Insurance Asset Management

Winter 2023

IFRS 17
The implementation costs and benefits on offer

Technology
The role of technology in the insurance industry going forward

Direct lending
The opportunities direct lending can provide for insurers

Slow progress?

The challenges making net-zero investment far from simple

A GREEN WORLD
The key sustainable/impact investment news

AROUND THE GLOBE
The latest insurance developments occurring around the world

A SECURER ENVIRONMENT
The major pension scheme de-risking deals

Editorial Comment

The speed at which institutional investors are progressing with their net-zero strategies is of course up for debate. Clearly there are some outstanding projects, leading investment plans, and excellent thought leadership pieces being conducted in this space, but as our cover feature (p.22) explores, is progress fast enough? UK PM Rishi Sunak has repeatedly been warned by industry bodies not to backtrack on vital policy measures that support the UK's transition to net-zero. As the leaders of UKSIF, the PRI and the IIGCC stated "long-term ambitions to reach net-zero are a necessary starting point", but without a "coherent, whole-of-government approach to the economic transition, underpinned by detailed policies to deliver on these ambitions, they are simply not achievable". I would wholeheartedly agree with this, and it would certainly aid the speed of the progress we are witnessing at the moment.

In this issue, we also cover the increasingly important role technology is playing in the global insurance industry, and we talk to Clearwater Analytics about the firm's SaaS infrastructures (p.38). In addition to this, we explore the advantages of direct lending for insurers. Latest industry figures show that 60% of global insurers are planning to increase investment allocations to direct lending, and in this issue I sit down with HSBC Asset Management to talk about the firm's direct lending proposition, how it integrates sustainability in its processes, and where it sees the market heading.

I also thought it would be interesting to explore IFRS 17 implementation this issue. As insurers reach the end of their IFRS 17 implementation projects, there are many problems to learn from and extra costs encountered, but there is also hope that these projects could offer the industry additional, valuable benefits beyond compliance. Our feature on p.28 explores all of this and more.

Finally, I just want to take this opportunity to thank all of you for your support over 2023, and for being such keen readers of *Insurance Asset Management*. The brand is continuing to go from strength to strength, and I take great delight in providing the insurance space with the latest key developments in the industry.

The speed at which institutional investors are progressing with their net-zero strategies is of course up for debate

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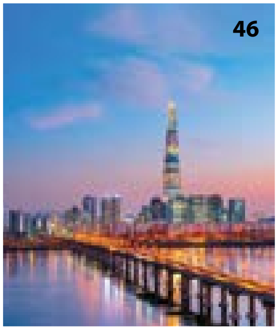

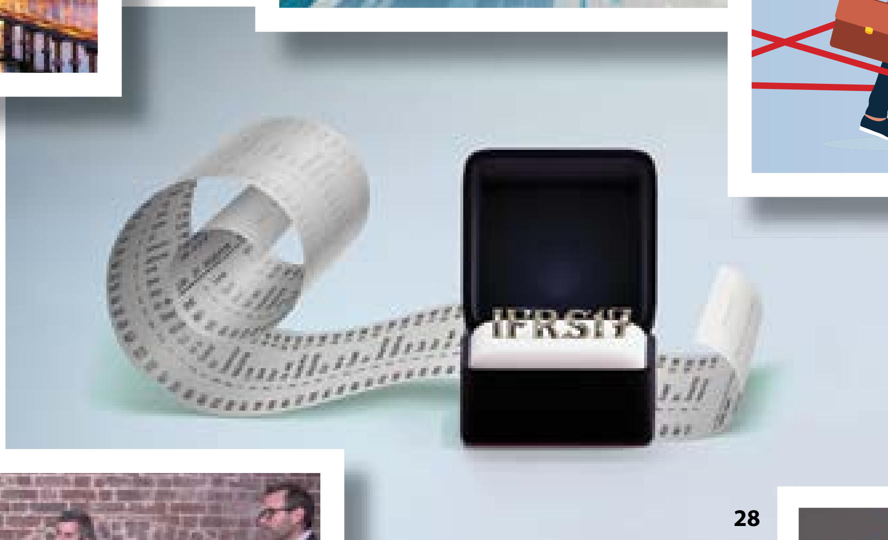
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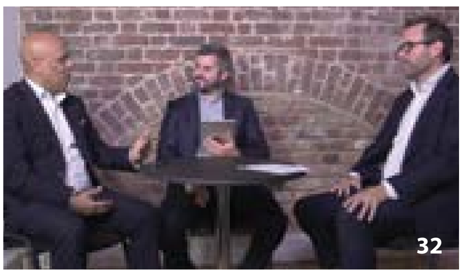

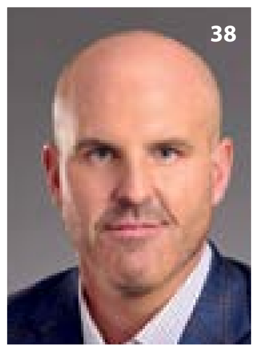


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Winter 2023

News focus

Top 500 asset managers experience $18trn drop in assets under management

First significant fall in assets managed since the 2008 financial crisis

Written by **Adam Cadle**

Total assets under management (AuM) of the world's 500 largest investment managers fell by 13.7% year-on-year between 2021 and 2022, according to research by the Thinking Ahead Institute (TAI).

The TAI noted that the asset reduction, from US$131.7trn at the end of 2021 to US$113.7trn at the end of 2022, was the first significant fall in assets managed since the 2008 financial crisis.

> North American asset managers saw a 14.2% fall in assets and Europe experienced an above-average 16.8% reduction

Its research highlighted regional differences, with Japanese managers within the top 500 faring better than average, with a 5.5% decrease in assets.

By comparison, North American asset managers saw a 14.2% fall in assets and Europe experienced an above-average 16.8% reduction.

There was a continued evolution in active versus passive AuM, with passively managed funds accounting for 34.7% of the total, up by four percentage points, leaving the remaining 65.3% as actively managed funds.

Among asset classes, the decline in equity and bond markets caused a 'gentle shift' in weightings, with alternative investments rising to 7.1% of assets managed.

The combined equity and fixed income allocation decreased by 2.4 percentage points following a stable 79% to 80% share over the previous 10 years.

The TAI noted that, as it is hard for very large managers to have an above average exposure to less liquid asset classes, the top 20 managers were disproportionately hit by the mainstream market falls.

The top 20 managers' share of the total assets fell from 45.2% to 44.2% over the year, with their total AuM decreasing to US$50.3trn.

BlackRock remained the world's largest asset manager, despite a drop in AuM from just over US$10trn to just over US$8trn in 2022.

> BlackRock remained the world's largest asset manager

"Throughout 2022, amidst significant turbulence, high inflation and interest rates, and geopolitical tension, investors have faced losses that effectively erased most of the gains achieved during the record-breaking 2021," commented TAI director, Jessica Gao.

"As we have conducted this research, a common theme throughout our conversations with managers has been to expect a higher-for-longer regime in interest rates in which concerns about inflation and growth remain elevated, suggesting investment managers are not out of the woods yet.

"The need to consider sustainability issues and adapt to systemic risk means forward thinking and robust investment processes that are able to model and measure risks like never before.

"Looking ahead, this awareness of system-level risks could offer support to the investment world as it grapples with the generational challenge of climate change impacts and other sustainability issues."

News in brief

■ Seven out of 10 major Japanese life insurance firms plan to boost their investments in domestic government bonds, according to their asset management plans for H2 2023. The seven insurers, including Nippon Life, are set to increase investments in 20- to 40-year Japanese government bonds in the six-month period through to March 2024, due to the rising yield on the benchmark 10-year JGB issue following the Bank of Japan's lifting of its cap on the yield to 1%. For foreign bonds, Meiji Yasuda Life Insurance Co., Sumitomo Life Insurance Co. and Taiju Life Insurance Co. plan to purchase more foreign bonds with no currency hedge for higher returns.

■ Security Benefit, the US insurance company set up by Chelsea FC owner Todd Boehly in 2015, held the largest exposure to US illiquid assets of any insurer in the country last year, data published by Fitch Ratings has shown. Security Benefit had 59% of its assets in illiquids in 2022, double the amount held by the second-biggest illiquids owner Athene. Alternative asset manager-owned insurers like Security Benefit dominated holdings of illiquid assets in the US. Fitch said these insurers had on average 19% of their portfolios in illiquids.

■ The UK will need around £1.3trn to meet its infrastructure goals, but only £700bn in funding is currently secured from a mixture of public and private sources, leaving a £615bn shortfall by 2030, a report by the ABI has revealed. To solve these issues, the ABI has estimated that around £350bn of the shortfall needs to come from private sources.

Written by **Adam Cadle**

IAIS begins AM comparability assessment against the global ICS

Comparability criteria used in assessment finalised in March 2023

The International Association of Insurance Supervisors (IAIS) has begun its assessment of whether the Aggregation Method (AM) being developed by the US provides comparable outcomes to the global Insurance Capital Standard (ICS), and if so, will be considered an outcome-equivalent approach for implementation of the ICS as a prescribed capital requirement (PCR).

This follows the finalisation of the comparability criteria in March 2023 and the submission of data by participating insurance groups at the end of August in response to the 2023 ICS and AM data collection packages. The data collection packages include detailed technical specifications, a questionnaire and a template for both the ICS and AM data collections.

> The AM comparability assessment is proceeding in line with the timeline communicated by the IAIS

The AM comparability assessment is proceeding in line with the timeline communicated by the IAIS in November 2019 and the assessment methodology, process and governance as agreed upon by the IAIS.

Vicky Saporta, chair of the IAIS, said: "The work of the IAIS on the AM comparability assessment is driven by a commitment to deliver a technical, robust and transparent exercise, allowing stakeholders to understand the basis of the assessment and its conclusions. We are now entering the final phase, namely the technical analysis underlying the assessment. I would like to thank all the IAIS members and all participating insurers who worked diligently in recent months to provide the detailed inputs that will be informing our analyses."

US insurers' CLO exposure rises by 14.5%

Pace of growth however continued to slow in 2022

Written by Adam Cadle

US insurers' exposure to collateralised loan obligations (CLOs) collateralised by bank loans and middle market loans was $247.6bn in book/adjusted carrying value (BACV) at year-end 2022, representing a 14.5% increase from about $216.3bn at year-end 2021.

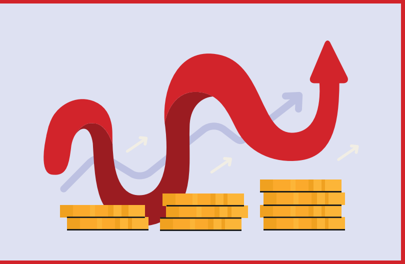
The pace of growth in insurers' CLO investments, however, continued to slow in 2022, down from 23% in 2021 and 28% in 2020 and 2019.

CLOs continue to represent a small proportion of US insurers' total cash and invested assets, but they increased to almost 3% of the total from approximately 2.7% at year-end 2021.

The credit quality of US insurers' CLO investments that were reported in Schedule D Part 1 at year-end 2022 improved slightly, with tranches rated investment grade (BBB and higher) increasing to 82% of total CLO investments from almost 80% in 2021.

Most US insurer CLO investments continue to be held by large life companies—i.e., those with at least $10bn in invested assets—many of which have CLO asset manager subsidiaries.

> Most US insurer CLO investments continue to be held by large life companies



PRA consults on MA reforms

Investment flexibility and revised eligibility rules at heart of package

Written by Adam Cadle

The PRA is consulting on a significant package of reforms to the Matching Adjustment (MA), aiming to improve the flexibility for life insurers to make more productive, long-term investments in the UK economy while supporting safety and soundness and policyholder protection.

The proposals cover reforms to MA regulations relating to greater investment flexibility and revised eligibility rules and more flexibility in MA processes, along with risk management enhancements, a greater role for senior manager responsibility including through attestations, and certain changes to MA calculation and reporting.

Sam Woods, deputy governor for prudential regulation at the PRA, said: "We propose to adjust regulations to reflect the decisions made by the Government about the level of financial resilience that should be required of insurance companies. These proposals aim to promote policyholder protection while enabling the annuity sector to meet its commitments to the Government to increase investment in the UK economy."

90% of European insurers' operating models do not support future business needs

Insurers believe the key constraints over the past three years to be inadequate infrastructure, scalability, and supportability

Written by **Adam Cadle**

Ninety per cent of European insurers' current operating models do not support future business needs, according to a new report by Clearwater Analytics.

The report, *The Digital Promise: Operational Challenges, Approaches, and Progress for European Insurers*, said insurers believe the key constraints over the past three years to be inadequate infrastructure, scalability, and supportability.

Ninety-eight per cent of European insurers agreed that a digital data strategy is the top priority to creating a competitive advantage for future success. Furthermore, 100% of respondents see the cost of IT increasing over the next three years. Most insurers are moving from on-prem to cloud-based technology for investment management and accounting and anticipate using managed services to free teams to focus on product innovation and growth.

> "Finding the right partner and solution becomes crucial

"Insurers that embrace a new digital operations model and access trusted data can rewrite their future," said Josef Sommeregger, head of DACH at Clearwater Analytics. "As such, finding the right partner and solution becomes crucial. The report succinctly underscores the path to operational excellence: a unified platform that consolidates, aggregates, reconciles and reports on all your investment data in a single place, enabling unprecedented enterprise visibility and decision support. To gain a clear advantage and leave behind legacy on-prem systems, choosing a SaaS-based data management solution is a clear way to reduce costs, while maintaining clear control and oversight of critical investment management and accounting functions."

Global insurers target increased allocations to direct lending/multi-alternatives

By contrast, allocations to both real estate debt and equity are expected to decrease

Written by Adam Cadle

Sixty per cent of global insurers are planning to increase investment allocations to direct lending, and 57% to multi-alternatives within the private market space, according to BlackRock's 12th annual *Global Insurance Report*.

By contrast, they expect to decrease allocations to both real estate debt and equity, as well as to traditional private equity.

Insurers surveyed for the report said increasing allocations to private markets is not without challenges, with rising defaults in alternative funds chosen by 45% as the area they believe further financial cracks are most likely to occur. On the issue of sustainability, 62% of respondents see opportunities in clean energy infrastructure, 46% in green real estate, and 42% in core infrastructure. However, challenges to implementation exist, and 54% cited market volatility as the biggest hurdle.

Inflation remains front of mind for insurers, with 71% of respondents selecting it as the biggest economic surprise for the second year in a row. Recession risk, chosen by 59%, was the most selected macroeconomic concern. Over half of insurers (55%) globally believe that further financial cracks are most likely to occur in the banking sector, indicating concerns over the stability and health of financial institutions – this rises to 77% for North American respondents. In APAC, 55% of respondents cite concerns over residential real estate.

Furthermore, almost half (47%) of respondents globally cite risk management as a driver of increased technology investments over the next two years. In addition, 47% of insurers are considering technology that increases operational efficiency and reduces cost. Integration of climate risk (38%) and compliance with regulatory and reporting requirements (45%) are also cited as considerations for technology solutions.

This year's survey conducted in June-July 2023 encapsulates the views of 378 senior industry executives in 27 markets.

Global alternatives market AuM to reach $24.5trn by 2028

> Softer investor sentiment is creating opportunities in direct lending, secondaries and real assets

Figure rises from an estimated $16.3trn at the end of 2023

Written by **Adam Cadle**

Global alternatives AuM are expected to reach $24.5trn by the end of 2028, compared to an estimated $16.3trn at the end of 2023, according to Preqin's *Future of Alternatives 2028* report.

This represents a forecast annualised growth rate of 8% over the forecast period of 2022 to 2028.

Global private debt AuM are expected to grow at a compound annual growth rate (CAGR) of 11% from 2022 to 2028, to reach an all-time high of $2.8trn – almost doubling the 2022 figure of $1.5trn. Private debt performance is expected to be stronger than in the past, thanks in part to a positive outlook for distressed debt strategies. For 2016 to 2022, its internal rate of return (IRR) was 9.11%, a figure forecast to rise to an average 9.81%, from 2022 to 2028.

Private debt AuM targeting North America is expected to increase substantially, from $1trn in 2023 to $1.7trn by the end of 2028. Furthermore, AuM targeting Europe is forecast to grow at 14% over the same period to $0.9trn by 2028, showing the market demand for funding amid more challenging financial market conditions.

The forecast for total global private equity AuM is to reach $8.5trn by the end of 2028, from $4.8trn in 2022. This represents a 10% compound growth rate, from 2022 to 2028. At the same time, performance is expected to slow to 12.6% over the forecast period compared to 16% during the 2016 to 2022 period.

Against the backdrop of a slow infrastructure fundraising market in the first half of 2023, Preqin has forecast global infrastructure AuM will reach $1.7trn by the end of 2028.

Cameron Joyce, SVP, head of private equity, at Preqin said: "Softer investor sentiment is creating opportunities in direct lending, secondaries and real assets in particular. The longer-term fundamentals behind the growth of the private markets remains broadly intact."

'Seismic shift' seen as number of DB schemes targeting buyout jumps by 50%

LCP projects that a further 1,250 schemes will reach full funding on buyout within the next five years, further accelerating the pension buy-in and buyout market

Written by **Adam Cadle**

The UK buyout market is undergoing a "seismic shift", according to analysis from LCP, which revealed a more than 50% increase in the number of defined benefit (DB) schemes approaching insurers for buy-in/out quotations compared to a year earlier.

LCP's research showed that the number of UK private sector DB schemes fully funded on a buyout basis has "swelled" to 20%, representing 1,000 schemes and c.£275bn of assets out of the £1,400bn total in UK DB schemes.

In addition to this, it projected that a further 1,250 schemes will reach full funding on buyout within the next five years, further accelerating the boom in the pension buy-in and buyout market.

As a result of this, LCP estimated that volumes of assets transferring to insurers over the next five years could reach up to £360bn, marking a "substantial uptick" on historic levels, with volumes over the past five years totalling £155bn.

Early indications of this shift can already be seen, as LCP pointed out that the first half of the year has seen a record £21.2bn of assets transferred to insurers, with the year on track to exceed the previous record of £43.8bn in 2019.

Despite capacity concerns, LCP noted that insurers have been scaling up through extra people, improved technology, extended asset sourcing and streamlined internal processes.

LCP partner, Charlie Finch, stated: "There has been a seismic shift in the DB pension landscape in the past year as the number of schemes seeking to transfer to insurers has surged on the back of tumbling buyout shortfalls. Insurers are rising to this challenge, and despite short-term resourcing pressures, insurers are confident about their capacity to support record-breaking demand over the coming years."

Institutional investors want passive managers to integrate ESG in fixed income funds

This is supported even if it results in a degree of tracking error

Written by **Adam Cadle**

Nearly 60% of institutional investors and wealth managers across Europe would prefer passive fixed income managers to integrate ESG considerations into their benchmark funds, even if this results in a degree of tracking error, research from Tabula Investment Management has found.

More than a third of those surveyed say they want passive managers to take a more proactive approach to ESG – such as optimising strategies to reduce principal adverse impacts; excluding controversial issuers more quickly; and applying stricter standards – but only as long as there is no significant impact on tracking error.

Just 7% of those surveyed said passive managers should stick to tracking the index and not focus on ESG factors. Of the institutional investors and wealth managers surveyed, almost 80% say they produce proprietary ESG ratings at the fund level, while over half rate fixed income funds for their alignment with the Sustainable Development Goals (SDGs).

> "It is no longer enough for managers to hide behind an index when it comes to making a difference

When reviewing passive funds that use different ESG data to their own, 60% of investors surveyed are happy to invest if the manager uses high quality data providers with robust methodologies. Almost 40% are happy to invest with managers using other ESG datasets if specific outcomes such as excluding the same companies are consistent with their own providers and analysis.

Jason Smith, chief investment officer at Tabula, said: "Passive managers need to work with their investors to ensure they are aligned on ESG issues. As the climate emergency intensifies, it is no longer enough for managers to hide behind an index when it comes to making a difference. Now is the time to demonstrate commitment to ensuring fixed income investments are aligned with the transition to net-zero and more."

Tabula Investment Management commissioned the market research company Pureprofile to interview 100 fixed income investors working for pension funds, insurers, family offices and wealth managers in the UK, France, Germany, Switzerland and Italy with a total of €150.6bn AuM. The survey was conducted in August 2023.

Leading European insurers underwrite 30% of US coal despite net-zero pledges

Lloyd's of London and Swiss Re named

Written by **Adam Cadle**

Leading European insurers are underwriting nearly a third of US coal production despite their net-zero commitments, a new report published by Insure Our Future has revealed.

Lloyd's of London, Zurich and Swiss Re are among the top ten insurers of the 25 biggest US mines, which produced more than 60% of the country's goal in 2022, the report said. They underwrite 13 mines producing 30.7% of national output.

Mary Sweeters, senior strategist of the Insure Our Future campaign, said: "This damning report perfectly illustrates the problem: insurers are publicly committing to net-zero emissions and restrictive fossil fuel policies, yet behind closed doors they continue to underwrite dirty fossil fuel projects, violating their own policies or exploiting loopholes. They are fuelling the climate crisis and profiting from it, while greenwashing their business with empty promises."

The information presented in the report was gathered via a series of public record requests for insurance certificates. The top 25 producing mines were selected for analyses.

> Behind closed doors they continue to underwrite dirty fossil fuel policies

Insurance Europe lays out improvements around EC's ESG rating proposals

Non-discriminatory access to ESG ratings must be ensured, it says

Written by **Adam Cadle**

Insurance Europe has welcomed the EC's proposal to improve the availability, integrity and transparency of ESG rating activities, whilst also laying out seven areas of improvement.

"The planned introduction of regulatory standards for rating activities should improve the quality of information on ESG ratings and address existing shortcomings in the ESG rating market," it argued. However, it added that "ESG data is equally important to support sustainable investment strategies and manage risk".

Insurance Europe said there is a need for common standards and binding requirements to ensure the quality of ESG data products, ensure reliability and comparability. It also argued that the entire group of ESG rating providers must be included in the regulation, as this will "help avoid possibilities for circumvention in the involvement of third parties, in particular in the dissemination of ESG ratings and ESG data via licensing agreements with unregulated group companies".

Furthermore, Insurance Europe said the EC must ensure non-discriminatory access to ESG ratings, including for private investors, and there must be a clear definition of 'financial products'.

> Step-by-step, the crucial long-term transition to achieve 1.5°C can be implemented

UN Net-Zero Asset Owner Alliance's AuM grows to $9.5trn

Number of Alliance members grows by 12 to a total of 86 over the past year

Written by **Michael Griffiths**

The UN-Convened Net-Zero Asset Owner Alliance has reported that its membership now covers over $9.5trn in assets under management (AuM).

Over the past year, covering the 12 months to August, the number of Alliance members has grown by 12 to total 86.

Ahead of COP28 in the United Arab Emirates (UAE), the Alliance has released its third annual progress report, and it has called on governments to accelerate policies that will unlock capital towards the net-zero transition.

Figures from the report have also shown that through the 2023 reporting cycle, 69 members with $8.4trn in AuM have set intermediate climate targets in line with the Alliance's target setting protocol, up from 44 members with $7.1trn in AuM last year.

The Alliance's target setting requirements are based on the Intergovernmental Panel on Climate Change (IPCC) no and low overshoot 1.5°C scenarios and include defining targets on engagement and at least two of three other target types—sub-portfolio, sector, and climate solution investments—12 months after joining.

Board member at Allianz SE and Chair of the UN-Convened Net-Zero Asset Owner Alliance, Günther Thallinger, said: "Alliance members are making solid progress towards achieving their 2025 emissions targets, showing that, step-by-step, the crucial long-term transition to achieve 1.5°C can be implemented. Our work is supporting governments to implement their net-zero programmes by accelerating the reform of existing financial and investment policy frameworks.

"As we head towards at least 2.4°C warming with current climate pledges, we are at a pivotal moment to strengthen efforts for system-wide transformation. Alliance members act by implementing their intermediate targets. We call on others to do the same."

Transition Plan Taskforce announces launch of best practice Disclosure Framework

Taskforce members responsible for creating the Framework include Aviva and Legal & General Investment Management

Written by **Adam Cadle**

The Transition Plan Taskforce (TPT) has launched a best practice Disclosure Framework for transition plans, which aims to support companies and financial institutions in contributing to the shift to net-zero.

It seeks to provide the basis for companies and financial institutions to outline credible and robust transition plans as part of annual reporting on future strategies.

Taskforce members responsible for creating the Disclosure Framework include Aviva, Legal & General Investment Management (LGIM), Nest and Railpen.

The framework is based on the principles of 'ambition, action and accountability', and aims to support the creation of consistent, comparable company reports, and to reduce the level of disclosure complexity.

It also includes additional guidance for those preparing and using transition plans, including on the climate transition planning cycle, legal considerations and web-based implementation.

The framework builds on the baseline of disclosures developed by the International Sustainability Standards Board and draws on the work of the Glasgow Financial Alliance for Net Zero, both of which are TPT members.

Commenting on the framework launch, TPT co-chair and Treasury Lords Minister, Baroness Penn, said:

> The framework is based on the principles of ambition, action and accountability

"Under our COP26 leadership the Government set out our vision for the UK to be the world's first net-zero aligned financial centre.

"Launched only in April 2022, the TPT has now delivered on its core mandate to develop a framework for private sector climate transition plans.

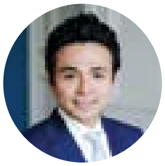
"As we move towards meeting net-zero in a pragmatic and proportionate way, we recognise the value of the transparency and accountability offered by transition plans which help firms in their own journey."

People on the move

SHIGERU ARIIZUMI

Executive Committee Chair, IAIS

The International Association of Insurance Supervisors (IAIS) has announced that vice minister for international affairs at the Financial Services Agency (FSA) of Japan, Shigeru Ariizumi, has been elected as its new executive committee chair. Ariizumi will succeed executive director, prudential policy at the Bank of England (BoE), Vicky Saporta. Saporta has stepped down after an eight-year tenure.



HIROKI WIESHEU

President and Head of Coverage, Japan, DWS Group

DWS Group has appointed Hiroki Wiesheu as President and head of coverage, Japan. He joins DWS Japan from Metzler Asset Management Japan, where he was President and CEO. Before this, he worked in M&A and equity advisory at Rothschild in Frankfurt. He has also worked at the equity capital markets business at Commerzbank in London and Frankfurt.

ANDREW KOCH

Senior portfolio manager, Allianz GI

Allianz GI has hired Andrew Koch as senior portfolio manager on its value and income investment style team. Koch, who previously spent eight-and-a-half years at Legal & General Investment Management as its head of value and income funds, will now report to AllianzGI's CIO of UK equities Simon Gergel. He has also held senior roles at HSBC Asset Management and UBS Global Asset Management.

RÉMI LAMBERT

Chief Investment Officer, Architas

AXA Investment Managers (AXA IM) has appointed Rémi Lambert as chief investment officer (CIO) for Architas. Lambert's main priorities will include a continued focus on delivering strong investment performance, improving Architas's core processes, as well as facilitating strong engagement across both AXA IM business units and AXA entities, to which Architas provides its services.

SEAN TAYLOR

Chief Investment Officer, Matthews

Matthews has appointed Sean Taylor as chief investment officer (CIO), effective 1 January 2024, as part of the firm's long-term succession planning. Taylor has over 25 years of global experience within the investment management industry. Furthermore, he joins Matthews from DWS Group where he most recently worked as CIO APAC and also head of emerging markets.

KATHY RYAN

Chief Sustainability Officer, M&G

M&G has announced the appointment of Kathy Ryan as chief sustainability officer. She will lead M&G's group sustainability strategy, embedding sustainability across the business and helping to drive real-world positive change by acting as a responsible long-term investor. Ryan joins M&G from Irish Life Investment Management (ILIM) where she was head of responsible investment.

Opinion

On Zurich entering the Indian general insurance market

"India is one of the world's most important markets with immense potential and we are pleased to be making a significant commitment with an excellent partner. With Kotak Mahindra Group's high-quality franchise and expertise in Indian financial services, and Zurich's deep distribution experience and class-leading capabilities in retail and commercial insurance, we are confident this partnership can bring strong innovation, know-how, and excellent customer experiences to the Indian general insurance market."

Tulsi Naidu
CEO, Asia Pacific
Zurich

On Swiss Re reporting a net income of $2.5bn with a profit of $1bn in Q3

"With interest rates continuing to rise, we see improvements in the recurring income yield and in our overall investment results. Combined with the improved underwriting performance, this has significantly strengthened the group's earnings capacity."

John Dacey
Chief financial officer
Swiss Re

On institutional real estate investors reconsidering UK investments

Dominic Lion
Head of sustainable real estate, Gallagher

"Ongoing delays, changing working patterns and rising interest rates are making it difficult for investors and developers to see a tangible reward on current projects, making the UK less attractive for future investment and investors risk profiles changing more regularly."

On the EU 'falling short on sustainable finance

Maria van der Heide
Head of EU policy
ShareAction

"Banks, insurance companies, and investors continue to finance activities that deepen the climate crisis, violate human rights, and harm nature. Although EU institutions and governments have introduced some sustainable finance regulation in recent years, it falls short of what is needed to support businesses to transition to a sustainable economy and protect people and the planet."

On US insurer membership in FHLB

Kaitlin Piasecki
Industry analyst
AM Best

"Borrowing grew in 2022 for L/A insurers as they sought to increase investment yields by capitalising on the higher interest-rate environment. As for property/casualty insurers, their FHLB borrowing declined last year after peaking in 2020, when they sought extra liquidity as a cushion against COVID-19 uncertainty."

Slow progress?

WRITTEN BY **MAREK HANDZEL**

Hesitant government policy, fragmented alliances, inadequate investment data and slow-moving regulatory changes are all making investment into net-zero far from simple

Shares in Israeli solar inverter manufacturer, SolarEdge Technologies, plummeted in mid-October after the company warned of an incoming weaker-than-expected earnings report. It blamed unexpected cancellations and a dampening of demand from European distributors as the primary reasons for a significant revenue drop in the third quarter. Instead of initial expected earnings of between $880 million and $920 million, the company would now have to settle for an income figure somewhere between $720 million and $730 million.

SolarEdge's recent woes could be viewed as a microcosm of the current state of renewable energy and green technology. Capital flows into the sector is stalling at present. According to *Bloomberg*, green equities have lost some $280 billion in value since their August 2022 peak.

Harsh macroeconomic realities and geopolitical uncertainty continue to spook institutional investors, many of whom are favouring traditional asset classes as they try to ride out market turmoil.

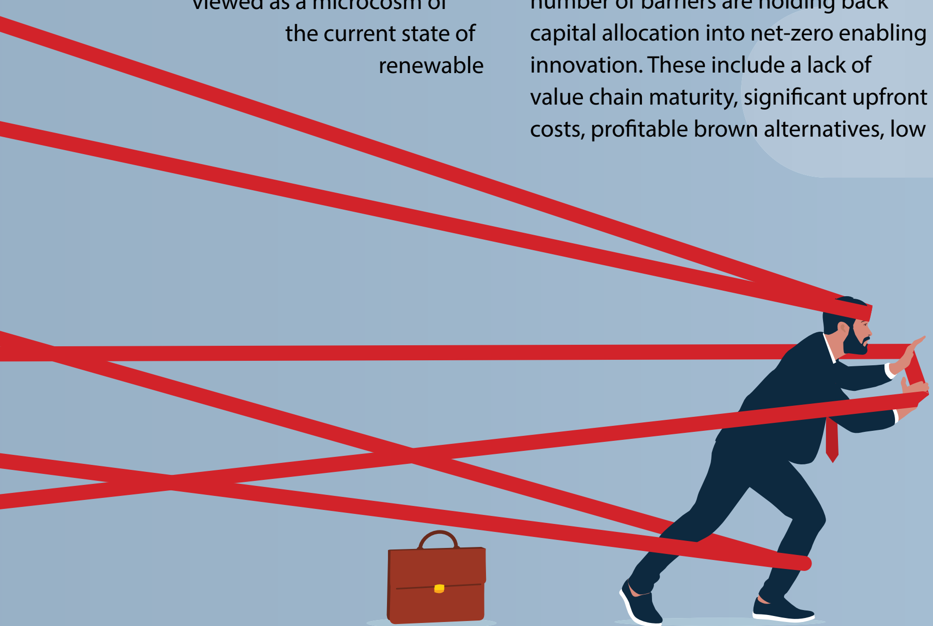
But the malaise cannot be simply put down to a case of negative sentiment. The problem remains more structural. As the recent UN paper, *Unlocking Investment in Net-Zero* laments, a number of barriers are holding back capital allocation into net-zero enabling innovation. These include a lack of value chain maturity, significant upfront costs, profitable brown alternatives, low revenues, and uncertainty in terms of government outlook.

The latter hurdle is one that sees no clear signs of being settled. A month before SolarEdge saw its market value sink, UK Prime Minister Rishi Sunak courted controversy and votes after he reined back some of the UK's carbon emission reduction programmes. Sunak delayed a ban on the sale of new diesel and petrol cars by five years to 2035, in addition to weakening targets to phase out gas boilers. His excuse was that now was not the time to impose extra outgoing costs on families who were already struggling with high inflation and borrowing costs.

In August, a report by German government climate advisers had warned that Germany was set to miss its 2045 net-zero target. The report said that the real estate sector is expected to be 35 million tonnes of CO_2 short of a goal to cut greenhouse emissions by 65 per cent by 2030, while the transport sector is expected to have excess emissions of between 117 million and 191 million tonnes of CO_2 compared with the government-imposed mark.

The news came on the back of the ruling coalition's agreement to dilute a bill aimed at phasing out oil and gas heating systems from 2024 earlier this year, following pressure to do so from the pro-business FDP party.

And earlier this year, further cracks



had been appearing in the formerly-united political and industrial front driving the net-zero programme. In June, Lloyd's joined the parade of insurers withdrawing their membership from the Net-Zero Insurance Alliance (NZIA). Although not willing to admit as much in their official communications, it was clear that the political gulf in the United States between the Democrats and the Republicans over net-zero ambitions — and all its subsequent knock-on effects — was behind many exit decisions.

Damaging

Political machinations have alarmed a number of groups. The CEOs of the UK Sustainable Investment and Finance Association (UKSIF), Principles for Responsible Investment (PRI), and the Institutional Investors Group on Climate Change (IIGCC), wrote to Sunak following his policy amendment, warning that reaching net-zero would be unachievable without "a coherent, whole-of-government approach to the economic transition".

The leaders argued that in order to create the conditions to accelerate net-zero investment, the UK Government needs to uphold the "four Cs" that underpin effectively policymaking: "Certainty, consistency, clarity, and continuity".

Addressing all governments, the UN recently reiterated its usual mantra, saying the world was not on target to curb global warming and that "more action" was needed "on all fronts" to keep economies in line with the Paris Agreement's carbon emission reductions.

"Urgent action is needed to limit as much as possible the increase in temperature, meaning reducing greenhouse gas emissions as fast as possible," says Olivier Eugène, ESG analyst at AXA Investment Managers. "Any delay or slowdown may impact the trajectory and pathway, but more crucially it will lead to a warmer world."

The possibility of limiting global warming to 1.5 degrees Celsius is increasingly distant, says Eugène, and while not totally out of reach, could only be achieved if many difficult conditions are met, such as a massive increase in renewable investments, coupled with "deep changes" in societies.

"It means that not only green investments need to be increased, but also investments in transition and in adaptation measures, especially as the effects of climate change are already materialising. Poorest countries are the most vulnerable on this front, meaning that financial transfers from developed to developing countries to invest more in green technologies and in adaptation must happen and stop being a matter of headlines.

> Any delay or slowdown may impact the trajectory and pathway, but more crucially it will lead to a warmer world

"Another global illustration will be the need for adaptation investments in cities for their populations to live through increasingly scorching summer months," adds Eugène.

Missing out

Back in March, The European Insurance and Occupational Authority (EIOPA), attempted to calculate what proportion of investments held by insurers in the European Economic Area (EEA) could be considered "environmentally sustainable" based on the EU Taxonomy of sustainable activities. As other asset classes and investment funds are too opaque to allow for any meaningful analysis, EIOPA chose to focus on insurers' direct investments in corporate bonds and equities, which together account for around 29 per cent of EEA insurers' total investments.

The analysis showed that 2.6 per cent of insurers' direct corporate bond and equity investments are aligned with the Taxonomy, while another 15.5 per cent are eligible. When excluding securities issued by financial firms, the share of Taxonomy-aligned investments rose to 5.7 per cent, with another 34.1 per cent being eligible.

Based on these figures, there appears to be plenty of scope for insurers to increase their green investments. And although — from a basic fiduciary duty perspective — an argument can be made to avoid some sustainable assets in the short-term, at least, there is a danger that the industry could be missing out on alpha in the longer term.

"There are significant climate investment opportunities from the transition to net-zero — up to $275 trillion according to a recent AOA report," says Pavel Osipyants, a spokesperson for Zurich Insurance Group. "But to realise those opportunities there needs to be policy support."

Echoing parts of the UN paper, in Zurich's view this assistance would involve increasing financial back-up for decarbonisation solutions and the introduction of global new technology standards that can support rapid take-up of green technology. In addition, ambitious and effective carbon markets are needed, backed by clarity from governments on their transition plans.

It is, of course, not just in direct investment that the insurance sector could gain from net-zero initiatives. McKinsey's US arm says the path to net-zero emissions is also "paved with growth opportunities" for P&C insurers' business models in particular. On the retail side, this can take the form of tailored coverage for environmentally-friendly behaviours, such as green building technology. In the commercial-lines segment, attractive growth opportunities lie in companies and subsectors that have rapid decarbonisation pathways. "Globally, capital expenditure investments of approximately $28 billion will flow toward green sectors by 2030," estimates McKinsey in a report published in March this year, "with the largest share of nearly $16 billion to be invested in clean-energy systems, including carbon capture and storage and wind power technologies."

Some insurers, despite numerous obstacles, are leading by example. Allianz announced its first net-zero transition plan this Autumn, which included a commitment to achieve 150 per cent profitable growth in revenues from renewable energy and low-carbon technology solutions in the commercial insurance segment by 2030, compared with 2022. At the same time, Allianz plans to allocate an additional €20 billion into climate and cleantech solutions, in line with the EU's sustainability regulations.

Regulators to the rescue

For Ben Howarth, chief sustainability officer at the ABI in the UK, net-zero progress will always need to be a combination of government action and individuals, businesses, and entire sectors taking responsibility for their own role.

"Capital, opportunity and commitment are key to accelerating progress towards net-zero," says Howarth. "Progress has already been made, most significantly with the reforms to Solvency II [in the UK], which, once finalised, will release significant capital that the insurance and long-term savings industry has committed to putting towards green and good infrastructure. This investment will play a huge role in our journey to net-zero, as well as helping customers earn better returns on their investments and providing a tangible economic boost to communities across the UK."

> "Capital, opportunity and commitment are key to accelerating progress towards net-zero

The ongoing proposed Solvency II reforms referenced by Howarth could open the door to a new wave of green investment. In a consultation paper published at the end of September, the UK's Prudential Regulation Authority (PRA) said its proposals could remove a disincentive for insurers to invest in sub-investment grade (SIG) assets that will sit in their matching adjustment (MA) portfolios.

"The proposals do not directly seek to incentivise firm investment into 'green' assets; however, many insurance firms have indicated their view that the Solvency II reforms could improve the ability of the sector to contribute to the Government's net-zero targets," says the PRA paper.

"The proposals on investment flexibility are designed to accommodate a wider range of asset types within firms' MA portfolios, and should therefore allow firms more flexibility to invest in long term sustainable infrastructure if they choose. This includes asset features where there is a limited data on the expected cash flow variability, for example lending where the coupon is dependent on meeting environmental or operational targets."

But opening the door to SIG assets is not without its drawbacks. As Huw Evans, KPMG UK insurance partner, explains, the proposed UK Solvency II changes — which will primarily affect 19 life insurance companies in the UK that use the MA mechanism — are likely to introduce complications.

"This is an important set of design changes which should enable more flexible investment of assets by life insurers and a more streamlined process," says Evans. "However, with these additional benefits, the PRA is also introducing more complexity to the modelling, risk management and reporting of the Matching Adjustment, which may well be more costly than their PRA's initial cost benefit analysis allows for."

Put simply, says Evans, life insurers will gain some more freedoms — but these will come with significantly more complex responsibilities.

Change of mindset

Creating the right conditions for insurers to finance net-zero journeys is one challenge. Another lies in altering internal attitudes, or approaches, to risk.

In a paper published earlier in the year on how the insurance sector can accelerate net-zero, Aon wrote that (re)insurers should be enabling and supporting carbon-intensive and high-emission industries to transition to lower carbon operations, instead of moving away from them on arbitrarily short timescales. It said that this can be done by both supporting and incentivising such industries to transition, and by "de-risking" investments in low-carbon technologies, such as carbon capture and storage, and new types of renewable energy.

"To fully grasp this opportunity," wrote Aon, "the insurance industry must change some of its mindset to formulate a consistent forward-looking pricing model for new risks."

Zurich is of the same opinion when

it comes to supporting high-emission sectors. Osipyants points out that the oil and gas sector could play an important role in developing clean hydrogen, biofuels, carbon capture and storage and offshore wind, given its expertise in energy and large-scale projects. These segments of the decarbonisation economy are vital for aviation and shipping as they are unable to electrify. While the steel, cement and chemicals sectors will take longer to decarbonise and need help with clean hydrogen and carbon capture and storage.

If money is starved from traditional fossil fuel producers, however, then their knowledge and skills could be wasted — and the net-zero journey will be prolonged.

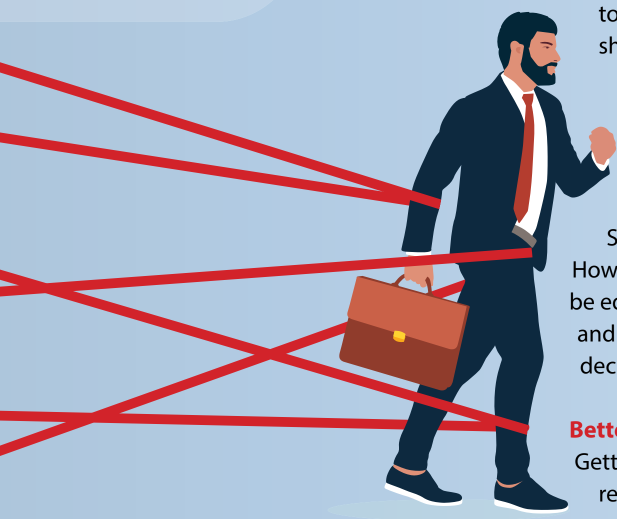
Where to invest

In terms of sectors, transportation, agriculture, energy, and heavy industry are the four biggest emitters, and all need significantly more investment to decarbonise. There is not, however, one sector or technology needing more investment than another, argues Tom Atkinson, portfolio manager at AXA Investment Managers. "Frankly, we probably don't need investment in new technologies — we have these at our disposal," says Atkinson. Capital should instead be focused on the sectors that can drive decarbonisation, such as renewables, smart agriculture, green hydrogen, electrified industry, and electric vehicles.

"Obviously, different economies are focused on different industries, but on aggregate, investment needs to be broad based," he says.

For its part, the UK's ABI is working to unlock £100 billion of investment in the infrastructure needed for energy security and to reach net-zero, through its Investment Delivery Forum. The forum acts as a type of facilitator and catalyst that helps insurance companies and government to propel investment into vital projects in energy generation, networks and housing.

"Through the forum we will identify the pipeline of UK projects that need investment," explains Howarth. "We will support the projects in better understanding how insurance and long-term savings providers can help as investors. And we will work with government and regulators as Solvency II UK reforms kick in and open the gates to a broader range of investment opportunities."



Nevertheless, the ideal net-zero equation always circles back to rely on state aid, in one shape or form. Howarth says the ABI wants to see the UK Government "show leadership" by taking forward the priorities it set out in its Green Finance Strategy. That way, says Howarth, the ABI's members can be equipped with meaningful data and evidence to make informed decisions.

Better data

Getting hold of the right data remains a problem, however. A PRI report released in September concluded that insurers need better climate data to help deliver net-zero. It said that there is a disconnect between investors' needs and what the market currently provides.

At present, says the PRI, climate data providers provide reasonably good coverage of large companies in developed markets. But the data provider market is much less well-developed for smaller companies, for companies from emerging and developing markets, as well as for asset classes other than listed equities and fixed income. "These gaps in coverage limit investors' ability to apply their net-zero commitments to other asset classes," says the report.

To rectify this, the PRI makes three suggestions. Firstly, it says, corporate disclosure, which underpins the majority of data products that are currently available, should be improved. Secondly, data providers need to improve coverage, data provider transparency, forward-looking analysis of climate data, and portfolio-level metrics and methodologies. Thirdly, wider consensus-building activities are needed to establish common definitions and agreement on sector and geographic pathways. Over time, says the report, these will feed back into the development of data products.

"Investors need better coverage and quality of climate data to deliver on their net-zero commitments," says René van Merrienboer, PRI's director for sustainable systems. "Going forwards, greater convergence across the sector on common definitions and transition pathways will also be necessary to strengthen the climate data ecosystem."

Should this transpire, along with clearer government backing and regulation, then insurers may finally find the right pathway to net zero.

But the road ahead is far from simple.

> This was supposed to be the year for bonds. Shame that no one told the bond market

Market commentary

Bonds

Written by **Michael Griffiths**

There has been some mixed opinion on the attractiveness of the bond market of late.

For some investors who have been starved of income since the financial crisis, yields are now potentially high enough to feel like a new gold rush. For existing bond owners, however, rising yields have generated heavy losses.

"This was supposed to be the year for bonds," head of research, UK & Ireland, for LSEG Lipper, Dewi John, comments. "Shame that no one told the bond market.

"September saw yields creep further up to pre-financial crisis highs on both sides of the Atlantic. This begs the question: when is a good entry point? Spoiler alert: it wasn't 1 January.

"For the first three quarters of the year, UK market bond funds are more or less flat (at -0.09%), as rising rates have continued to undermine fixed income portfolios."

Head of investment analysis at AJ Bell, Laith Khalaf, believes we are currently experiencing the "best of times and the worst of times" to be a bond investor.

The 10-year US Treasury Bond yield recently rose above 5% for the first time since 2007, up from 0.6% in 2020, while the UK 10-year gilt climbed to 4.5%, its highest level since the financial crisis.

"Bond yields have gone back to the noughties, and it's been a painful transition for bond holders," Khalaf adds.

Inflation and rising interest rates are the major reasons behind the sell-off, but the beginning of the fall in Government bond prices actually predates the beginning of the recent rate hiking cycle.

"Across developed markets, the rot really set in around three years ago, when bond prices moved off their pandemic highs, as vaccines emerged, and economic recovery kicked in," Khalaf continues.

"The inflationary crisis and tighter monetary policy still account for the lion's share of the downdraft, but the market was already priced for a fall of historic proportions due to the extreme level bonds had reached in the decade after the financial crisis, which was exacerbated by the pandemic. The recent bond collapse has been brutal, basically all but wiping out the return from developed market government bonds over the last 10 years."

While the fixed income markets of the US, Europe and UK are heavily related, Khalaf suggests that they still "wax and wane at different cadences".

He adds that the UK gilt market has been hit particularly hard by the recent sell-off due to the longer maturity profile of its debt basket, making UK gilt prices more sensitive to rising interest rates.

"Having longer dated debt is better from the Exchequer's perspective, as it means not having to refinance that debt quite so soon" says Khalaf. "But from the point of view of many investors, government bonds have been nothing short of a disaster zone in recent years."

Expensive gifts

WRITTEN BY **DAVID ADAMS**

As insurers reach the end of IFRS 17 implementation projects, the time has come to learn from problems and extra costs encountered, but there is also hope that these projects could offer the industry additional, valuable benefits beyond compliance. David Adams reports

It appears that many, perhaps most, European insurers are well on the way to completing IFRS 17 implementation, judging by their ability to use the standard for reporting half-year 2023 results. But it has been difficult, particularly for life insurers, and expensive: the total cost of implementation for the global insurance industry could now be between $21 billion and $27 billion – 15 per cent more than projected costs estimated in 2022 – according to research published by WTW in September 2023.

Its findings, based on a survey of 235 insurers in 37 different countries, suggests that average cumulative programme costs for the largest multinational firms could reach $240 million, with smaller insurers likely to see an average bill of $30 million. So why have some projects been so difficult and so costly? And will all this trouble and expense deliver useful benefits beyond compliance?

IFRS 17 is awkward for many insurers both in principle and in practice. IFRS 17 obliges insurers to account for profit and loss at a much more granular level than in the past. It requires creation of a Contractual Service Margin (CSM) on the balance sheet: in effect, a stock of future profit. This represents a fundamental departure from Generally Accepted Accounting Principles (GAAP), under which a large proportion of profits are recognised up front. The CSM pushes recognition of expected profits out to the full length of each insurance contract, but it recognises losses immediately, resulting in a visible impact on P&L and the balance sheet. This is particularly problematic for life insurers and annuity providers, as profits on their products may be spread out over a very long period.

In addition, prudent margins used under GAAP are replaced with a best estimate of liabilities and an explicit risk margin; and liabilities must be discounted. Firms are also required to apply IFRS 17 retrospectively to the opening balance sheet. These changes will affect insurers' attempts to set reserves; and insurers are also required to disclose a confidence level, demonstrating that obligations will be met even in difficult conditions, but perhaps also making it more difficult for insurers to alter margins in a flexible way as conditions change, so arguably making them more vulnerable to market volatility.

Adapting to these changes has forced insurers of all types and sizes to overhaul systems and processes – and while some projects have run smoothly, on time and on budget, others have been disrupted by unexpected problems and costs.

Unexpected costs

"Firms were required to undertake large and costly transformation projects, often involving the services of external subject matter experts and consultancies, to evolve processes and systems for data, reporting, accounting and actuarial functions, if not wider," says Caitlin Wagner, senior policy advisor, prudential regulation, at the ABI. "Firms have been required to … adapt existing actuarial models or develop new models and scale up existing processes.

"Due to many firms underestimating the time and resources required, challenges have emerged … which have delayed implementation and highlighted skills gaps. These challenges have resulted in additional costs."

Moody's vice-president and senior analyst Will Keen-Tomlinson thinks one reason costs may have risen during the past year is simply that the pace of work needed to accelerate as the deadline for using IFRS 17 when reporting during the 2023 and 2024 reporting seasons drew closer. He also highlights the impact of inflation on costs in general during the past two years, and the need to find individuals with the expertise needed to help deliver IFRS 17 implementation projects.

> “Due to many firms underestimating the time and resources required, challenges have emerged

Francesco Nagari, global IFRS insurance leader at Deloitte, agrees that costs are likely to have increased during the final phase of implementation, but he thinks it may be too soon to draw conclusions about the total costs for insurers – a full picture will only become clear during 2024, when full-year 2023 reports will be released. Even then firms will not be required to reveal the full costs of projects that may have started several years ago.

KPMG partner Nathan Patten thinks that the complexity and the financial impact of implementation have both been greater for life insurers than for general insurers, although many of the latter have also found operational implementation more complex than expected.

Keen-Tomlinson suggests that many insurers needed to overcome additional problems created by legacy systems within IT infrastructures. But whatever the state of the IT infrastructure, at the heart of the technical challenges insurers have faced are new requirements for capturing data from multiple systems across the business, including finance, actuarial, policy and risk management functions; before that data can be managed and analysed in order to fulfil IFRS 17 reporting requirements.

In mid-2022, Deloitte commissioned research from The Economist Impact focusing on IFRS 17 implementation, surveying 360 insurance executives in 19 countries worldwide, including France, Germany, Italy, the Netherlands, Spain, Switzerland and the UK. Asked which aspects of the technical changes required were causing the most difficulty, the challenge cited most often, by 36 per cent of respondents, was capturing data inputs at the required level of granularity from multiple data sources.

"A lot of the data was not in the right place," explains Deloitte's Francesco Nagari. "Harnessing the data in the relevant calculation engines and producing the numbers to be audited and signed off represented an enormous effort in the last 20 per cent of the implementation journey."

The second most cited challenge, by 33 per cent of respondents, was the performance of technology solutions. Some will have been purchased from vendors, while others have been developed in-house by insurers. Nagari says many firms increased their use of cloud technologies to support and run these systems.

"If you have strong technology that can bring together all this transactional data and model data, you have solved the puzzle," he says. "Then you need to make sure that the choices you have made in terms of tech actually work. If they don't, you need to remediate, with a clock that never stops ticking. This is when some people have said 'We need to increase resources' and budgets have been revised upwards."

> Solvency II was a good preparation for IFRS 17, especially on the life side

Size does not matter

Insurers have also needed to define key performance indicators (KPIs) to be used to communicate results to investors and other stakeholders. "There has been a challenge around educating stakeholders and communicating results effectively, to ensure the market understands the changes in the way firms' results are presented," says Wagner.

"There's been quite an iterative process in terms of deciding what the investor presentations will look like," says Keen-Tomlinson. "We have seen some tweaks in assumptions and disclosures between the first round in respect of year-end 2021 and the half-year in 2023."

He suggests there is a general assumption within the industry that larger insurance companies are likely to have found the transition easier and to have made progress more quickly, because they are more likely to have been able to access the necessary resources and expertise more easily; and to have started implementation projects earlier.

One of those larger players is Allianz. "We started really early," says Allianz group chief accountant Roman Sauer. "We built the system then started projections and test cases and analysis. We did nine parallel runs when we produced the figures in the system. That enabled us to fine-tune processes before go live in Q1 this year. We were well prepared and in a run mode. We implemented it within the budget we have foreseen."

He points out that Allianz and other large European insurers also benefitted from the fact they were already required to comply with Solvency II. "Solvency II was a good preparation for IFRS 17, especially on the life side, but it's not enough to produce a Solvency II balance sheet and then say you are ready for IFRS 17," Sauer explains. "For P&L we have a lot of additional calculations and reporting requirements. All the projections made for each portfolio, all the changes made [around P&L and the CSM] … We invested in our actuarial calculation engines; also the interface between actuaries and accounting systems was refurbished; and we brought everything onto a central installation in the cloud."

He suggests that one reason for its success so far is that Allianz developed its own IFRS 17 solution. "Many peers tried to use standard software, which was not really ready at an early point in the project," he notes. "I understand for many there were still some problems with these standard software systems during go live this year, triggering some workaround solutions, [and incurring] additional costs." (Patten believes many life insurance groups were using tactical workaround solutions for half-year 2023 reporting.)

Just as there was an assumption that larger firms might find it easier to complete implementation more quickly, so concerns were expressed about the difficulties faced by some smaller insurance firms, lacking plentiful financial, technical or expert human resources. But while many seem to have started working towards implementation later than larger insurers, this does not necessarily mean they found the transition much more difficult, says Patten.

"Some of the smaller players started later, but they've been able to leverage some of the thinking by the bigger players," he explains. However, Keen-Tomlinson warns, whatever the size of a firm, those that are moving more slowly towards implementation may face further difficulties in future. "There's definitely the potential for some companies to be left behind and struggle to meet the deadline," he says. "We have more concerns about some emerging markets than for larger European companies. Even among larger companies we've seen some delayed half-year results in 2023."

Enjoying extra benefits

In the longer term, IFRS 17 implementation should deliver additional business benefits beyond ensuring compliance.

"IFRS 17 creates opportunities to improve the efficiency of processes …

[including] for financial reporting in general," says Wagner. "It has allowed for greater communication between functions such as actuarial, financial and reporting, breaking down siloed ways of working."

Sauer thinks it is important to remember why IFRS 17 was necessary. "There was no harmonised insurance accounting," he points out. "Before, people had national accounting standards for financials and insurance contracts. IFRS 17 is providing a global insurance accounting basis. That is a long term benefit for the capital market and transparency across jurisdictions, enabling better comparisons but also helping [firms making] acquisitions in other jurisdictions."

"The industry seems to be narrowing down to a set of KPIs that the market understands," says Patten.

"I do think it's positive," says Keen-Tomlinson. "I think the positive impact probably won't be felt immediately: there's going to be two or three years of parallel runs with old KPIs that everyone is more familiar with. But once everyone's used to the new KPIs and how they react to different factors then I think the reporting will be much higher quality for life insurers. IFRS 17 will make accounts more meaningful than they were previously, and make requirements for parallel reporting lower than previously."

At Allianz, says Roman Sauer, IFRS 17 has provided "a trigger to centralise and harmonise processes and infrastructure". "From a company perspective there are clear benefits," he says. "In the P&C area we have some more economic perspective on the business, because the discounting was introduced, and the risk adjustment."

More generally, he sees the life insurance sector as a key beneficiary of the new standard. "In the past we used the market … [other] value concepts and Solvency II numbers to come up with profitability KPIs, to measure, for example, the profitability of new business," he notes. "Now this is all coming from one set of figures, for external reporting and internal steering. That is a huge plus in terms of comparability, transparency, [and] reducing complexity."

"One of the things IFRS 17 has driven, while it is difficult to implement, is a greater level of granularity [in reporting], down to cohort level," says Patten.

Keen-Tomlinson expects many firms to benefit from the overhaul of their IT systems. "Refreshing systems has required a lot of up-front investment, but will be beneficial in future," he says. "We have heard about companies moving to a point where financial, actuarial and policy administration systems are working together in a much more linked up way than previously."

> “IFRS 17 will make accounts more meaningful than they were previously, and make requirements for parallel reporting lower

A success story, so far

Overall, Sauer believes the insurance industry has performed well so far in its delivery of IFRS 17 projects, with use of the new standard for half-year 2023 reporting creating no significant disruption.

"The numbers produced were according to expectations, for the insurance companies and for the capital markets," he says. "I think it's proof that the preparation of the industry was well planned and managed. Different companies had different implementation approaches, different systems … but overall I think it was a relatively smooth adoption in the industry."

For Nagari, the two key benefits already visible today are "that the comparability of insurance companies with each other has been enhanced significantly; and the level of transparency has improved significantly".

"Life insurance has always been described as a bit of a black box when it comes to understanding how you make money from a life insurance business by reading its financial statements – I hear that much less now," he says. "The half year reports were very comprehensive, with very good detail and explanations. It is actually happening: companies are talking the same language! Ultimately, if consistency and transparency are benefits already clearly emerging, the next benefit that could emerge over time is a more attractive insurance sector that could result in more investment.

"Insurance is now the only industry that tells investors how much profit they expect to make from the products they sell at the point of sale," he continues. "Second, the insurance industry, because of IFRS 17, will be the only industry to report an operating profit configuration which is calculated in the same way, company by company.

"Third, it's the only industry that has consistent, rigorous, systematic accounting of financial volatility.

This has been a difficult process, but one that the industry seems to be turning into a success story, Patten suggests. "If you look at the half-year 2023 [reporting], I'd say the industry as a whole has managed the transition well. It's taking a lot more time and effort than everyone expected, but I think everyone's getting there."

HSBC Asset Management

A Different Approach to Direct Lending

Adam Cadle talks to HSBC Asset Management's head of direct lending UK & Europe, *Tom Green,* and head of insurance business, *Deepak Seeburrun,* about the firm's direct lending proposition

Direct Lending has experienced significant growth since the wake of the financial crisis to become a key source of capital for leveraged loans. Indeed, direct lending provides attractive potential risk adjusted returns, portfolio diversification benefits, and low mark to market volatility when compared to the broader credit market.

Tom Green: We believe our proposition offers something distinctly different for investors and there are three main parts to this. Firstly, it is the access to a market leading[1] origination platform. We have a partnership where we co-invest with HSBC Bank on every deal. The benefit of this, is that we see a very broad origination pipeline, and we can cherry pick the best quality deals from that pipeline for our investors. Secondly, we are targeting a distinct gap in the market - deals where the debt requirement is less than £100m. In that market, competition is lower and there is a scarcity of financial solutions for borrowers. Banks are unable to fund the whole transaction, so they are not well positioned competitively, and a lot of competitors have moved up in deal size to focus on larger transactions and aren't really interested in transactions of this scale anymore. Thirdly, we can structure our transactions very conservatively in terms of leverage and the size of equity cushion injected by a financial sponsor. There are controls such as covenants and documentation controls that we can negotiate on each transaction. The result of all of this, is that across our portfolio the average leverage, which is a key indicator for risk, is significantly lower than for many other direct lending strategies.

Q: How has this lower mid-market segment performed against the backdrop of the pandemic and a slowing macro-economic environment?

Tom Green: I think the opportunity set has been good, as we are able to focus on high quality businesses that exhibit structural growth drivers so that we are not reliant on GDP growth. We have also been really disciplined around deal selection and have focused on businesses that have strong track records. We then structure the deals in such a way with conservative leverage, strong equity cushions and strong documentation so that they can weather a bump in the road if something did come along because of the macro backdrop. Our levels of interest cover remain strong, even now, because we have structured our portfolio to be consistent through different economic cycles.

Q: How do you identify the right borrowers for your portfolio and how do they give you confidence in their future performance?

Tom Green: We have recruited a strong and experienced investment team of 14 people who conduct the due diligence on all transactions. We have some screening criteria that we apply consistently across all transactions that we have completed, and we use market experts to be very confident about the deals that we select. Furthermore, we are cherry picking from a very large funnel because we see an awful lot of transactions every year, and we are probably only completing less than 10% of those transactions, so we turn down a very high proportion. In terms of confidence about ongoing performance, we structure strong covenant packages that allow us to keep an eye on business performance, and we receive regular updates from our management teams and the sponsors of the deals that we are investing in.

Q: From a demand perspective, what's the risk appetite of your clients in the insurance segment and what types of features are they looking for when investing?

Deepak Seeburrun: Firstly, I have been in the insurance sector for about 25 years but one thing I can say is that there has been a significant shift from where insurers have been investing in the past, to now. Also, the risk appetite depends on the insurance universe and the different insurance companies out there. The non-life insurers have short-dated liabilities and life insurance companies have long-dated liabilities. What insurers are looking for is investing in a portfolio where they can have uncorrelated exposure to assets, that is the alternative space, in this case private debt, and also a higher risk adjusted return on risk-based capital. The strategy that Tom has been building is very strong. Insurers are looking for an approachable team and full transparency of their assets in the portfolio as well as a strong reporting system. Direct lending has become more and more attractive to insurance companies.

> “We are well placed in the market because our strategy is more conservative, meaning it is robust in the current macro-economic climate

Q: How do you integrate sustainability into your processes?

Tom Green: HSBC Asset Management has always had a focus on sustainability. We were an early signatory to the UN PRI and across all the different asset classes, sustainability is an important consideration for the investment teams. We have tried to integrate ESG considerations from the very beginning in our investment process and there are three main ways of doing this pre-deal. The first of those is that we have exclusions. That might be sector or policy-based exclusions. Secondly, we operate an ESG scorecard which is something designed in house by HSBC, drawing on the experience of our fixed income team. The third element is that we have started to collect data from potential portfolio companies on the different aspects of ESG to allow us to build a better picture of our businesses to share with our investors. These are all integrated into our investment committee decision making processes and we have examples of deals we have declined for ESG-related concerns. Post investment, we have designed an engagement policy so that we continue to engage with our borrowers on a regular basis.

Q: Do you see the direct lending market continuing to grow, especially the mid-market segment, and how will HSBC Asset Management maintain current success in this area?

Tom Green: I see this market continuing to grow. In the mid-market, companies have a consistent requirement for credit facilities, be that for buyout transactions, bolt on M&A or other general corporate growth purposes. We see a consistent level of demand from underlying borrowers in our portfolio and the wider HSBC portfolio that we have access to. We are well placed in the market because our strategy is more conservative, meaning it is robust in the current macro-economic climate and all market conditions. Borrowers are drawn to more conservative debt packages and that matches our core offering.

1. Source: Houlihan Lokey Midcap Monitor 2022.

A securer environment

Insurance Asset Management rounds up some of the major pension scheme de-risking deals that have taken place over the past couple of months

CANADA LIFE has completed a £30m buy-in with the Andrew Sykes Group Pension Scheme, insuring the benefits of around 440 members, including 160 deferred members. This is the third deferred member transaction Canada Life has completed, with the insurer selected following a competitive tender process run by Hymans Robertson. Neon Legal provided the scheme trustees with legal advice, while Canada Life received legal advice from its in-house legal team.

PRUDENTIAL has been chosen to participate in a pension risk transaction with PSEG, fulfilling nearly $1bn of its pension plan obligations for approximately 2,000 retirees of PSEG Power & Other, a PSEG business segment. "Prudential is proud to help meet the retirement security needs of these 2,000 PSEG retirees, and to continue being a market leader in expanding access to retirement security," said Alexandra Hyten, head of institutional retirement strategies for Prudential. "We are confident that our rock-solid service delivery and experience in navigating market complexities will serve retirees well, helping to protect the lifetime income they've worked hard to earn." As a result of the lift-out transaction, Prudential will be responsible for the pension benefit payments to these retirees beginning 31 December 2023.

The first six months of 2023 saw over £22bn of premiums written in the UK bulk annuity market – a record for the H1 period, according to latest EY analysis. ***EY*** *analysed publicly stated H1 volumes and announced transactions, and said if growth continues throughout the second half of this year, the market will generate the highest annual volume of premiums on record and surpass the previous peak of £44bn in 2019.*

SCOTTISH WIDOWS has completed a £340m partial scheme buy-in with the Ford Pension Scheme for Senior Staff. Aon was the lead adviser on the deal, while legal advice was provided to the trustee by Mayer Brown and Hogan Lovells and independent professional trustee support was provided by PAN Trustees UK. Scottish Widows was advised by Eversheds Sutherland. Ford Pension Scheme for Senior Staff chair of the trustee board, Lucy Millar, highlighted the deal as a "significant further de-risking step that will provide greater security for members' benefits".

JUST GROUP has completed a £4m full-scheme buyout with the KGM Pension and Life Assurance Scheme, covering 14 deferred and 10 pensioner members. Bulk annuity and consolidator advisory business K3 Advisory, in partnership with actuary and consultant Cartwright, supported the trustees in completing the deal. Legal advice was provided to the trustees by Reed Smith. Just Group head of defined benefit sales, Pete Jennings, argued that all schemes, if prepared the right way, had the right to purchase a bulk annuity with an insurer.

The Association of British Insurers (ABI) pension and assurance scheme has completed an £18.4m buyout with ***Just Group.*** *The transaction secures the benefits of all remaining members of the scheme, sponsored by the ABI and comprises 16 pensioner members and 118 deferred members, with the scheme having insured its other pensioners in previous transactions. The scheme received legal advice from Shepherd and Wedderburn LLP, with Just Group using internal legal counsel. The deal completed in June this year.*

L&G has agreed a £340m buy-in with the Cable and Wireless Superannuation Fund, securing the benefits of approximately 1,800 retirees and deferred members. This transaction was the scheme's third and final transaction with L&G, following buy-ins in 2017 and 2019, with all scheme members now insured. The scheme's de-risking process began in 2008 when it completed its first buy-in with Prudential in what was the first £1bn buy-in transaction in the UK. Its sponsoring employer, Cable and Wireless Limited, is part of telecommunications services provider Liberty Latin America.

Total bulk purchase annuity (BPA) premiums written by **STANDARD LIFE** doubled year-on-year in the first half of 2023, its half-year report has revealed. During H1 2023, Standard Life wrote £3.2bn of BPA premiums, up from £1.6bn in the first half of 2022. Its workplace and BPA businesses reported new business long-term cash of £885m in the first half of this year, up from £430m in the same period last year. Standard Life's retirement solutions business made up £665m of the £885m total, with the remaining £220m coming from its capital-light fee-based businesses.

M&G has completed a £286m bulk purchase annuity transaction for 1,917 members of the Northern Bank Pension Scheme. The insuring entity is The Prudential Assurance Company Limited (PAC), M&G's wholly-owned subsidiary offering life and pensions solutions. The transaction was referenced in M&G's half year results recently and is the pension scheme's second with PAC, following a previous pensioner-only buy-in completed in 2015. It is the final step to insuring the scheme's membership in full and also involved the successful transfer of an illiquid asset from the pension scheme.

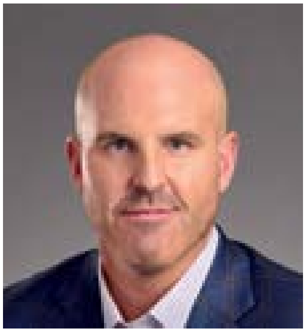
The London Stock Exchange (LSE) Group Pension Scheme has completed a £335m bulk purchase annuity deal with Standard Life, covering 1,740 members across the LSE and London Clearing House sections of the scheme. Standard Life senior business development manager, Rhian Littlewood, said: "This transaction was made possible thanks to the exceptional collaboration and engagement between all parties."

The Roadchef Retirement Benefits Scheme has completed a £24m full scheme buy-in transaction with Canada Life, covering all 547 pensioner and deferred members of the scheme. The deal, which is Canada Life's second transaction in the deferred market, was completed in July 2023 under LCP's 'streamlined' buy-in and buyout service. LCP acted as the lead adviser on the transaction, while Gowling WLG provided legal advice. Eversheds provided advice to Canada Life and EY advised Roadchef on the buy-in transaction.

Rothesay has completed a £260m buy-in transaction with the Smith & Nephew UK Pension Fund. This transaction completes the fund's objective of insuring all of its members' benefits with Rothesay, following previous buy-in transactions in 2013, 2017 and 2022. In addition, the transaction secures the benefits for all remaining uninsured members of the fund, including 1,885 pensioners and dependants, and 2,315 deferred members. The fund is sponsored by Smith & Nephew UK Limited, a portfolio medical technology company. LCP acted for the trustee as the lead broker on the transaction. Eversheds Sutherland and DLA Piper provided legal advice to Rothesay, and Travers Smith provided legal advice to the trustee.

Not all SaaS is created equal

Adam Cadle talks to Brian Slattery, SVP, Head of Northern Europe at Clearwater Analytics, about the firm's SaaS infrastructures and the role of technology in the insurance industry going forward



What do SaaS infrastructures look like and what are the benefits of these for insurers?

Brian Slattery: The kind of technology you use matters. Built on a cloud-based foundation, SaaS software delivers substantial benefits to organisations navigating periods of change and uncertainty. A SaaS offering is characterised by a scalable and flexible technology infrastructure, eliminating the need for substantial investments in hardware or software installations. Security and reliability are non-negotiables. End users should be able to effortlessly access investment data and insights at any time from any location. Automatic updates and maintenance should operate seamlessly in the background, allowing end users to streamline their investment operations, enhance operational efficiency, and focus on core objectives while reducing IT complexities and costs.

Why may one insurer choose one SaaS infrastructure over the other?

Brian Slattery: There's a lot of "SaaS" systems available on the market. From traditional on-premise systems to complete on the cloud systems, and many can sell themselves as "SaaS." What we find with our clients, is it depends on how much of the system they want to manage versus the vendor. On-premise systems are usually completely in the hands of the buyer, core infrastructure, data, operations and support, and companies are choosing these because it sounds promising to have so much control, but the downfall is the long-term cost associated to maintenance and support. Some companies choose a middle ground - Infrastructure as a Service (IaaS) or Platform as a Service (PaaS) - where there's more split between what the buyer versus the vendor manages. Then, what we see most of the time, are teams who want the full support model – SaaS, where the vendor manages infrastructure, application, data, support, etc. Buyers find this model fits into the long-term company goals, as it's a system that generally grows with them as it fits into the operating model.

How are your SaaS technology solutions continuing to adapt to Solvency UK reform?

Brian Slattery: Clearwater Analytics as an example, takes a proactive approach to aligning our SaaS technology with regulatory reforms, particularly in the context of Solvency UK. We have teams dedicated to closely monitor regulatory changes, enabling agile adaption of technology to meet evolving compliance requirements. Actively engaging with regulatory bodies and industry associations provides us with insights to develop solutions that effectively address new compliance challenges. With an agile development approach, we can swiftly implement necessary updates and enhancements, ensuring that our clients have access to the latest compliance features and functionalities.

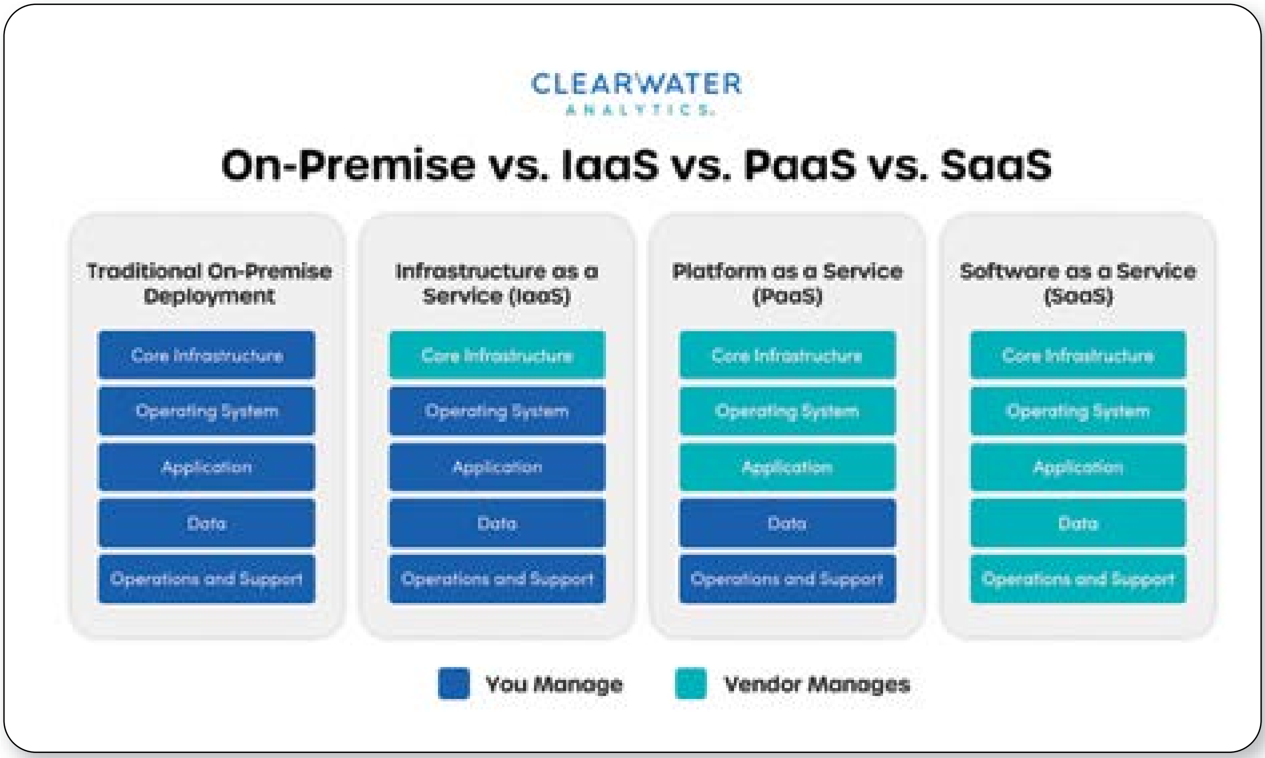
> The role of technology is pivotal for insurers grappling with evolving customer expectations, intricate regulatory environments, and the persistent pressure to cut costs

Do you think that the role of technology is going to become increasingly important to insurers going forward and how will you remain at the forefront of this industry?

Brian Slattery: The role of technology is pivotal for insurers grappling with evolving customer expectations, intricate regulatory environments, and the persistent pressure to cut costs. We're already seeing the increase in digitialisation and it will become more in demand as the industry changes. Continued investments in to research and development are crucial, as well as integrating cutting-edge technological advancements such as generative AI and machine learning.

Could you provide a brief overview of Clearwater's SaaS solutions?

Brian Slattery: Clearwater Analytics offers an award-winning software-as-a-service (SaaS) platform designed for insurers, asset managers, and corporations. Our technology automates data aggregation, cleansing, and reconciliation on more than $6.4 trillion in AuM. With Clearwater, organisations can efficiently manage investment portfolios with real-time reporting, customisable dashboards, and advanced analytics capabilities. Consequently, our clients gain the ability to drive greater returns from their investment portfolios, ensure compliance with regulatory standards, and strengthen risk and scenario management capabilities.



A green world

Insurance Asset Management looks at the key sustainable/impact investment developments over recent months

1 AXA will no longer cover new gas fields as part of its updated energy policy. The French insurer becomes the 10th insurer to make such a commitment, alongside Allianz, Aviva, Generali, Hannover Re, HDI – Talanx, Mapfre, Munich Re, SCOR, and Swiss Re. AXA's latest commitment comes into force from 2025, with exceptions for projects developed by companies in transition. This commitment complements the one made in 2021 to stop covering new oil fields from 2024.

Photo by: HJBC / Shutterstock.com

2 **Aegon UK** and **Phoenix Group** have been accepted as signatories to the UK Financial Reporting Council's UK Stewardship Code. The UK Stewardship Code is a set of voluntary principles that aim to improve the quality of stewardship practices by asset owners, managers and service providers. To become a signatory, organisations must clearly demonstrate that they have exercised effective stewardship over the previous 12 months through good governance and active engagement which has helped to generate long-term positive impacts for the economy, the environment, and/or society.

3 Japan's life insurer, Nippon Life, will not invest in or finance nuclear weapons manufacturers under its new investment policy. Its list had already included manufacturers of inhumane weapons such as cluster munitions and landmines, as well as coal-fired power generation programs for their impact on climate change. Other businesses that have been newly added to the investment-ban-list include tobacco-related companies and also palm oil-related businesses, from the perspective of child labour and other human right issues.

Photo by: Postmodern Studio / Shutterstock.com

4 Finnish mutual pension insurance company, **Ilmarinen**, has become one of the 190 investors globally to join the Nature Action 100 initiative. Nature Action 100 is the first global investor engagement initiative to address the urgent nature crisis and biodiversity loss around the world, having only been announced earlier this week on 26 September. Investor participants will focus on advancing corporate ambition and action in eight key sectors deemed systemically important to reversing biodiversity loss by 2030. These industries are biotechnology and pharmaceuticals; chemicals; household and personal goods; retail trade of consumer goods; foods; retail sale of food and beverages; forestry and paper; and metals and mining.

> AXA will no longer cover new gas fields as part of its updated energy policy

5 Ninety-seven per cent of Varma's fund managers have said their responsible investment principles are either partially or fully aligned with the insurer. Furthermore, more than four out of five of the fund managers have signed the UN Principles for Responsible Investment (UN PRI), and the majority of them also have an ESG policy covering all investments. The fund management companies were presented with 68 questions on, for example, how they take into consideration their investees' human rights issues, whether they have an organisation-wide ESG policy, and whether the fund management companies have joined international investor initiatives aiming to reduce emissions, such as the SBT initiative advocating for science-based emission reductions.

6 The value of **CNP Assurances'** green investment portfolio rose by €700m to €25.9bn at 30 June 2023, compared with €25.2bn at end-June 2022. The insurer aims to finance the energy and environmental transition by building a €30bn green investment portfolio by the end of 2025. In H1 2023, CNP Assurances said its investment portfolio's carbon footprint represented 52 kgCO2e/€k invested, compared with 55 kgCO2e/€k invested at end-2022, a reduction due in particular to the sale of €70m worth of shares in fossil fuel companies. The insurer aims to limit its greenhouse gas emissions by reducing the carbon footprint of its investment portfolio (France) by 25% between 2019 and 2024 and the carbon footprint of its internal operations (France) by 50% between 2019 and 2030.

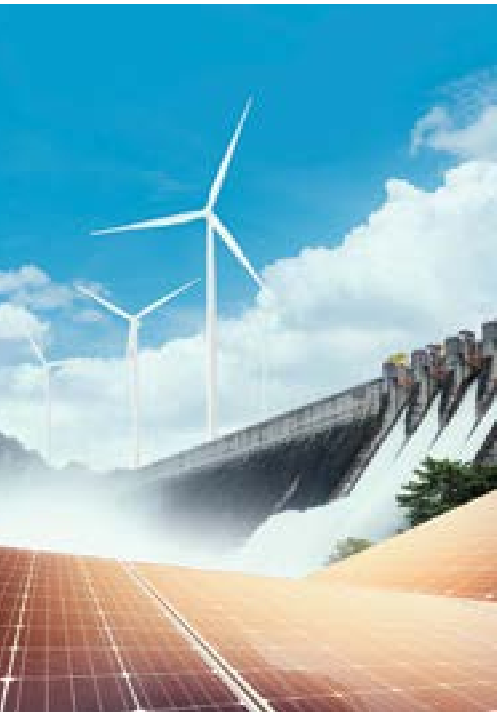
Photo by: Grand Warszawski / Shutterstock.com

7 **Allianz** has announced its first net-zero transition plan, which substantiates the company's long-term strategic climate commitment to achieve net-zero emissions by 2050 in its proprietary investment and P&C underwriting portfolios and already by 2030 within its own operations. The company outlines concrete intermediate targets by 2030 to reduce GHG emissions in Allianz's own business operations, proprietary investment portfolio and P&C insurance business. Furthemore, Allianz will also strengthen its existing engagement activities with customers and investee companies on a joint net-zero transition journey and expand its targeted growth of renewable energy, low-carbon and further transition technology, and sustainable mobility in both the investment and insurance business. By delivering a transparent and tangible net-zero transition plan, Allianz aims to advocate climate action joining forces with customers and business partners, the financial services sector, and other industries, as well as policymakers and governments.

> "Varma has become the first Finnish pension insurance company and third pension firm in the world to receive official validation for its emission reduction targets

8 **Varma** has become the first Finnish pension insurance company and the third pension firm in the world to receive official validation for its emission reduction targets, which are based on the Science Based Targets initiative (SBTi). Varma's science-based target is to reduce the greenhouse gas emissions related to its own operations (Scope 1 and 2) by 60% by 2030 compared to the 2021 level. In terms of indirect emissions (Scope 3), a target has been set for Varma's investments in listed equities, corporate bonds and real estate funds. In these

asset classes, Varma's target is to increase the share of companies committed to the SBT initiative to 51% by 2027. In 2021, 28% of these investees had set their own science-based targets. Listed equities, corporate bonds and real estate funds make up 45% of Varma's €57.4bn investment portfolio.



> Infrastructure investors could lose more than 50% of the value of their portfolio to physical climate risk before 2050

10 **Infrastructure investors, including insurers, could lose more than 50% of the value of their portfolio to physical climate risk before 2050 in the event of runaway climate change, EDHEC Infra & Private Assets has warned in its latest paper. Moreover, it said the average investor will also lose twice as much to extreme weather, mostly in OECD countries, compared to a low carbon scenario. Over the past two decades, institutional investors have increasingly allocated capital to private, mostly unlisted, infrastructure companies like toll roads, airports, power plants and pipelines. The firm's indexing and valuation platform for investors in private infrastructure, infraMetrics, tracks a universe representing around $4.1trn of enterprise value and US$2.2trn of market capitalisation at current market prices in 25 key markets. The cost of physical risks within the 'Current Policies' scenario represents, on average, 4.4% of the total NAV of the assets in the database by 2050. The average maximum loss is -27%, and the effect of extreme climate events is negative across all sectors, impacting the NAV of transport (-10% on average with a maximum of -97%) and the energy an water resources sector (-7% on average, with a maximum of -40%).**

9 Global renewable energy company, **Low Carbon**, has secured a £400m capital commitment from **MassMutual**, to be directed into large-scale renewable energy projects across the UK, Europe and North America. The capital commitment will enable Low Carbon to significantly expand its core capacity by providing liquidity for its pipeline of projects up until 2025. Announced in November 2021, the strategic partnership between Low Carbon and MassMutual aims to build a leading global renewable energy Independent Power Producer (IPP) by leveraging each businesses' unique position in the market and domain expertise to accelerate the energy transition. Furthermore, the latest capital commitment announcement builds further momentum in support of Low Carbon's strategic goal to create 20GW of new renewable energy capacity by 2030.

Around the globe

Insurance Asset Management looks at the latest insurance developments happening around the world

1 **MAPFRE's** solvency ratio stood at 197.3% as at June 2023, including transitional measures, its latest financial figures have shown. The insurer said the ratio "remains highly stable and solid, backed by high diversification and strict investment and ALM policies". The solvency position remains within the tolerance range established by the group (target solvency ratio of 200% with a 25-percentage point tolerance range. The latest ratio would be 188.8% excluding the effect of these measures, compared to 189.5% at the close of March 2023. Eligible own funds reached over €9.3bn as at 31 March 2023 and 30 June 2023, of which 83% are of high quality.

2 Aviva has agreed to sell its 25.9% stake in Singapore Life Holdings to Sumitomo Life for a total consideration of £800m. The deal, which also includes two debt instruments, will be payable in cash at closing. Sumitomo Life will pay £500m for Aviva's equity Singlife stake and £300m for the two debt instruments. The Japanese insurance group is currently a 23.2% shareholder in Singlife and sees Singapore as a key market within its overall South East Asia strategy. Aviva's exit from the Singlife joint venture represents a further step towards simplifying its footprint following the international disposal programme it completed in 2021. The deal is also consistent with the group's ambition to focus on capital-light business units.

3 **Singlife** has appointed **Ortec Finance** as its strategic asset allocation consultant. This collaboration marks a significant step for Singlife in enhancing its investment capabilities and optimising its long-term investment strategies. Kim Rosenkilde, group chief investment officer at Singlife said: "Ortec Finance's global reputation for delivering advanced investment solutions and their deep understanding of the insurance industry makes them the ideal partner to support Singlife's long-term investment goals. Together, we can continuously drive innovation in the industry and deliver exceptional outcomes for all our stakeholders."

Singlife ORTEC FINANCE

4 **Nomura** has announced an equity investment into **Prismic Life Reinsurance,** a Bermuda-based life and annuity reinsurance platform. The investment has been made alongside Prudential Financial, Warburg Pincus and other investors. At launch, Prismic will have a combined initial equity investment of approximately $1bn, with Prudential owning 20% and Warburg Pincus owning 15% of the equity. A group of global investors will own the remaining 65% equity, with Nomura participating as a founding investor. As well as the equity investment, Nomura also acted as joint lead arranger and bookrunner on a syndicated debt facility.

5 China's new financial regulator, the **National Administration of Financial Regulation (NAFR),** has reduced the risk weighting it attaches to insurance companies' holdings of blue-chip shares and tech stocks, encouraging them to invest more in the country's lagging stock market. The NAFR said that the risk weighting for CSI300 Index constituents would be reduced to 0.3 from 0.35, while that for stocks listed on Shanghai's tech-focused STAR Market would be cut to 0.4, from 0.45.

6 **Talanx's** group net income rose by 21% to €827m in H1 compared to a year earlier, the best half-yearly result in its history, and insurance revenue climbed to €20.9bn from €19.2bn in the same period. According to the group's latest financial results, the net insurance financial and investment result before currency effects was €760m, down from €806m year-on-year. The SII ratio as at 30 June 2023 was 217% compared to 212% on 31 March 2023. Insurance revenue in the P&C insurance segment rose by 8% to €861m in H1, while life insurance revenue dropped to €861m from €912m a year earlier. Talanx said it is "confident" of exceeding both its target of €42bn for insurance revenue and the figure of €1,400m for group net income in the current year.

Photo by: khairulhelmy / Shutterstock.com

7 Alternative asset manager **Blackstone** has announced it is to merge its corporate credit, asset-based finance and its insurance groups into a single new unit, Blackstone Credit & Insurance (BXCI). Credit and insurance has been Blackstone's fastest-growing segment – more than doubling to $295bn in assets under management (AuM) over the last three years. Blackstone's businesses include the largest BDC (BCRED), largest private credit energy transition fund (BGREEN), largest manager of CLOs and senior loans in the world, and the second largest alternative manager of insurance assets. In addition, the asset manager announced that the new structure will further accelerate growth by creating a more seamless experience for clients and borrowers.

8 **Nassau Financial Group (Nassau),** a leading provider of fixed annuities and asset management, and **Fortress Investment Group (Fortress),** a global investment management firm, have entered into a strategic partnership. This strategic partnership marks a significant milestone for both organisations and opens new avenues for growth and close collaboration. The transaction closed on 1 September 2023, after receiving regulatory approvals. As part of this strategic partnership, Nassau received a $130m minority non-voting common equity investment from Fortress. This investment will provide additional primary capital to both further strengthen Nassau's balance sheet and accelerate the firm's growth strategy, including organic growth and acquisitions. Nassau entered into a long-term Investment Management Agreement (IMA) with Fortress, whereby Nassau's insurance subsidiaries will have full access to Fortress' credit investment strategies.

9 **Länsförsäkringar** is shaking up its fund range within unit-linked insurance with the addition of a new sustainability-orientated fund. It is introducing Coeli Circulus this month, while some other funds will be removed, with the aim of providing the most sustainability-orientated pension as possible. Coeli Circulus is a global equity fund with a focus primarily on small companies with a focus on contributing to the achievement of the goals for sustainable development (the UN's global goals). This includes, for example, renewable energy, energy efficiency, sustainable food production, low-emission transport, biodiversity conservation and water purification. The fund promotes sustainability according to EU regulations (Article 9, dark green) and Länsförsäkringar classifies it as sustainability-oriented within the pension range.

10 The **South Korean** life insurance industry is forecast to grow at a compound annual growth rate (CAGR) of 5.6% over 2023-27, from $154.2bn to $191.2bn, in terms of direct written premiums (DWP), according to GlobalData. The life insurance industry in South Korea is expected to grow by 4.4% this year, driven by changing demographic factors such as low fertility and a rapidly aging population, which has led to an increase in demand for pension, long-term care and whole-life policies. According to Statistics Korea, those aged 65 and over accounted for 17.5% of the total population of South Korea in 2022. This figure is expected to rise to 20% by 2025, leading to a significant impact on the demand for long-term savings life insurance products. Pension insurance is the largest life insurance line in South Korea and is estimated to grow by 7% in 2023, accounting for a 36.5% share in terms of DWP.

11 Saudi Arabia's general insurance industry is forecast to grow from SAR 56.8bn ($15.2bn) in 2023 to SAR 72.4bn ($19.3bn) in 2027, in terms of gross written premiums (GWP), GlobalData has estimated. The data and analytics group has calculated that the Saudi Arabian insurance industry is to grow at a compound annual growth rate (CAGR) of 6.2%.

> “Visions of the future, innovative ideas, research and development are the basis for a sustainable transformation of our society and economy

12 Gothaer has announced a €20m investment in Munich-based venture capital firm, HV Capital. HV Capital has a focus on putting together a portfolio of corporate financing for young and innovative companies. German insurer Gothaer has stated that it wants to invest a total of €100m in venture capital funds with a particular focus on sustainability. CFO at Gothaer, Harald Epple, said: “Visions of the future, innovative ideas, research and development are the basis for a sustainable transformation of our society and economy. As a leading partner for medium-sized businesses, we not only want to support aspiring young companies that are driving this transformation forward as an insurer, but also as an investor. With our investment, we are providing them with the necessary resources so that they can turn their transformative visions into reality.”

13 Allianz has agreed to acquire Tua Assicurazioni from Assicurazioni Generali for a consideration of €280m. Tua Assicurazioni has a profitable property and casualty (P&C) insurance portfolio with overall gross written premiums of about €280m in 2022, mainly managed via a distribution network of almost 500 agents. The transaction is subject to regulatory approvals, expected at the beginning of 2024. Upon completion, Allianz's P&C market share in Italy is expected to increase by approximately 1 percentage point, consolidating its position as the #3 player in the Italian P&C market.

Current ponderings on industry themes

GRANT SHAPPS
UK defence secretary

On Aviva's ethical investment policies on defence

There is nothing remotely unethical about investing in UK defence and a thriving industry is critical to protect our way of life, particularly at a time of such global uncertainty. It would be immoral for investors to turn away from our defence firms – which help employ more than 200,000 people across the UK – without whom we would not have been able to supply Ukraine with the means to defend its freedom.

On Robeco openly sharing its sustainable investing data

Expanding the accessibility of our SI open access initiative, means that we are inviting more external perspectives and feedback, reaffirming our commitment to data transparency and innovation in the field of sustainable investing.

CAROLA VAN LAMOEN
Robeco, head of SI

ANURAG BALIARSINGH
GlobalData insurance analyst

On Saudi Arabia's general insurance industry set to be worth £19bn by 2027

The Saudi Arabian general insurance industry grew by 27.7% in 2022, recording its highest year-on-year (YoY) growth over the last 13 years. Mandatory private health insurance for expats, an increase in vehicle sales, and the rising demand for natural catastrophic insurance policies due to extreme weather events have supported the growth of general insurance. Also, in August 2023, the Saudi cabinet approved the establishment of the Insurance Authority, a new unified and independent regulator for the insurance sector. This will promote the entry of new insurers into the market, which will increase competition and support growth. It will also boost the market for regional and global insurers operating in the country.

LEO WONG
Waterfall partner

On Waterfall Asset Management expanding its insurance asset management business with a focus on the US residential whole loan market

Insurance partners have always been a critical and valued part of Waterfall's investor base and we are proud of our ongoing commitment to delivering capital-efficient and tailored solutions to these sophisticated clients. Today's unique market environment offers especially appealing opportunities for insurers in the residential credit space given the attractive long-term yields on offer and the relatively low risk and volatility that can potentially be achieved through thoughtfully structured portfolios.

On Finland's Elo returning 2.7% up to the end of September

When the whole year is considered, Elo's income was at a good level. During the third quarter of the year, both the equity and mass bond loans produced a weak return. Behind the weak yields was a concern about continued tight monetary policy. The returns on the property market were also under pressure and we made a write-down of €93m in the direct property investments at the end of September.

CARL PETTERSSON
Elo CEO

JASON SMITH
Tabula CIO

On 96% of institutional investors expecting fixed income indices to increase

There has already been a marked increase in the number of ESG indices that help passive fixed income investors to find sustainable investment opportunities without giving up returns or the characteristics of their core portfolio exposures. What matters now is that we see a continued improvement in the quality of those indices to ensure they include issuers that have been thoroughly investigated and assessed on their ESG credentials.

SUTIRTHA DUTTA
GlobalData
insurance analyst

On Australia's general insurance industry reaching $83.9bn by 2027

The rise in premiums that will escalate the cost of living and make people selective while taking insurance is not expected to have a significant negative impact on the growth of the Australian general insurance industry during 2023-27. However, escalating NatCat losses and rising inflation will remain a key challenge for the profitability of Australian general insurers.

On maintaining a stable outlook for Japan's life insurance market

Most life companies have maintained very strong capital positions amid heightened financial market volatility over the last 12 months. In our view, the Japanese life insurers' adequate capital buffers will help them withstand the potential impact of volatility in both the domestic and global financial markets, as well as potentially higher domestic interest rates.

CHARLES CHIANG
AM Best senior financial analyst

STEPHEN BIRD
abrdn CEO

On abrdn selling off its European-headquartered private equity business

The sale of our European-headquartered private equity business to Patria closely follows the completion of the sale of our US-headquartered private equity business to High Vista Strategies. This latest sale marks further progress in the reshaping of our investments business in line with previous guidance. We are continuing to reduce complexity and are focusing on areas where we are confident we can drive growth in the future.