset Allocation for Multi-Asset Portfolios

Insurance companies now more than ever should consider integrating ESG into their Strategic Asset Allocation (SAA) process. For unit-linked funds and retirement solutions, in particular, consumers are starting to demand and expect a fully integrated ESG approach to their retirement savings.

While there has been much research in recent years about how to integrate ESG into various asset classes, ESG research on a total portfolio level—or SAA level—however, is still limited. As a 2019 PRI publication put it, the integration of ESG aspects in SAA "is an area that has received relatively little coverage about what it should mean in practice[1]."

A recent analysis from DWS ("ESG in SAA: A Practical Implementation Framework" published Dec. 2020) seeks to address the current "blind spot" of research to further facilitate ESG integration comprehensively at an overall multi-asset portfolio level. The specific objective is to (i) understand the potential impact of integrating ESG factors on risk adjusted returns, (ii) what is the best approach to minimise impact. **The analysis concludes that it is possible to have portfolios that reduce significantly ESG risks without meaningfully different risk-adjusted returns versus traditional index SAAs at relatively low levels of tracking error ("TE").** We estimate that the optimal ESG impact can be achieved for TEs between 75 and 100bps, although an investor's preference between their risk budget and ESG utility function will determine their appropriate trade-off between these two measures.

FIGURE 6. ROLLING 12M TRACKING ERROR OF ESG ASSET ALLOCATION VERSUS TRADITIONAL ASSET ALLOCATION



Source: DWS Investments UK Limited. Data from 30 April 2014 to 30 September 2020

FIGURE 5. EMPIRICAL RISK AND RETURN STATISTICS FOR ESG SAA (ESG INDEX IMPLEMENTATION) AND TRADITIONAL ASSET ALLOCATION (TRADITIONAL REGIONAL INDEX IMPLEMENTATION)

30 Apr. 2014 – 30 Sep. 2020	ESG SAA	Traditional SAA
Compounded Annual Growth	7.5%	7.3%
Annualised Monthly Volatility	7.2%	7.3%
Sharpe Ratio	1.09	1.03
Worst drawdown	-18.2%	-18.2%
Median monthly return	1.0%	0.9%
Best monthly return	5.7%	5.8%
Worst monthly return	-6.9%	-7.2%
% of months with gains	68.8%	67.5%
Correlation	1.00	
Ann. Monthly Tracking Error	0.6%	
Information Ratio	0.48	

Source: DWS Investments UK Limited. Data from April 30 2014 to September 30 2020

Insurance Asset
Management Awards 2020

Other key findings include:

- ESG integration can be run for either individual asset classes or at a total portfolio level. The combined approach (optimising the SAA and implementing via ESG indices) is the most efficient approach from the standpoint of total ESG utility versus tracking error.
- Basic integration optimised across regional indices, sector indices and ESG Indexes provides different levels of ESG improvement that depend highly on index/fund selection. The impact can vary from a reduction of 10% to F-rated (highest risks) stocks and carbon intensity to as much as 80% and 50% respectively for the same tracking error of 25bps.
- Changes in regional weights improves the portfolio ESG characteristics only slightly.
- Better (ESG) results can be achieved constructing the SAA with traditional sector indexes instead of regional ones.
- Much better results can be achieved overall by allocating to ESG indexes. The share of worst ESG-rated securities[2] can be reduced by circa 80% and the carbon footprint by 50% versus a traditional SAA approach – for tracking errors as low as 0.25%.

While we recognise that alternative asset classes and private markets can play a significant role in enhancing the ESG characteristics of a strategic portfolio, this framework is focused on presenting an intuitive, implementable solution for liquid asset allocations. As such, liquid portfolios such as those offered as part of retirement solutions and unit linked funds, can use such a framework to be fully ESG integrated and optimised today. If they have not done so already life insurers should consider a fully integrated approach for these portfolios.

DWS

[1] Principles for Responsible Investment. (September 2019). "Embedding ESG Issues into strategic asset allocation frameworks: Discussion paper."
[2] Ratings are based on the DWS ESG Engine

Insurance Asset Management Awards 2020

Winner

Fixed Income Manager of the Year
(up to €100bn AUM)

FIXED INCOME MANAGER OF THE YEAR (up to €100bn AUM)

Morgan Stanley Investment Management

Fixed income has evolved from a safe sleepy asset class into a dynamic asset class with diverse options for insurance firms today. This award recognises the providers with up to €100bn AUM in the institutional investment space that have not only displayed innovation in this area to take advantage of the opportunities out there, but also have the performance numbers to prove their expertise.

The judges said this firm displayed a wide range of fixed income capabilities and a clear focus on understanding the impact of regulatory impacts that are embedded in their systems. The winner is Morgan Stanley Investment Management (MSIM).

This asset manager has extensive fixed income resources, infrastructure and capabilities for insurance clients. MSIM has a dedicated insurance solutions group which works closely with the fixed income portfolio management team to understand client goals and create customised solutions for insurance clients.

Upholding a commitment to continuously expand and develop its team, expertise and infrastructure has also enabled the firm to support its insurance client relationships across Europe. MSIM's global fixed income team manages insurance portfolios across the sub-asset class spectrum, which includes government, investment grade and high yield credit, emerging markets debt, mortgage-backed securities and convertible bonds.

The group structure consists of well-resourced teams of experienced sector specialists with deep expertise in all key areas of fixed income, and excellent knowledge of Solvency II and insurance drivers. This well-established infrastructure has helped MSIM to manage return-on-capital optimised insurance solutions for active multi-asset fixed income. European insurance continues to be one of the firm's growth areas.

MSIM also has formalised extensive ESG integration within its investment process. The firm has created a proprietary ESG scoring system and engages with issuers in respect to ESG issues, to ensure support of insurer ESG requirements. This has allowed the asset manager to create a unique and scalable approach that applies to hundreds of issuers of credit.

The group's investment expertise is evidenced by strong track records, with 100% of MSIM's fixed income assets invested in strategies that outperformed their benchmark over 12 months, 100% over three years, and 93% over five years, as of 31 December 2019. Examples of pooled funds that have outperformed within credit are the Global Credit Fund and Euro Corporate Fund. Within multi-sector, outperformance has been seen in the Euro Strategic Fund, Euro Bond Fund and Global Fixed Income Opportunities Fund.

MSIM is now one of the fastest growing fixed income managers for insurance in Europe. Congratulations to all involved for an outstanding year.

Morgan Stanley Investment Management Fixed Income:

Delivering a Breadth of Capabilities and Deep Resources to Insurers

The search for income and returns continues to be a challenge for insurers. In the current environment, active fixed income investing can help uncover potential opportunities that can be easily overlooked. The Morgan Stanley Investment Management (MSIM) Global Fixed Income Team's combination of investment knowledge, breadth of resources and deep insurance experience makes it distinctly positioned to deliver exceptional solutions to meet a range of our insurance client's goals.

The Global Fixed Income Team offers:

- **Extensive fixed income resources.** The Global Fixed Income Team is an experienced, high-quality team with significant depth of investment resources, keenly focused on having an in-depth understanding of each insurance client's goals to deliver solutions to meet those needs.
- **Capabilities Across Sectors.** The Team manages portfolios across the fixed income spectrum to meet a variety of risk profiles, solvency capital budgets and income and return goals, with dedicated research teams specializing in a particular area of the market.
- **Full Environmental, Social and Governance (ESG) integration.** The Team has a formally integrated ESG analysis within our investment process for our insurance clients. We operate a proprietary ESG-scoring model that explicitly considers the risks and opportunities ESG factors pose to fixed income.
- **Value-driven philosophy.** As value managers, the Team seeks to identify and capture the potential value in situations where the market's implied forecasts are extreme. In the long run, the team believes value prevails and research wins.

Solvency II Driven Insurance Product Innovation

Since the advent of Solvency II, the Global Fixed Income team has embedded SCR management within its process for European clients.

Through a seamless interdisciplinary effort with MSIM resources, the team has developed an enhanced investment process. The extensive insurance infrastructure and capital management framework provides clients with what we believe to be essential and significant benefits, including enhanced client control, capital optimisation within the portfolio construction process, and articulation of return-on-SCR optimisation through MSIM's bespoke, transparent and versatile portfolio modelling approach.

ESG Considerations at the Core of a Robust Investment Process

Increasingly, ESG is at the heart of insurance investment management. Our proprietary ESG model marries third party ESG data (MSCI, Sustainalytics) with proprietary sector views, allowing us to create a unique and scalable approach applying to hundreds of issuers of credit.

In addition, our credit sector specialists directly engage with issuers on ESG issues. The Global Stewardship Team leads the divisional engagement process ensuring our feedback is most effectively considered and acted upon.

Together, MSIM Fixed Income offer an extensive product suite with distinct points of differentiation to help deliver robust solutions for insurance clients' goals.

Insurance Asset Management Awards 2020

Winner

Multi-Asset Manager of the Year

MULTI-ASSET MANAGER OF THE YEAR

Morgan Stanley Investment Management

This award goes to the multi-asset manager that has delivered an exemplary performance over the past year, delivering strong returns for insurance clients through a wide range of investment strategies.

The IAM judges said that "this firm's Global Balanced Risk Control (GbaR) strategy has generated attractive returns from flexible, globally diversified portfolios whilst meeting Solvency Capital Requirement (SCR) constraints. The winner is Morgan Stanley Investment Management (MSIM)".

With fixed income yields low, solvency capital costs challenging, and volatility set to continue, insurers are increasingly turning to multi-asset solutions to dynamically access economic and Solvency II capital efficient returns. MSIM's GBaR strategy is an established approach to managing multi-asset portfolios. It follows a process specifically designed to provide stable risk-adjusted returns, and is closely aligned with the dynamic objective setting of insurers.

Morgan Stanley INVESTMENT MANAGEMENT

Since June 2009, MSIM's GBaR team has managed globally-diversified multi-asset portfolios targeting stable risk, and the GBaR process is highly flexible in asset allocation shifts – especially in exposure to risky assets. Since inception, this GBaR strategy has built a strong track record.

For the firm's European insurance clients, an interdisciplinary team of GBaR portfolio managers and MSIM's insurance specialists have also designed innovative ways to include SCR constraints in GBaR. The SCR is highly dependent on a portfolio's asset mix, and MSIM says an appropriate management of this asset mix is essential to ensure the efficiency of return and risk management, and to avoid unnecessary volatility for the insurer's balance sheet.

MSIM suggests that a customised SCR management solution can provide flexibility for the investment manager to allocate within the bounds of asset objectives, constraints and an SCR budget. Wider portfolio constraints have also allowed the manager to add alpha and reduce risk across evolving reward/risk profiles. This is how the firm has maintained economic optimisation while adhering to Solvency II regulations. The ability of this GBaR strategy to facilitate an SCR-limit allows MSIM's insurance clients to retain control of capital budgeting when outsourcing multi-asset mandates, which by nature will have a varying SCR.

Over time, this GBaR strategy has generated attractive, stable risk-adjusted returns, from flexible, globally-diversified portfolios. The strategy is well suited to meet the needs of insurers seeking higher returns, all whilst meeting SCR constraints.

Congratulations to all at MSIM for the award and an excellent submission in this category.

Global Balanced Risk Control (GBaR) Strategy:

Risk is a starting point for insurers — not an afterthought

Most investment managers designate a benchmark to evaluate returns. Far fewer designate a benchmark focused on volatility. We are one of the few who do. At Morgan Stanley Investment Management, our investment process begins with risk. The Global Balanced Risk Control (GBaR) Strategy is a risk-controlled global multi-asset strategy with a highly innovative approach to manage the Solvency II capital requirements of insurers.

Since 2009, the GBaR team has managed globally diversified multi-asset portfolios, following a process specifically designed to provide stable, risk-adjusted returns. When Solvency II was introduced, we were able to harness the flexibility and risk management capabilities of our well-established multi-asset strategy to operate under the new regime and meet the evolving needs of our insurance clients. This is due to a key differentiating feature of the GBaR strategy: **when constructing portfolios, our starting point is a risk target, volatility or VaR**. There is no traditional benchmark. Instead the portfolio managers apply a flexible asset allocation process enabling them to dynamically adjust positioning and navigate changing conditions throughout market cycles to maintain a stable risk profile. By doing so, we seek not only to participate in rising markets, but also to limit downside in volatile markets.

To achieve this, **anticipating volatility is crucial** and the GBaR team continually surveys the macroeconomic and geopolitical conditions to identify potential sources of risk, aiming to adjust portfolio exposures before volatility strikes.

Innovative approach to embrace SCR constraints

Based on this time-tested asset allocation and optimisation process, **the GBaR portfolio managers partner with MSIM's European Insurance Solutions team** to design innovative ways to include Solvency Capital Requirement (SCR) constraints in multi-asset portfolios for our insurance clients. The GBaR strategy's flexibility allows for wide portfolio constraints, enabling potential alpha generation and reduction of risk across evolving reward/risk profiles. Thus, **economic optimisation can be maintained while adhering to Solvency II regulations**.

It is in this context that the GBaR investment process seeks to:

- maximise returns, while actively managing total portfolio volatility and incorporating Solvency II constraints
- dynamically allow for clients' changing risk management and SCR criteria
- participate in rising markets and provide downside protection in volatile markets, for a smoother performance profile
- add value from tactical insights into global markets

Finally, we are pragmatic - depending on the market environment, it is not always necessary to use the entire SCR limit to maximise returns.

When insurers outsource a part of their investment activities they remain fully responsible for adhering to all aspects of Solvency II, including maintaining a risk management system, which defines risk tolerance limits and actions to ensure limits are met. The GBaR team's ability to incorporate the clients SCR limits means that each client has control of their capital budget.

Given the above, we believe the GBaR strategy is well suited to meet the needs of insurers seeking higher returns and to help them meet their Solvency II capital requirements.

Insurance Asset Management Awards 2020

Winner

Infrastructure Manager of the Year

INFRASTRUCTURE MANAGER OF THE YEAR

Generali Global Infrastructure

At one of the most challenging times in insurance firm investment, infrastructure is now being taken seriously as an asset class among insurance companies across the UK, Europe and the rest of the globe. This award recognises those players that understand this complex asset class and are working hard to help insurance firms reap the potential rewards.

The judges said this winning firm places emphasis on assets that positively contribute to sustainable and inclusive development. They also praised its monitoring of ESG performance during the life of the asset and use of proprietary ESG scorecards to assess potential investments. The winner is Generali Global Infrastructure (GGI).

Set up in 2018 by the Generali Group and three managing partners, GGI is an independent asset management company dedicated to infrastructure investments. Being part of Generali Investments' multi-boutique platform allows GGI to offer robust governance, innovative investment solutions and to benefit from a strong support from the Generali insurance group. This includes access to long-term seed capital and the necessary scale to ensure optimal capital deployment, something which the firm argues is key in the infrastructure asset class.

With €3bn AUM, both for third party investors and Generali Group, GGI has rapidly built one of the largest infrastructure debt investment teams in Europe, characterised by remarkable global sector and credit expertise, as well as a distinctive international market footprint and track record.

The company operates across a wide investment scope based on a strong conviction that is important for extracting the best from the asset class, and to generate the best relative value for its investors across different sectors and geographies.

With an investment philosophy aiming to make a difference, GGI supports investors in driving capital towards assets that contribute to sustainable development. The group believes the development of sustainable investment principles for the asset class is key in directing capital towards positive infrastructure investments, encouraging virtuous behaviours from infrastructure asset owners, accelerating to reach the UN Sustainable Development Goals (SDGs), and mitigating ESG risks that the asset class may carry.

GGI monitors ESG performance during the life of each asset, with importance given to gathering and reporting on impact indicators – such as annual greenhouse gas emissions. In particular, GGI evaluates the carbon impact of its portfolios against the wider reduction goals set by the Paris Agreement, and makes sure all portfolios are compatible with a 2°C trajectory.

The firm's strategy is clearly implemented through unique access to a pipeline of opportunities, a rigorous investment process and a high level of selectivity in order to select only the most appropriate and attractive transactions. Congratulations to all at GGI for an outstanding submission.

Insurance Asset Management Awards 2020

Winner

Emerging Markets Manager of the Year

EMERGING MARKETS MANAGER OF THE YEAR

HSBC Global Asset Management

The Emerging Markets Manager of the Year Award is given to the firm truly embracing the emerging market space to the benefit of its UK/European and global insurance clients.

The judges said this firm's solution addresses the issues that EM investments can have large SCR capital charges, and its strategies reduce these charges for clients. They said its main fund in this area is truly innovative to support climate risk-mitigation investments across emerging markets. The winner is HSBC Global Asset Management.

The firm's Solvency II attractive capabilities in emerging markets are exemplary. It applies three steps to make an EMD Total Return Strategy more efficient in terms of SCR Market. Firstly, an optimisation of the bond portfolio is applied to reduce SCRspread, resulting in a c.15%-25% reduction in spread. Secondly, the firm hedges only the USD exposure to EUR (as opposed to using a EUR-hedge share class), reducing the SCR FX by typically around 20%. Lastly, omitting or limiting CDS to sell protection is applied, further reducing SCRspread. The result is an SCR Market of around 15%-18% depending on positioning and EM currency return potential is still available.

2020 also saw the close of the HSBC Real Economy Green Investment Opportunity (REGIO) GEM Bond Fund. This innovative proposal is the first find of its kind in the market and raised US$474M of new financing to support climate risk-mitigation investments across emerging markets. Emerging market countries have been hit by some of the worst impacts of climate change and many are insufficiently equipped to address them. REGIO is designed to attract investments into these economies, enabling their energy transition and helping them limit the effects of climate change. Furthermore, the fund is supported by the firm's 'Green Impact Investment Guidelines' which set out a framework that is aligned to the UN Sustainable Development Goals and contributes directly to financing the objectives of the Paris Climate Agreement.

Additionally, by leveraging its global infrastructure debt origination capability, HSBC Global Asset Management is looking to create a stand-alone Investment Grade Emerging Markets Infrastructure Debt capability. Particularly at this time of market disruption, senior infrastructure debt offers strong, defensive characteristics relative to corporate fixed income and relative to junior debt and equity.

The firm also provides a range of thematic publications, white papers and videos on this area, with the objective of providing a good understanding of global regulatory developments relating to insurance investments.

HSBC Global Asset Management is the clear leader in this field and should be strongly applauded for its outstanding work throughout the year. Congratulations.

Customised EMD solutions broaden opportunities for insurers in the fixed income universe

Written by
Deepak Seeburrun,
Head of Insurance, EMEA,
HSBC Global Asset Management

The evolution of Emerging Market Debt as an asset class for insurers has become the norm in most investment debates amongst CIOs, whether considering an asset allocation to the balance sheet of a life or non-life insurer.

Insurers face huge challenges both from a regulatory capital (eg Solvency II) and an investment perspective. In the current low-yield environment, insurers are exploring ways to enhance yield of their core fixed income bond portfolio by broadening their investment horizon in both public or private markets. Investing into an EMD currency hedged share class in the public space has proven to capture a yield pick-up, maintain a low capital charge and not sacrificing too much liquidity relative Developed Markets.

Insurers are concerned about their investments' impact on regulatory capital, EMD is an efficient way to add income and return within an ALM framework. Life insurers are typically more sensitive to investment capital charges because they can have a greater impact on their overall solvency ratios. We have devised bespoke solutions in the form of EMD segregated mandates for insurance clients in order to max yield and min regulatory capital within an ESG framework.

At HSBC, we recognise the importance to customise EM debt mandates in order to achieve desired risk, return, yields, duration profiles. This asset class is also being viewed as a strategic long-term portfolio allocation for insurance companies with long dated liabilities. For example, we work with life insurers and annuity writers by building Matching Adjustment eligible portfolios. Issuances in hard currency is an important factor from a hedging cost, liquidity and regulatory capital standpoint.

Our portfolio managers focus on valuations, technicals and timing of investment entry/exit to harvest alpha most efficiently. The team's overall positioning therefore reflects the marriage of our top-down macroeconomic views with our bottom-up analysis based on relative attractiveness.

One of our key strengths is our portfolio engineering process. The team back tests and stress tests changes to portfolio positioning in order to understand the risks the team is taking in the portfolio. This testing is performed in terms of beta and correlations to the benchmarks and to factors which have a strong influence on the performance of the asset class. The results of the stress test also give us an indication of how current portfolios might fare in different market environments, including various forms of crisis.

HSBC's global footprint is a key competitive advantage that sets us apart from many other Managers. As such, our Global Emerging Markets Debt team leverages extensive knowledge and insights from one of the world's largest emerging markets investment platforms. With offices in 26 locations, access to the global resources of HSBC and its broad network in 70 countries and territories including key emerging markets (Mexico, Argentina, China, India) supports an unparalleled network of emerging markets fixed income capabilities. We feel that this access to local "boots on the ground" provides valuable insight into local trends and sentiment that is an important information advantage in our process and is a definitive advantage that cannot be easily replicated by others.

One step at a time

Michael Griffiths examines how insurers are going about decarbonising their investment portfolios

WRITTEN BY **MICHAEL GRIFFITHS**

In the very first hours of Joe Biden's presidency, the US was reinstated to the Paris climate agreement. It reversed the decision that saw the world's second largest emitter of greenhouse gases withdrawn from the Paris deal under Donald Trump, and was a power move that marked a profound change of course in the discussion around climate change.

There is an expectation that governments will follow through on their own commitments to ensure the objectives of the Paris agreement are met, and this has been echoed in the commitment of the United Nations-convened Net-Zero Asset Owner Alliance (AOA). Members of the Alliance have obliged to transition their investment portfolios to net-zero greenhouse gas emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures.

January saw the UN AOA announce its latest commitment of setting climate targets for 2025. This Inaugural 2025 Target Setting Protocol comes as individual members of the Alliance – which now numbers 33 institutional investors representing $5.1trn assets under management – are beginning to publish their own 2025 decarbonisation targets, each within a 16 to 29% range.

That announcement confirmed that the Alliance will be issuing the "transparent, rigorous and realistic targets" set by its members over the next four years, but how exactly will insurers arrive at these? For all the talk at every level of the climate discussion, and of future targets to be met by 2025 and 2050, how are the issues being addressed in the here and now?

Allianz was a founding member of the UN AOA, and as part of its own decarbonisation targets, recently revealed that by 2025 it aims to reduce emissions from selected asset classes in its portfolio of customer funds by 25%, compared to their 2019 level. Global head of risk and monitoring at Allianz Investment Management SE, Udo Riese, confirms that the targets set by the Alliance members are just a start for the insurance industry.

"We do not know exactly the number of insurance companies globally, but it is definitely a four-digit number," says Riese. "We have roughly 25 insurance companies as members in the UN AOA – so, indeed, there is still a long way to go."

In terms of the decarbonisation process itself, Riese believes the transition to a net-zero world requires a different process from every individual member of the Alliance, rather than a one-size fits all approach.

"There is no general rule," he says. "Each organisation will have a different approach depending on their liability structure, their investment management approach, and their regional portfolio allocation among other factors.

"The target is that investee companies decarbonise really quickly, so that insurers can engage with investee companies and allocate capital to those business models which master the transition best. In general, we would expect more often a stepwise approach."

So what are those steps towards a decarbonised portfolio? In the time since the 2015 UN Climate Change Conference that led to the Paris agreement, both the insurance and asset management sides of the investment space have seen an uptick in divesting fossil fuel companies from portfolios, as well as an increased focus on impact investing. The 2020 Annual Impact Investor Survey by the Global Impact Investing Network (GIIN) recently estimated the total impact investing market size at $715bn.

"In the short-term, we need to think about how we're actually going to change our portfolios today," says

> Ultimately, one goal has to be making the investment universe itself carbon neutral, or at least more carbon friendly over the next 30 years

Robeco global head of insurance strategy, Ed Collinge. "You really can't plan with certainty what is going to happen over the next 30 years, so it's a case of putting stepping stones in place. Typically, it's fair to say that people are looking at five-year goals, if you look at the UN AOA.

"An insurance company is not going to suddenly sell all of their portfolio today and buy a new portfolio tomorrow that is 25% lower carbon. They're going to do it by letting assets mature and reinvesting.

"One question is whether you can get a better return by investing in lower carbon companies, and we very much believe that works for the medium to longer term because if the world is moving towards carbon neutrality, then these companies should outperform their peers that are not on that journey.

"The other question is when you're building your insurance constraints, how do you ensure you're getting at least the same risk adjusted return expectation, while reducing carbon on your portfolio."

The role of the asset manager

On the asset management side, Robeco has become an expert in the world of decarbonisation in recent years, with a focus on climate risk and how that is built into investment portfolios. This was echoed in the group's announcement in December that it plans to be greenhouse gas neutral across all of its portfolios by 2050. Collinge tells *Insurance Asset Management* that to see more action on the decarbonisation front, "the investment universe has to change".

"If you were to invest in a carbon neutral portfolio today it would have a huge impact on your returns because you'll be excluding large parts of the investment universe," he says. "Ultimately, one goal has to be making the investment universe itself carbon neutral, or at least more carbon friendly, over the next 30 years.

"Insurers are clubbing together on this carbon neutral journey that improves the ability to engage with corporates, because they know big institutional investors want a carbon neutral world, and a carbon neutral investment universe. If they don't change their own investment philosophy at some point, they almost become 'uninvestable'.

"One of the things we help insurers and institutional investors with is how they engage with these corporates to make them more carbon friendly. We encourage them on that investment journey, so we think of that very much as changing the investment universe."

Collinge describes thinking of carbon as a "natural extension of ESG", with Robeco active in both Climate Action 100+, as well the UN's Sustainable Development Goals (SDGs). He highlights active engagement as the key to changing

the investment universe.

"In terms of what we do on the active engagement and ownership side, it is something we're very proud of," he adds.

"For many insurance companies and asset managers, they're really just starting their ESG journey, and focusing on carbon within the ESG journey is not an easy to step to make. If they're at the beginning of that journey, then they need a partner who can support them in that process.

"It's not just about us providing asset building blocks, it's also about how we can support them in looking at carbon across their portfolios, give them broader sustainability messaging, and help them identify what they are trying to achieve as a firm."

Head of insurance and pension solutions at Robeco, Remmert Koekkoek, describes the dialogue between asset managers and insurers: "What we manage to focus on in our discussions with insurance companies, is looking at how they incorporate these climate change goals to lower the carbon footprint within their current regulatory framework, but also without impacting their possible returns. That is the main challenge.

"It involves a step by step approach because, of course, 2050 is a long way away. If you are an insurance company, you want to have limited turnover, and maybe you are buying a new 30-year bond tomorrow to ensure cashflow. That bond might stay in your portfolio for 30 years, so you need to be absolutely sure on that company you're buying. Those are the discussions we're having to make sense of this complex puzzle."

Collinge adds: "It's about how you can put all the bits of this puzzle together in terms of reaching that overarching target. If you have a 25% reduction target, you're not going to get a 25% reduction in every single asset class. It's going to come together as a mixture across all portfolios."

Carbon data

One clear message rising from the industry is that making sense of this puzzle brings the challenge of data. Analysing where the carbon is within an investment portfolio also means understanding and interpreting carbon data.

Typically, a company's greenhouse gas emissions are classified in three scopes; direct emissions from company-owned and controlled resources (Scope 1), indirect emissions from the generation of purchased energy from a utility provider (Scope 2), and indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions (Scope 3).

Allianz, as well as several other members in the UN AOA, has a carbon footprint oriented towards the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. However, Riese argues that

"It involves a step by step approach because, of course, 2050 is a long way away more transparency is still needed.

"The biggest challenges are data, data and data," says Riese. "Data availability, data consistency and data comparability. Implementing decarbonisation targets means understanding the future emission pathways of investee companies. Much more work needs to be done here, and the overall transparence needs to increase dramatically."

Koekkoek adds: "Data is a challenge. Of course there are multiple data vendors out there so getting all the data you need is definitely doable. But what is also important, once you have your data in order and nicely attributed to each company, is that you could have carbon footprint data based on reporting that is one or two years old. You essentially want to know what the carbon footprint of a company will be in five, 10 or 20 years from now, especially if you are an insurance company and want the in-depth knowledge of the decarbonisation strategy of that company.

"So, you actually need to combine the two – the current state of affairs with the data that you have, but even more of a challenge and more time-intensive is getting to know the company and their decarbonisation strategy, and working out how that fits into your portfolio."

In terms of how to increase the transparency of carbon data within the insurance space, Aegon believes the industry has come far in recent years, but says there are a number of barriers still to progress to advance overall ESG investing. Aegon managing director for investment solutions, Tim Orton, suggests a standardisation of reporting requirements from regulators is required to further decarbonise portfolios.

"The FCA has already indicated its direction of travel in this respect and we welcome this," Orton says.

"It's crucial that investors can understand a fund's ESG focus, its objective, how it intends to meet its targets, and any constraints on its investible universe. They should be able to clearly measure a fund's performance against its objectives in this respect and this is a lot more complicated than merely quoting performance against a benchmark.

"Managers will have to invest more in this area to ensure there is clear and transparent reporting in terms that customers can understand. Some major insurers have made commitments in this respect, but there is more that can and should be done here.

"On Aegon's part, we recently committed to achieving net-zero carbon emissions for our default funds by 2050, and we are exploring the feasibility of halving emissions by 2030. Others will surely follow as customer demand and regulation in this area increases."

The life insurer says it has embarked on this process that focuses on its scheme defaults because over 95% of its scheme members remain in their scheme default.

Orton adds: "To help meet this target, we are investing our default strategies increasingly in underlying funds that have specific targets around reducing carbon emissions. By the middle of 2021, we anticipate having around £3bn of our total default fund assets invested in ESG strategies, which will take us a long way towards our net-zero target."

Aegon's announcement is just another example of the industry's "stepwise approach" towards reaching 2025, and 2050, while keeping a lid on a maximum global temperature rise of 1.5°C. For the overarching goal of the Paris agreement to be met, however, it seems the insurance sector has several more steps to take.

Perhaps for the next step to be taken in 2021, which can be backed with more confidence by Joe Biden's power move on climate at the start of the year, the current message from the insurance industry dictates that this needs to come in the shape of more standardised reporting on data – which as Collinge suggests, might just create "focus".

He concludes: "I don't see regulation as a challenge or an issue, but I think it's a natural incentive for insurers to take all this on board.

"When people start having to analyse their liability and asset portfolios against climate risk then it creates focus. I don't see that as a hurdle, I see it as something that helps the journey along."

"By the middle of 2021, we anticipate having around £3bn of our total default fund assets invested in ESG strategies, which will take us a long way towards our net-zero target

Insurance Asset Management Conference

Insurance Asset Management Conference 2020

Our virtual conference provided the latest insights into the insurance world from the industry's leading spokespeople

WRITTEN BY **ADAM CADLE**

SPONSORED BY

PICTET Asset Management

STATE STREET GLOBAL ADVISORS SPDR®

UBS

The second annual *Insurance Asset Management Conference* took place virtually on 26 November 2020 and addressed the key topics on insurance companies' agendas. Subjects ranging from ESG and climate change through to fixed income and alternatives were discussed, and any trends expected to be carried forward to 2021 were analysed.

ABI director general Huw Evans was the first keynote speaker of the day, focusing in particular on the industry's ongoing response to the COVID-19 crisis and the macro challenges posed by climate change and the digital revolution. Evans also looked at how the UK's regulatory agenda, especially the Solvency II review and the FCA's work on GI pricing, will impact the sector.

Evans emphasised that COVID-19 has been a "major operational resilience test" for the insurance sector as well as a "communications test", but one which the industry has "ultimately passed". He added that the crisis has had an effect on the ongoing approach that regulators take, but ultimately the insurance sector is one which "can work together to manage a crisis".

ESG and climate change

Evans placed particular emphasis on the theme of climate change, and this was one element that formed a staple part of discussions at the conference. He said that the focus around climate change has now turned from the 'what' of target setting to the 'how' these targets are to be met. "Meeting net zero targets will require careful consideration of what to prioritise and when to take action," he underlined.

"Decisions to divest from carbon intensive sectors will need to continue to be carefully balanced with stewardship duties. A long-term plan to withdraw from high carbon activity in one or two decades time will only be a success if there is also upfront investment in alternative technologies and sustainable infrastructure. We have to start now if we want to achieve net zero by 2050."

Evans said insurance and long-term savings will have a pivotal role to play in managing both the physical and transition risks associated with climate change.

"The public policy and regulatory framework must be tailored to allow this," he said. "The ABI will continue to ask for reform where there is a gap between what firms want to do to tackle climate change and what they are able to do. Actions that could be taken are ensuring the Solvency II framework allows insurers to invest in green infrastructure more effectively alongside further exploration of the government issuing green bonds. Governments and regulators need to be pressed to fully join up in imposing requirements on all parts of the investment chain."

The Prudential Regulation Authority's head of division, major life groups division, Mark Cornelius, stated that the Bank of England has made climate change a "strategic priority".

The core objectives of financial stability, safety and soundness alongside policyholder protection are at the forefront of the bank's thinking, he said, as well as transition risks and financial risks such as the negative impact on insurer assets.

Cornelius paid particular attention to scenario analysis in his speech and how important this is to work out the resilience of business models to different climate risk scenarios, along with stress testing. He added that high quality ESG disclosure will ultimately improve transparency in this area.

Delving deeper into the investment angle around ESG, Stephen Yeats, senior managing director - EMEA head of fixed income, cash and currency/UK head of investment, State Street Global Advisors SPDR, explained how it is absolutely crucial to understand what is meant by ESG before investing in this space. "It is about connecting with the underlying owners of the assets in which we invest," he stated, "and it's about balancing those needs for risk/return as well as ESG needs".

Yeats argued that if everyone has a different definition of ESG then how does a company understand what it needs to report in terms of metrics?

He said trends bubbling under the surface for the last decade have come to a head, positioning ESG to transform from a 'check-the-box' component to a significant part of a portfolio. He then turned his attention to fixed income ESG. In the last 10 years, fixed income ESG has grown into an almost $1trn funds market with EMEA leading the charge since the global financial crisis.

The ESG theme across the conference was rounded off by the ESG panel made up of the chair Colin Tipping, head of insurance investments, Mercer, and the panellists, Atanas Christev, head of investment, Direct Line Group; Ian Coulman, chief investment officer, Pool Re; Corrado Pistarino, chief investment officer, Foresters Friendly Society; and Adam Ruddle, senior investment manager, LV= .

The panel participants laid out a number of steps their insurance companies have taken to address the ESG question, with Christev in particular stating that Direct Line has a commitment to reduce carbon emission intensity by 50% over the next ten years, has incorporated ESG scoring and has deployed ESG weighted indices.

Christev said insurers can be the "champions" in the ESG area as they are long-term investors, have

> "The ABI will continue to ask for reform where there is a gap between what firms want to do to tackle climate change and what they are able to do

a different risk stance to their counterparts e.g. hedge funds, more scope for secondary investment considerations such as ESG and are exposed to ESG risks and therefore have a direct interest in protecting themselves. Pistarino described the ESG space as a "confused one", with a lot of terminology being intertwined thus leading to a degree of complexity. He said the next ten years will be "absolutely critical" in this space.

"You cannot engineer a transition of this size without financial penalties being in place through direct policy interventions," Pistarino said.

Data was a key element touched upon in the ESG sphere on the panel. Ruddle said "more consistent data around ratings is needed if insurers are to hold asset managers to account and drive business decisions forward." Coulman added that third party providers can provide data so analysis can be done on underlying portfolios. He said Pool Re has asked its investment managers to do their own reporting and this has gradually evolved over time which has generally helped the cause.

Fixed income

An insurance asset management conference cannot happen without exploring the opportunities and challenges in the global bond markets. Pictet Asset Management's senior investment manager, global bonds, Ella Hoxha, talked about what a very indebted world with record low interest rates means for bond investors, the real rates on offer in the Chinese bond market and how to manage downside risk in the current environment.

Hoxha outlined the value to be found in long-end Treasuries and the value to be had in being long of the Dollar, which are also good hedges to have in a global bond portfolio. She added that to be long of spread products in Europe is healthy as well as bond allocation in Italy.

"We like to own spread in investment grade especially in the US and to some extent in Europe," Hoxha added, "because the policy set up is generally supportive of credit".

> More consistent data around ratings is needed if insurers are to hold asset managers to account and drive business decisions forward

Hoxha moved on to China, stating that Treasuries offer exceptional value, with allocations being added at the long end of the curve. "Real estate bonds in China denominated in dollars are also attractive. The real estate sector is very much in line with the policy focus in China as this is where most of the savings of every Chinese citizen has gone into. In the emerging market regions, we also find value in dollar denominated debt."

Rounding off her presentation, Hoxha emphasised the benefits of absolute return fixed income (ARFI) strategies for insurers, especially when there is a more volatile fixed income backdrop.

ARFI strategies aim to provide investors with stable returns despite a low yield environment, are not constrained by a market benchmark and can invest globally across all fixed income sectors.

The fixed income theme was carried through to our fixed income panel, chaired by Reinsurance Group of America head of investment solutions, EMEA, Ross Evans. The panel consisted of Prasun Mathur, private assets lead, Aviva; Sumit Mehta, head of investment solutions, Legal & General; and Ankit Shah, head of investments and Treasury, QIC .

This set of insurance experts talked about their experiences across 2020 and how their investment portfolios have been impacted by COVID-19. Mehta said the insurance industry generally has "weathered the storm" quite well, and that positioning of assets has been at the more defensive end of the spectrum, and because of that strength, insurance companies have been able to take advantage of opportunities. The panel agreed that there is more transparency in the market as a result of COVID-19 developments.

Shah said COVID-19 events helped to re-test risk appetites, and the liquidity management framework of general insurers have helped to make claims payments when

Insurance Asset Management Conference

needed. He added that it helped to ensure that there is sufficient liquidity present.

Carrying on the theme of liquidity, Mathur said where there is a cashflow match, insurers typically don't have liquidity challenges, but asset structures have been negotiated during this period that are more friendly to the lender. Mehta said liquidity challenges have been driven by extreme rates movements and higher volatility but generally insurers have shown a good amount of resilience. This has largely been driven by the increase in corporate bond CSAs and liquidity optimisation exercises.

The panel turned its attention to the challenges going forward in the fixed income arena. Mehta said there will be a big focus on managing the macro environment, both short term where there is still some uncertainty around US politics and vaccines, and long term where we have a very uncertain endgame to QE. Diversification on a more global basis is set to occur within investment portfolios and the use of alternatives to enhance returns will also continue, the panel said.

On the regulatory side, the panel said there needs to be more nuanced ways of looking at asset backed securities and that these should be promoted. Insurers won't be able to survive on just a core bond portfolio for example, it said. On the issue of Solvency II the panellists were supportive of an amendment to the risk margin rules and that any changes to the risk margin would mean a higher demand for longer dated assets.

Alternatives

As they attempt to maximise returns in a low-yield environment, many insurers are increasing their allocations to a variety of alternative asset classes including hedge funds and private equity, as well as other specialty investments such as infrastructure. Our alternatives panel, sponsored by UBS, consisted of panel chair Daniel Becker, insurance investment lead, life & FS, Hymans Robertson; Declan O'Brien, head of infrastructure research & strategy, UBS; Massimo di Tria, chief investment officer, Cattolica Assicurazioni; and Chris Palmer, head of illiquid assets origination, Phoenix Group.

O'Brien said the key attraction of alternatives is yield. Indeed, he described the yield from infrastructure debt in particular as being attractive, very stable and emphasised the fact that it provides a high cash generation. Infrastructure also offers diversification benefits as it behaves differently to other asset classes and provides downside protection during the COVID-19 crisis. Solvency II regulation has also increased the attention around infrastructure and infrastructure debt. Palmer said insurers in the UK are incentivised to take the higher quality credits where the fundamental spread is very low. "We can use that matching adjustment spread to discount our liabilities, so we are encouraged by the regulator to look at well rewarded long dated credit that's investment grade with a nice illiquidity pick up and infrastructure is a key asset class for us in that respect."

Current ponderings on industry themes

On the expected surge in insurance M&A

IVOR EDWARDS
Clyde & Co's European corporate insurance group head

Deal-makers' appetites have returned, buoyed by growing confidence in the economic outlook and the sense that there are opportunities to be had. Despite market hardening, many of the fundamentals driving M&A will persist.These include competition for assets, the need to diversify portfolios, add digital capabilities, and increase scale and market share. The availability of plentiful capital, combined with a deeper pool of targets, will give buyers plenty of choice although we expect them to select acquisitions carefully to ensure the best fit with their strategic objectives.

On the Romanian insurance market

The share of the insurance market in terms of GDP was, last year, of approximately 2.3%. I believe that this market has great potential and I hope that over time its share in GDP will increase. However, although it went through quite a complicated period, the market behaved well, if we are to consider the current context generated by the COVID-19 pandemic.

NICU MARCU
President of the Financial Supervisory Authority (ASF)

On post-Brexit Solvency II improvements potentially freeing £95bn to tackle climate change

HUW EVANS
ABI director general

Our sector can invest an amount equivalent to the budgets of eleven UK government departments in renewable energy, economic recovery and infrastructure investment if these reforms are made – with policyholders still having one of the best protected systems in the world. The independent analysis by KPMG experts sets out the £95bn of opportunities available and we must use our freedom from EU rule-making to seize them. Even with these changes, the UK market will still be one of the most highly regulated sectors in the world. This remains important to our future as an international financial centre and global capital of insurance.

ALLIANZ STATEMENT

On Allianz receiving approval to establish a Chinese asset manager

On the back of Allianz's global investment platform and century-old international experience in financial risk management, Allianz IAMC will locally build a professional investment management team, which adheres to the group's long-term investment methodology to better serve its clients' global asset management needs. Allianz IAMC aspires to become the most reliable foreign insurance asset management products and services provider in China.

On the investigation into AON-WTW deal being suspended

This procedure in merger investigations is activated if the parties fail to provide, in a timely fashion, an important piece of information that the Commission has requested from them. Once the missing information is supplied by the parties, the clock is re-started and the deadline for the Commission's decision is then adjusted accordingly.

EUROPEAN COMMISSION SPOKESPERSON

Insurtech funding reaches record $7.1bn in 2020

While our industry is facing extreme issues relating to COVID-19, we also have an unprecedented level of access to technology and technologists who can help it prevail during these times of instability. Many insurtechs probably feel vindicated that the insurance industry has been forced to realise the value of technology. The issue for insurtechs now is to survive months, possibly years, of market uncertainty.

DR. ANDREW JOHNSTON
Willis Re global head of insurtech

BlackRock's Fink on pushing companies to adopt 2050 net zero emissions goal

LARRY FINK
BlackRock CEO

We are asking you to disclose how this plan is incorporated into your long-term strategy and reviewed by your board of directors. We appreciate that disclosure can be cumbersome and that the variety of reporting frameworks creates further complexity for companies. We strongly support moving to a single global standard, which will enable investors to make more informed decisions about how to achieve durable long-term returns. Because better sustainability disclosures are in companies' as well as investors' own interests, I urge companies to move quickly to issue them rather than waiting for regulators to impose them.

ALTERNATIVES MULTI-ASSET QUANTITATIVE ACTIVE EQUITIES FIXED INCOME REAL ESTATE PRIVATE MARKETS

We see more in the challenges insurers face.

Global insurance solutions

From innovative investment solutions to comprehensive risk reporting, Aberdeen Standard Investments is chosen by insurers worldwide to help them deliver on their commitments. Discover how we can help your business thrive in challenging times.

Contact your local Aberdeen Standard Investments insurance team at
aberdeenstandard.co.uk/insurance

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.

AberdeenStandard
Investments