Insurance Asset Management

Summer 2020

Portugal
An insight into insurance company Una Seguros

Saving the planet
The latest developments around ESG planning

Impact Investing
The growth of impact investing and the potential benefits on offer

COVID-19: TECHNOLOGY
How new software and risk analysis processes are helping insurers

COVID-19: AROUND THE GLOBE
The key investment decisions made during the pandemic

COVID-19: EMERGING MARKETS
How these economies have fared in the current challenging environment

Editorial Comment

Since I last penned this editorial comment, I think it's certainly safe to say that the world has changed somewhat. The COVID-19 pandemic has created a number of unique challenges for financial services and society as a whole, and it has of course affected global economic markets. In the spring edition of *Insurance Asset Management,* my opening comment read: "I hope you are all ready for what the months ahead will bring in the insurance industry." Now, I can't claim by any stretch of the imagination that I predicted what was to come and could envisage what a 'new normal' might bring, but I did raise the question as to whether insurers were prepared for what the future months would serve up in front of them on an economic basis. The COVID-19 crisis has caused interest rates to fall significantly and we have seen credit spreads widening. Our cover feature (p. 26) explores the turmoil created by COVID-19, its effects on non-life and life insurers, insurance investment strategies and whether insurers can survive more macro events.

During any time of crisis, I always find it fascinating to analyse the technological product offerings in the market. Our COVID-19 technology feature (p.30) looks at some of the ways in which global insurers have utilised technology to navigate their way through this pandemic. Innovation is always key within any industry and the technology sector must adapt with the ever changing environment around it. If this helps insurers to mitigate risk at times like this, then that can only be a positive thing.

> The COVID-19 pandemic has created a number of unique challenges for financial services and society as a whole

I'm delighted to be able to include a number of key interview pieces in this issue as well, ranging from associations and chief investment officers across the globe. We hear from the Italian National Association of Insurance Companies (ANIA) about the health of the insurance sector in Italy (p.34) and also hear from Una Seguros CIO Huayin Liu (p.40).

These are interesting times indeed and we await what the next few months will throw at us. Regulation such as Solvency II has effectively helped to mitigate some of the pro-cyclical effects caused by the disruption to the financial markets from COVID-19, and this is great to see.

Enjoy this issue and I hope you all are staying safe and well.

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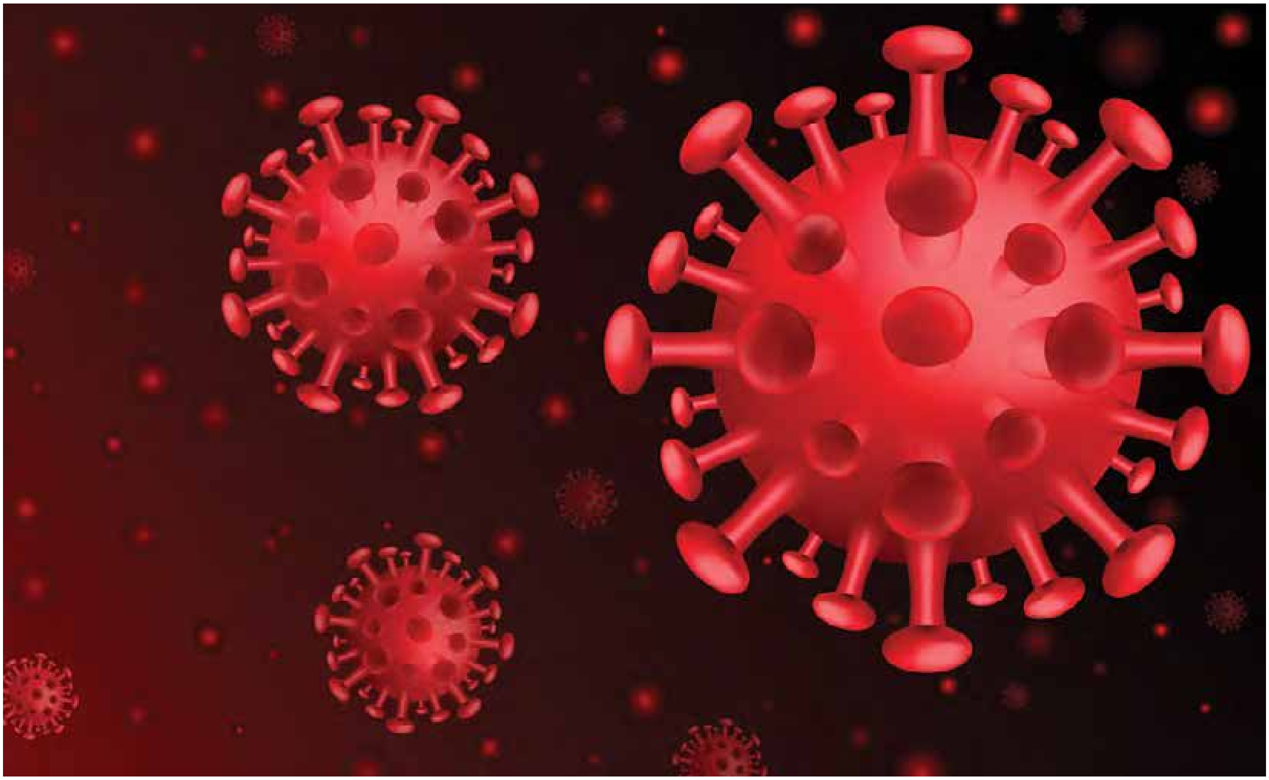


News focus

COVID-19 related market turbulence sweeps through global insurance industry

Falling asset values, low interest rates and increasing credit risks hit

Written by **Adam Cadle**

Falling asset values, rising volatility, lower interest rates and increasing credit risks have engulfed the global insurance industry over the past few months, as COVID-19 continues to pose a unique challenge to financial services.

UK insurers have seen significant share price falls in the sector in the midst of the pandemic with some drops of more than 50% since the beginning of the year, according to Deloitte. "In part this reflects the equity market's view of uncertainty about the implications of the pandemic for life insurers; in general, life insurers have seen deeper drops in share price compared to general insurers," it said.

UK insurers have seen significant share price falls in the sector in the midst of the pandemic with some drops of more than 50% since the beginning of the year

Elsewhere, Italian insurance companies have seen an average reduction in their asset values of 7% in Q1 2020 due to a decline in stock prices and the widening of credit spreads on debt securities, according to the Institute for Insurance Supervision, IVASS.

The sharp decline in the prices of financial assets and the increase in their volatility triggered by COVID-19 meant that the average solvency index of the Italian insurance sector fell 35 percentage points in Q1 2020 to around 200%, although still remaining well above the regulatory minimum of 100%.

The volatility of financial markets and the widespread increase in risk premiums demanded by investors, meant stock prices of major Italian insurers fell in Q1 by 29%. The falls are in line with those of the other euro area companies.

In Germany, three German insurance groups had their outlooks revised to negative in light of the COVID-19 pandemic, Fitch Ratings outlined.

The three groups, Provinzial NordWest Lebensversicherung Aktiengesellschaft's and Westfaelische Provinzial Versicherung; R+V Allgemeine Versicherung, R+V Lebensversicherung, R+V Lebensversicherung and Condor Lebensversicherungs-Aktiengesellschaft's; Stuttgarter Lebensversicherung, all saw a revision to their outlooks based on Fitch's assessment of the impact of the coronavirus pandemic under a set of ratings assumptions.

> Italian insurance companies have seen an average reduction in their asset values of 7% in Q1 2020

These assumptions were used to develop pro-forma financial metrics for a total of ten insurance groups, which Fitch compared with the ratings guidelines defined in its Insurance Rating Criteria, and with previously established rating sensitivities for the respective insurers.

Fitch expects financial market disruptions to negatively affect the sector's financial performance, especially via increased pressure on investment yields and interest margins and reduced fee income due to lower asset balances.

"The further decline in market interest rates makes it increasingly difficult to cover existing policyholders' guarantees solely from investment income," Fitch said. It estimated that the average effective guarantee on German life reserves was about 1.8% at end-2019, and "while this is similar to an average running yield of 2.4% on the investment side, the average yield of the investment portfolio comes down more quickly than the average guarantee, due to the existing asset-liability duration mismatch".

The ultimate implications of the pandemic on German insurers' credit profiles are unclear, but Fitch said it considers the risks to be skewed to the downside.

In Norway, non-life insurance companies had a pre-tax profit of -18.2% (non-annualised) of premium income for own account in the first quarter of 2020. Latest figures published by the Financial Supervisory Authority of Norway (Finanstilsynet) showed a sharp decline in financial income due to COVID-19 contributed to only one of 41 non-life insurance companies having a positive profit before tax. Life insurance companies posted a pre-tax profit of -0.3% (annualised) of average total assets in the same period.

News in brief

- French insurer Covéa has pulled the plug on its planned $9bn purchase of PartnerRe, the Bermuda-based reinsurer owned by Exor, the holding firm of Italy's Agnelli family. Covéa informed Exor that it could not complete the purchase under the agreed terms due to the "current unprecedented conditions and significant uncertainties threatening the global economic outlook".

- The long-term nature of insurance business should be better reflected in the prudential framework, a report by the High Level Forum (HLF) on capital markets union has said. The HLF, set up by the EC, said improvements to capital calibrations and the risk margin should increase capacity among insurers to invest in capital markets, particularly in equity, it argued. The HLF said this can be done by carrying out a "targeted review of Solvency II".

- A group of financial services trade associations – including Insurance Europe – has called for the creation of a centralised public register for Environmental, Social and Governance (ESG) data in the EU. "The availability of high quality and comparable public ESG data is currently rather limited and is insufficient to comply with new regulatory requirements, including sustainability disclosures and taxonomy regulations," Insurance Europe said.

- Bermudian-based Fidelis Insurance has executed agreements to raise a further $500m of equity capital from existing investor relationships.

Market perceptions of European insurance sector remain stable, albeit deteriorating

Macro and market risk indicators deteriorated in March 2020, moving from high to very high level

Written by **Adam Cadle**

Liquidity and funding risks have been raised to high level due to potential additional strains on the disposable liquidity of insurers in the medium to long-term horizon

Market perceptions of the European insurance sector remain at a medium level, albeit deteriorating, EIOPA has said.

Commenting on its *Risk Dashboard* based on the fourth quarter 2019 Solvency II data, EIOPA said the EU insurance sector underperformed the market, both life and non-life businesses lines, and the median price-to-earnings ratio of insurance groups in the sample decreased since the last assessment.

Insurers' external ratings and rating outlooks do not show sign of deterioration as of end March 2020, however credit quality is expected to deteriorate.

The results show that the risk exposures of the European Union insurance sector increased as the outbreak of COVID-19 strongly affected the lives of all European citizens with disruptions in all financial sectors and economic activities.

Macro and market risk indicators deteriorated in March 2020, moving from a high to a very high level.

"The macroeconomic environment has been affected strongly by the global lockdown," EIOPA said.

"GDP estimates point to a strong downturn for the first quarter 2020 and latest forecasts predict a recession worldwide for 2020. Inflation forecasts have been revised downwards for the next four quarters. Monetary policy support has been activated by all major central banks. Financial markets have been characterised by sell-off across asset classes, increased volatilities for bond and equity markets, increasing risk premia and flight to quality investment behaviour in March 2020.

"Credit risk has increased across all asset classes, in particular CDS of government bonds, financial and non-financial corporate bonds have increased sharply. Liquidity and funding risks have been raised to high level due to potential additional strains on the disposable liquidity of insurers in the medium to long-term horizon."

For Q4 2019, liquidity indicators were broadly stable, however some are expected to worsen, triggered by a possible decrease in premiums and new business, potential increase in claims and illiquid level of certain assets. Profitability and solvency risks have increased to a high level.

Although for Q4 2019 insurers solvency positions remained relatively stable, looking ahead profitability and solvency risks are expected to deteriorate, given the double-hit scenario negatively affecting insurers on both the asset and liability side.

While broadly stable in Q4 2019, negative effects via income reduction and increase in claims are expected going forward.

PRA postpones climate and insurance stress tests due to COVID-19 pressures

Regulator said the delay will give firms enough time to deliver to a high standard

Written by **Adam Cadle**

The PRA has postponed the launch of its climate and insurance stress tests due to current pressures on insurance firms due to COVID-19.

The climate change stress test launch has been delayed until at least mid-2021.

"This delay reflects a desire to maintain the ambitious scope of the exercise, whilst giving firms enough time to invest sufficiently in their capabilities to allow them to deliver to a high standard," the PRA stated.

The PRA said this summer it will however issue follow-on guidance on its 2019 Supervisory Statement on enhancing firms' approaches to managing the financial risks from climate change. In addition, the outputs from the Climate Financial Risk Forum (an industry group set up in 2019 to bring together leading practice across the financial sector, and chaired jointly by the PRA and FCA) will be published in the summer.

> This delay reflects a desire to maintain the ambitious scope of the exercise

The regulator said it will not be publishing results of last year's Insurance Stress Test and will postpone the next Insurance Stress Test to 2022, with a view to seeking feedback from firms on the proposed design during Q4 2021.

Full supervisory engagement on Libor will be resumed from 1 June 2020, including data reporting at the end of Q2.

Lloyd's market set to pay out up to US$4.3bn

Low interest rates continue to hit industry hard

Written by **Adam Cadle**

Photo by: Simon Vayro / Shutterstock.com

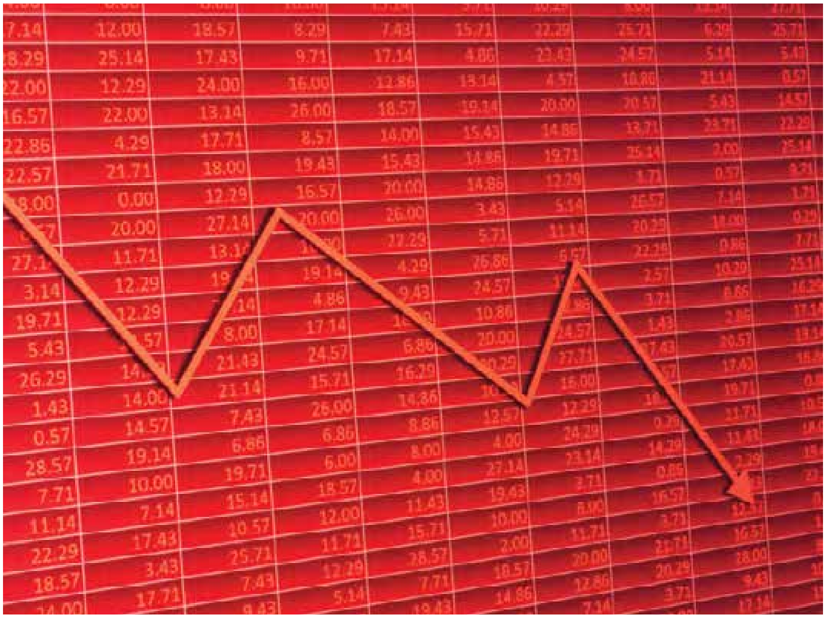
Lloyd's of London will pay out in the range of $3bn to $4.3bn to its global customers as a result of the far-reaching impacts of COVID-19.

Lloyd's said this is on a par with 9/11 in 2001 and the combined impact of hurricanes Harvey, Irma and Maria in 2017, all of which led to similar pay outs by the Lloyd's market. These losses could rise further if the current lockdown continues into another quarter.

Lloyd's believes that once the scale and complexity of the social and economic impact of COVID-19 is fully understood, the overall cost to the global insurance non-life industry is likely to be far in excess of those historical events.

To understand the impact of the pandemic on the global non-life insurance industry, Lloyd's undertook an economic study of the potential losses. This looked at both underwriting losses through the Profit and Loss Account, as well as the reduction in the value of investments which insurance companies hold to fund future claims payments. The economic study took account of the current pay out estimates assuming continued social distancing and lockdown measures through 2020, as well as the forecast drop in GDP globally.

Global reinsurance sector will fail to earn its cost of capital in 2020



Mortality claims and losses/financial market disruption main causes

Written by **Adam Cadle**

The global reinsurance sector "will fail" to earn its cost of capital in 2020 amid the coronavirus crisis, Fitch Ratings has said following a sector ratings review.

Financial performance will be hit by mortality claims and losses from event cancellation, business interruption, credit and surety insurance, as well as by financial market disruption linked to the economic impact of lockdown measures, Fitch stated. This follows three years of heightened natural catastrophe losses and increasing US casualty claims, which depressed reinsurers' returns in 2017-2019.

Fitch conducted a review of global reinsurers' ratings in light of the pandemic in April and May. It assessed each insurer's pro-forma financial metrics under a set of rating-case assumptions, comparing them with the ratings guidelines defined in its insurance rating criteria and with previously established rating sensitivities for each insurer.

As a result, it took negative rating actions on six of the 22 reinsurance groups reviewed. There were two one-notch downgrades (with outlooks now stable), three affirmations but with outlooks revised to negative, and for one group the insurer financial strength (IFS) rating was placed on rating watch negative.

For 15 of the groups, the IFS ratings were affirmed with stable outlooks and for one the rating watch evolving on the IFS rating was maintained. The main driver for the negative rating actions was deteriorating financial performance.

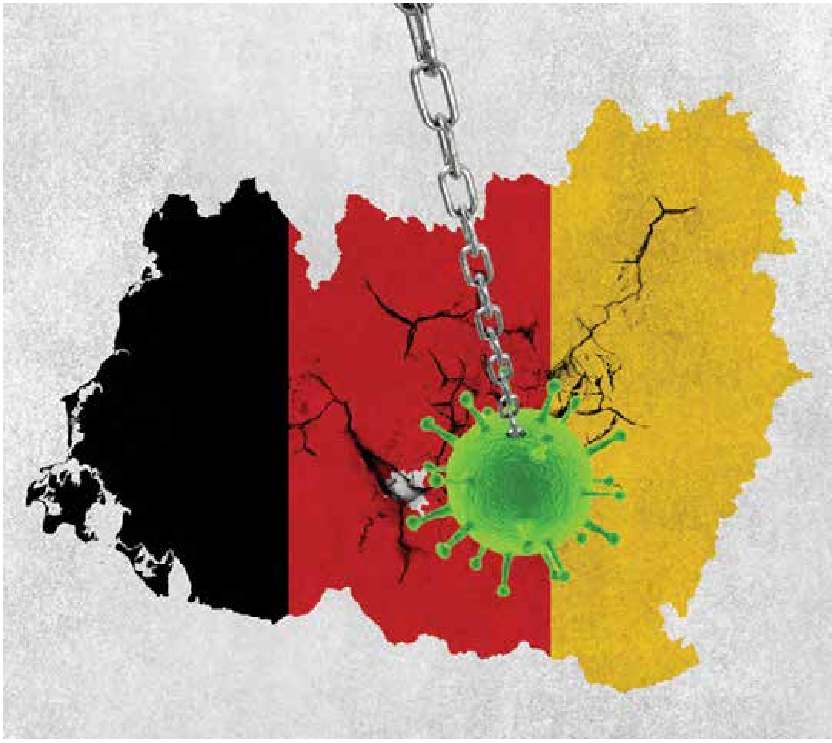
The ultimate implications of the pandemic on global reinsurers' credit profiles are uncertain, but the risks are skewed to the downside for companies that cannot earn their cost of capital on a sustainable basis

Based on Fitch's pro-forma analysis, it continues to view the global reinsurance sector's capitalisation as strong on average, with pro-forma capital ratios not much weaker than those at end-2019. "We expect capitalisation to hold up in most cases and not be a major driver of rating actions," it said.

"Primary insurance premiums may shrink in 2020-2021 due to sharp economic contraction, but we expect increased demand for reinsurance coverage from primary insurers stung by pandemic-related claims.

"Reinsurance prices are likely to rise as a consequence of slightly weakened sector capital, which should largely offset declining investment income due to lower interest rates.

"The ultimate implications of the pandemic on global reinsurers' credit profiles are uncertain, but the risks are skewed to the downside for companies that cannot earn their cost of capital on a sustainable basis given the long-term negative implications for their capital positions."



BaFin's president praises flexibility offered by SII during COVID-19 turmoil

Hufeld says pandemic not a threat to life insurers' continued existence

Written by **Adam Cadle**

BaFin's president Felix Hufeld has praised the flexibility offered by Solvency II (SII) especially during the coronavirus pandemic.

Speaking at the 2020 BaFin Annual Press Conference, Hufeld said underfunding will not be an issue and the situation is not a threat to life insurers' continued existence.

"You might be wondering how the coronavirus pandemic is affecting life insurers," he said.

"The persistently low interest rate environment remains the biggest problem for the industry. And the crisis is placing an additional burden on the investments of these undertakings. However, the situation is not a threat to their continued existence as things stand today. Solvency ratios will drop – this was revealed in a survey we conducted at a selected number of life insurers. But this will not lead to underfunding for any of these undertakings. This is also thanks to the flexibility offered by SII which sets out transitional provisions that are extremely helpful for us – and for the industry in particular.

"The crisis can have a short-term impact on liquidity, too: if there is a slump in new business or if insurance policies are terminated or premium payments are deferred, the stable flow of income that insurers usually have could be disrupted. This is not yet a cause for concern for us – but we are keeping a close eye on the situation even more than before."

> We are keeping a close eye on the situation even more than before

Looking towards the future, Hufeld said nobody knows whether the turbulence we are currently seeing, particularly on the assets side, will continue for some time.

"We don't know either how quickly assets will stabilise. Are we dealing with short-term volatility? If so, the impact of the crisis will be limited as we have the regulatory tools to deal with this. But if valuations and default risk on the markets are changing in the medium or long term, this would have a more severe impact on capital."

The German life insurance industry reported an "adequate" solvency ratio at around 360% as of 31 December 2019, compared to 327% in 2018, according to latest figures published by the Association of the German Insurance Industry (GDV).

The non-life insurance market recorded an "extremely stable" coverage ratio of 301% (previous year: 303%) which testifies to a "solid business model" and "strong financial resources", GDV said.

For the fourth time since the introduction of the SII supervisory system, German insurance companies have published key indicators on the solvency and financial position.

The GDV evaluated the submitted reports (market coverage in life insurance: 91%, P&C insurance: 79%).

US insurance industry continues to reduce hedge fund exposure

Investment falls by $2.6bn in 2019 to $11.9bn

Written by **Adam Cadle**

The US insurance industry has reduced its hedge fund investments for a fourth straight year, by $2.6bn in 2019 to $11.9bn, with the property/casualty segment reporting a year-over-year reduction of 22%, the largest among the major industry segments, according to AM Best.

AM Best's report, entitled *Insurers Continue to Reduce Hedge Fund Exposures*, stated that the continued pullback leaves the property/casualty segment with $6.3bn of hedge fund investments. The life/annuity segment (L/A) saw a fourth straight year of reductions of more than 10% (11.9% in 2019 to $5.1bn).

The health segment's holdings also ticked down by roughly $100m to approximately $490m; however, hedge fund holdings are concentrated, as fewer than a dozen health insurers invest in this asset class. The report noted that the 2019 declines occurred despite the hedge fund industry posting a return of more than 11%, just the second time industry returns have exceeded double digits in the last six years.

Insurers' hedge fund investment trends have followed the broader market, according to the report, as more than $97bn in total hedge fund asset flows were pulled back in 2019.

Companies rated by AM Best account for nearly 96% of the US insurance industry's total hedge fund holdings. Additionally, hedge funds are held predominantly by larger organisations, with more than 85% of holdings held by companies with $1.25bn or more in capital and surplus.

"Overall, rating units that reduced their holdings did so by almost $2.9bn, while those that increased did so by $1m," said Jason Hopper, associate director, industry research and analytics, AM Best Rating Services.

"Many insurers continue to say they are not getting the returns needed for the fees and capital requirements costing them in the current environment."

> Many insurers continue to say they are not getting the returns needed

Insurers continue to modify their hedge fund investment strategies, with some notable changes in 2019. They substantially pulled back from long/short equity hedge funds, with book-adjusted carrying value declining by nearly $2bn, the largest pullback. The health segment all but eliminated its exposure, while the L/A segment reduced its exposure by 56%, and the property/casualty segment by 36%. Multi-strategy also saw a decline of over $600m, though it remains one of the two top options for all segments.

Additional investment news showed that US insurers may turn to loans from the Federal Home Loan Bank (FHLB) to bolster liquidity as the COVID-19-led economic turmoil grows. AM Best Rating Services associate director, research and analytics, Jason Hopper said: "Not just anyone is able to borrow from FHLB. Companies must own capital stock to be able to access borrowing funds. Capacity is determined by a mix of collateral and assets.

"FHLB access is not substantially widespread throughout the industry, as only 22% of life insurers, 6% of P&C insurers and 3% of health insurers actually have access to FHLB borrowing."

Hard currency corporate EM debt frequently offers enhanced yields compared to domestic bonds at the same rating

71% of insurers have some exposure to EMD; higher returns attractive

Provides boost amid SII regulation

Written by **Adam Cadle**

Seventy-one per cent of insurers now have some exposure to emerging market debt (EMD), with the prospect of higher returns a particularly attractive element to them.

According to Invesco's *Global Fixed Income Study 2020*, insurers favoured higher returns of this asset class as opposed to diversification.

"For many insurance companies struggling to generate returns in the context of solvency regulation, hard currency EM debt is an obvious choice," the report stated. "Hard currency corporate EM debt frequently offers enhanced yields compared to domestic bonds at the same rating."

Insurers have the additional complication of regulations such as Solvency II in the European Union, that incentivise them to hold more liquid and less risky assets to benefit from lower capital charges. This has left two-thirds of insurers concerned about their ability to generate forecast returns without significantly raising investment risk, with a substantial minority finding it difficult to stay within regulatory capital limits (37%).

For insurers, bank loans and direct lending offer a chance to gain additional long-term yield through an illiquidity premium, while also exerting control and remaining within solvency limits.

For risk-averse insurers, real estate debt has proven an attractive means to boost yields without taking on too much additional risk, due to the relative ease of recovery.

Smart beta strategies not affected by crowding risk - research

Concerns raised that popularity could affect benefits

Written by **Adam Cadle**

No evidence exists to support the theory that smart beta strategies have been adversely affected by a crowding effect, a new paper has revealed.

The research entitled *Crowding Risk in Smart Beta Strategies*, published by Scientific Beta, said that as smart beta strategies gain in popularity, there have been concerns that flows into these strategies will ultimately cancel out their benefits.

However, co-author of the paper Noël Amenc said "claiming that there must be crowding in a factor because it suffers from losses completely ignores the nature of risk premia".

"A risk premium corresponds to a higher average return that is the compensation for taking on additional risk. Therefore, losses to any factor strategy over any particular period do not imply that the long-term premium has disappeared because of 'crowding'. Such losses may simply suggest that the reward for holding the factor comes with associated risk."

Periodic underperformance may be due to normal fluctuations in prices, the paper stated, and the best precaution against crowding is diversification.

SCOR joins US-convened Net-Zero Asset Owner Alliance

Strengthens sustainable actions towards low-carbon economy

Written by **Adam Cadle**

SCOR has strengthened its sustainable actions towards a low-carbon economy within its investment portfolio and has joined the Net-Zero Asset Owner Alliance.

The group is accelerating its withdrawal from coal assets, by lowering the exclusion threshold for companies generating revenue from thermal coal. Having already disposed of securities from companies generating more than 30% of their revenue from coal, SCOR has now reduced this threshold to 10%. The group is therefore committed to divesting from companies generating more than 10% of their total revenue from thermal coal, and from utility companies for which coal represents more than 10% of their power production. This applies to all asset classes on SCOR's investment portfolio.

In the longer term, the group aims to divest totally from companies generating part of their revenue from thermal coal, by 2030 in OECD and EU countries and by 2040 in the rest of the world. Moreover, SCOR undertakes not to invest in companies developing new coal-related projects (mines, plants, power stations or infrastructure).

These measures, which continue the actions SCOR has been taking for more than 15 years in terms of sustainable development and social responsibility, are in line with the group's pledge in its *Quantum Leap* strategic plan to make its investment portfolio carbon neutral by 2050.

SCOR chairman and CEO Denis Kessler commented: "SCOR is pleased to join the Net -Zero Asset Owner Alliance to promote the transition to a post-coal economy. As a Tier 1 global reinsurer, SCOR has a longstanding commitment to fighting climate change over the long term. Protecting people and property from natural catastrophes and encouraging sustainable development,

> As a Tier 1 global reinsurer, SCOR has a longstanding commitment to fighting climate change over the long term

particularly in a context of intensified climate risk and increased extreme events, are integral parts of the group's mission."

Launched in September 2019 during the United Nations Climate Action Summit, the Net-Zero Asset Owner Alliance is an international initiative bringing together investors who are committed to transitioning their investment portfolios to carbon neutrality by 2050. The Alliance's action focuses on implementing the Paris Agreement, the main goal of which is to limit the rise in global average in temperature to 1.5°C.

On the other side of the coin, European insurers Lloyd's, Zurich and Munich Re are the biggest supporters of Canada's Trans Mountain pipeline, it has emerged, with the former underwriting $460m in total. Insurers in the Lloyd's market are also solely responsible for $50m of cover and have underwritten the rest jointly with other insurers, according to Unfriend Coal. Zurich is responsible for $8m of cover but since last year has doubled the cover it provides jointly with other insurers to $300m. Munich Re's Canadian subsidiary Temple Insurance provides $250m of cover with other insurers.

Trans Mountain is pressing ahead with plans to expand its pipeline connecting tar sands in Alberta to the Pacific coast outside Vancouver, adding an extra 590,000 barrels a day of capacity – the equivalent of putting 2.2 million cars on the road. It would increase daily flow to nearly one million barrels. Canadian tar sands are one of the highest-carbon sources of oil on the planet.

US legislators urge Liberty Mutual to cut ties with fossil fuel projects and companies

CEO David Long pushed to help the transition to a low-carbon economy

Written by **Adam Cadle**

Thirty-eight state Massachusetts senators and representatives have called on Boston-based insurance company Liberty Mutual to address its role in driving climate change and cut ties with fossil fuel projects and companies.

In an open letter penned to CEO David Long, the group wrote: "Now more than ever, the insurance sector must accelerate the transition to a low-carbon economy by phasing out fossil fuel insurance and investments. As the fifth largest property and casualty company worldwide, Liberty Mutual is in a unique position to push for an energy transition at a global scale."

> Now more than ever, the insurance sector must accelerate the transition to a low-carbon economy

Insurance companies are coming under increasing fire for their role in fueling the climate crisis. Last month, NYC Comptroller Scott Stringer called on Liberty Mutual, AIG, and Berkshire Hathaway to stop insuring and investing in coal, due to the climate and financial risks of the sector.

Unfriend Coal believes Liberty Mutual is a top fossil fuel insurer in the US and globally.

"We are calling on Liberty Mutual to stop insuring and investing in the coal and tar sands sectors and to phase out all fossil fuel business in line with a 1.5ºC pathway," said state senator Jamie Eldridge, who represents Middlesex and Worcester.

"The science is clear that we must stop expanding fossil fuels and invest in a clean energy future."

Allianz updates its coal insurance restrictions

Insurer praised for acting in an 'exemplary manner'

Written by **Adam Cadle**

Allianz has updated its coal insurance restrictions and will now no longer offer property and casualty insurance for companies whose business model is largely based on coal and which do not have a clear coal exit path from 2023.

Allianz had previously announced the exclusion of insurance for coal projects (specifically new coal-fired power plants and mines).

The latest policy applies to energy suppliers that generate 25% or more of their electricity from coal and have a coal-fired power generation capacity of 5GW or more. In the coal mining sector, the policy applies to companies that generate 25% or more of their sales from energy-based coal, or produce at least 50 million tons of coal annually.

Regine Richter, energy campaigner at urgewald commented: "The move by Allianz once again proves that coal as a business model has no future. Almost two years ago, Allianz excluded coal project insurance for the first time. However, companies with a massive coal share were able to continue to receive insurance from Allianz. Now Allianz is closing this big gap. The group once again shows that it wants to act in an exemplary manner on the subject of coal."

People on the move

MARIA RYAN

Head of Institutional Sales for UK, Scandinavia and Middle East, HSBC GAM

Maria Ryan has joined HSBC Global Asset Management (HSBC GAM) from DWS, where she held a dual role as head of UK and head of UK and Nordics distribution. In her new role as head of institutional sales for UK, Scandinavia and Middle East at HSBC GAM, Ryan will develop and grow client relationships for the asset manager across these regions.

KAL ATWAL

Non-Exec Director, Royal London

Royal London has announced the appointment of Kal Atwal and Tim Tookey as non-executive directors. Atwal spent 16 years at BGL Group. Alongside her senior level executive career, Atwal is chair of Simply Cook, a tech-enabled meal kit subscription service and non-executive director of Admiral Financial Services, a subsidiary of Admiral Group. Tookey has over 30 years of experience in finance.

MARCIN ADAMCZYK

Head of Emerging Market Debt, NN IP

In this role, Adamczyk will be responsible for overseeing the EMD team and will focus on the execution of the firm's client-led strategy, by further strengthening the team and enhancing client-focused solutions. Adamczyk brings over 20 years of broad experience in investing in emerging markets and has held senior leadership roles. He joins NN IP from PZU Group.

ANDY WATSON

CEO, AGEAS UK

Ageas UK CEO Andy Watson has decided to step down from his role at the end of June 2020, to embark on the next stage of his life including further education and securing a small portfolio of non-executive roles. Watson joined Ageas in 2010 as managing director of its retail arm and became CEO for Ageas UK in 2013. Ant Middle will take over as CEO. Middle joined Ageas as managing director of partnerships in 2014.

PRASHANT SHARMA

CIO Public Markets, MEAG

Prashant Sharma will be appointed to the MEAG board of management effective 1 July 2020. As CIO public markets, he will assume responsibility for the management of the liquid assets portfolio. Sharma joins MEAG from J.P. Morgan Asset Management, where his last position was managing director, head of international fixed income insurance and pensions. He succeeds Thomas Kurtz.

IMMO QUERNER

Chief Financial Officer, Talanx

After more than 14 years as CFO, Immo Querner is to leave the boards of management of Talanx AG and HDI V.a.G. on the best of terms and by mutual agreement effective 31 August 2020. The members of the supervisory board have appointed Jan Wicke as his successor. Wicke joined Talanx AG's board of management in 2014 and took responsibility for the Retail Germany Division.

Opinion

On Folksam's SEK 350m investment in microfinance fund

"The fund offers attractive returns, which benefits our customers, while at the same time expected to contribute to increased financial prosperity, including among women in developing countries. In this way, our customers get a good return on their money while contributing to a better world."

Michael Kjeller
Folksam Group deputy CEO and head of asset management and sustainability

On its investment outlook for 2020

"In light of the high levels of uncertainty regarding the macroeconomic and financial impact of COVID-19, which extends to the rest of the year, UNIQA cannot maintain its outlook for the 2020 financial year, which anticipated profit on ordinary activities in 2020 at a similar level to that of 2019. UNIQA thus expects the possibility of negative earnings before taxes for 2020 as a whole. The investment income hit would have been greater if it had not been cushioned by exchange rate effects through other comprehensive income of €28m in international business".

UNIQA

On the effectiveness of SII during the COVID-19 pandemic

Charlotte Gerken
BoE executive director of insurance supervision

"Certain SII measures have helped to filter out the noise in financial markets, supporting the PRA in assessing that insurers are adequately capitalised for fundamental risks in their business and protecting policyholders. The MA, is for UK life insurers, the most material SII long-term guarantee measure, and has been the most significant in the current crisis, the signal being represented by an asset's rating: if the rating is unchanged, the changes in spreads are identified as noise and absorbed by the MA."

On its timetable revision for advice on Solvency II Review to end December 2020

European Insurance and Occupational Pensions Authority (EIOPA)

"The new timing will allow an update of the holistic impact assessment in view of the impact of the pandemic on the financial markets and insurance business, and to take that impact into account in EIOPA's advice. The new timing strikes a balance between the need to use the opportunity of reviewing the Solvency II directive and the need for the advice to reflect recent developments."

On the importance of appropriate exposure to municipal bond markets for US insurers

Jason Hopper
AM Best Rating Services associate director, research and analytics

"Selecting appropriate exposures will be critical to insurers' ability to manage through this tumultuous cycle. The expertise and risk management practices of insurers and their investment managers will be tested. Insurers that have a deep understanding of the municipal bond markets and well-defined risk thresholds based on solid credit risk fundamentals will perform better during and after the pandemic crisis."

Soapbox

The forgotten word?

Written by **Adam Cadle**

Its been a while since I last heard the word 'Brexit' mentioned. What was the 'in' word, has now been replaced with dialogue around this horrible COVID-19 pandemic causing havoc across the globe. Suddenly any news coverage on the issue of Brexit and its impact on the insurance industry has become quite welcome, as recently it just seems to have been market outlook revision articles, insurance company investment hit stories and whether regulation will have to be amended going forward to deal with any future pandemics.

Indeed, last month I covered the news around the specialist Lloyd's of London re/insurance marketplace receiving approval from the High Court of England and Wales for its Part VII strategy for notifying policyholders about the proposed transfer of its existing European business to Lloyd's Brussels. This is fantastic news and is another major step in ensuring that, despite Brexit, Lloyd's customers across the EEA can continue to benefit from the financial security of the Lloyd's market and their existing policies can continue to be serviced by Lloyd's Insurance Company, including the payment of valid insurance claims. Customers will be notified of the transfer and customers will receive a letter detailing the transfer and providing links to a dedicated Part VII Lloyd's website.

> Brexit may well be a forgotten word for many at this moment in time, but Lloyd's of London certainly hasn't lost sight of it

Brexit may well be a forgotten word for many at this moment in time, but Lloyd's of London certainly hasn't lost sight of it. The specialty market said in February that the fall-out from Britain's complicated exit from the European Union will be among its top priorities in 2020 as it looks ahead to "a year of enormous change". And it has been.

Lloyd's Market Association (LMA) CEO Sheila Cameron said: "Ensuring Lloyd's Brexit plans are comprehensive, workable, and proportionate is a high priority."

This latest news certainly backs up Lloyd's efforts at looking to manage Brexit implications on the market.

As it stands Britain will remain bound by EU laws and its regulatory framework during the transition period, which ends in December, and will continue to contribute financially to the bloc.

Negotiators will use the time to attempt to agree a trade deal — although many doubt that can be done in such a short time. The country could then depart with a trade deal or on World Trade Organization terms.

With the insurance industry having to plave most of its attention on dealing with the effects of COVID-19 at this moment in time, it is nevertheless of vital importance not to lose track of any progress made around Brexit preparations. Before COVID-19 it was a topic that was very much keeping UK insurers awake at night. LCP research in July 2019 showed that the proportion of insurance firms highlighting Brexit as a key risk to solvency nearly doubled over the last 12 months from 33% to 64%.

Brexit may be the forgotten word in mainstream media, but it should still remain one of the key items on any inurance company agenda for the benefit of all clients.

> EM banks in emerging markets are not facing a capital event, despite weakening asset quality, increasing credit losses, and falling profits

Market commentary

Emerging markets

Written by **Adam Cadle**

Activity in emerging market (EM) economies is slowly starting to pick up as COVID-19 lockdowns are gradually easing. Whilst returning to pre-pandemic levels will take time, markets are beginning to move again and EM banks are expected to continue supporting financing conditions and keep credit flowing, thanks to central bank measures. Banks in emerging markets are not facing a capital event, despite weakening asset quality, increasing credit losses, and falling profits.

According to S&P Global Ratings, ultra-accommodative monetary conditions in advanced economies, a gradual easing of lockdowns, and the expectation for a global economic recovery in the second half of the year are showing up investors' risk appetite for EMs reflected in improving financial conditions. EM banks remain much more profitable than those in developed markets due to hefty interest margins and good efficiency (in most countries, labour costs remain lower).

There was a strong bounce in EM currencies in May. The relief rally risk assets that took place last month was evident in EM currencies, with several seeing strong gains versus the USD. Oil-tied currencies were top performers. In the midst of last month's 40% rally in oil prices, unsurprisingly, oil-tied currencies, such as the MXN, RUB, and COP appreciated the most in May.

Warnings have been issued however. "A lockdown fatigue is developing across EMs driven by mounting political pressures and economic costs," S&P Global Ratings stated. "In some cases, lockdowns are eased despite increasing COVID-19 cases, which could undermine a potential recovery."

Echoing trends in developed markets, the automotive, media and lodging, and transportation sectors in EMs are vulnerable to the largest downgrade pressure. These sectors see particularly intense revenue pressure (automotive, lodging, and transportation as well as retail). They also see structural dislocation in the automotive sector ahead of the pandemic and the collapse in travel has hit airlines hard. In India, where there has been a strict two month lockdown – longer in some areas - its economy is now expected to contract sharply in 2020. At the time of writing, Brazil has the highest confirmed COVID-19 cases outside of the US and new reported cases in Chile have increased steeply in recent weeks. In Mexico, health officials estimate infections to be several multiples of those reported.

Asset quality is expected to deteriorate across the board, with NPLs increasing by more than 50% and potentially doubling in some countries. While credit losses will widen, S&P Global Ratings said regulatory forbearance "may delay their recognition and push some of the increase into 2021".

"Measures implemented by most EM-central banks are helpful, but generally do not reduce credit risk on banks' balance sheets," it added.

> Bank-owned French insurance businesses deliver higher profitability than other insurers

Market commentary

French insurance and banks holding hands

Written by **Adam Cadle**

Bank-owned French insurance businesses deliver higher profitability than other insurers and therefore entered the COVID-19 crisis with solid Solvency II capital ratios, which will enable them to easily absorb the impact from falling asset prices, Moody's has said.

All French insurers that are part of banking groups maintain solvency ratios well above the minimum requirement of 100%. Solvency ratios are under moderate pressure due to lower interest rates, the decline of equity markets and an increase in credit spreads.

The insurance subsidiaries of banking groups hold 50% of the life insurance market and 5% of the P&C market, as measured by gross written premiums. In total, they sell 45% of all French insurance premiums a much higher figure than in other Western European countries. Latest figures published by Moody's said that French banking groups derived 17% of their pretax profits from insurance activities in 2019, up from 16% five years earlier.

The banks hold strong positions in the €220bn French insurance market. The French market is split between life insurance (life savings, health and protection including welfare and creditor insurance) comprising around 75% of gross written premiums and property and casualty (P&C) insurance, including motor, home insurance and civil responsibility, the remaining 25%.

The banks distribute around 45% of life and P&C insurance products in France on average, the vast majority being their own in-house products.

Life insurance profits however are expected to decline moderately in the short term because falling equity markets will lower fees on the unit-linked portion of contracts. In addition, possible asset impairments may also pressure investment income for traditional guaranteed business ("contrats euros"). When stock markets fall sharply and/or durably, insurers may have to record provisions on certain assets, which will reduce investment income of the guaranteed contracts. Although the largest part of this income goes to policyholders, a share is kept by insurers and could be reduced due to asset impairments. In the long term, life insurers will also be confronted to extra low interest rates, which will impair profitability.

French banks are aiming to expand their non-life insurance activities. Penetration into non-life lags life insurance. As yet only Credit Mutuel Alliance Federale has a relatively balanced business mix. The mutualist bancassurers (Credit Mutuel, Credit Agricole and BPCE) have larger insurance segments relative to size3 than BNP Paribas and Societe Generale. BPCE lags its mutualist peers but is developing an in-house insurance capability after terminating a life insurance distribution agreement with CNP Assurances.

Impact Investing: A win-win alternative?

Adam Cadle speaks to AXA IM head of impact investing Jonathan Dean about the growth of impact investing and the potential benefits on offer

WRITTEN BY **ADAM CADLE**

Q Impact investing is capturing the attention of a broad range of asset owners on a global scale and the market has grown ten-fold in recent years. Can impact investing be a win-win alternative for asset owners? Jon what does impact investing mean to you?

JD: Let's start with a definition - and what importantly impact investing does not mean. For us, impact investing is not about delivering concessionary or charitable returns. We are not looking for anything which is below market rate when we are making an investment, meaning everything in our portfolio has to be underwritten to achieve market rate return depending on what asset class we are looking to invest in. This is not just an Environment, Social and Governance (ESG) investment, which is more of a risk management tool where we are avoiding negative stories. For us, impact investing is about looking for problems in society, looking for problems in the environment, and then looking for solutions to those problems which we can invest in. We measure the success of those investments in delivering the solution to the problem, therefore being accountable for the impact change, all while looking to deliver a market rate financial return for our clients.

Q How has impact investing evolved and why is it capturing attention from institutional investors?

JD: We began our impact investing programme in 2012 and since then we have seen a huge growth in the market – from a $50bn market in 2012 to over $500bn today. Investor demand is driving this expansion and investors are now becoming more conscious of what their capital is being used for. To supply assets to meet that demand, we have seen a huge growth in the types of companies and projects delivering business models which are associated with an impact investment. There is this fantastic balance between demand from clients and the supply of an investable universe to meet that.

Impact investing is very aligned with what an institutional investor is looking to achieve:

- Firstly, it is long term. These are private market investments, so we are working with different asset classes such as private equity, private debt, real asset and project-finance type structures through long-term investment strategies. This is very aligned with what an insurance company or pension fund may be looking to achieve.
- Insurance companies are interested because as global corporate citizens they need to be conscious of their position and their corporate responsibility activity. Impact investing is very aligned with the messaging that they want to send in those areas
- It is also about being strategic. If you are an insurance company, you are typically involved in financial services or healthcare, and will also be interacting with climate risks. All of these activities may affect your day-to-day business. If you can invest in a strategy which is aligned with solutions to problems in these areas, it is naturally something to look at in terms of how to deploy capital aligned with an insurer's core business activity.
- Thirdly, as an insurer, once you can show good corporate responsibility

activity and business strategy, if you can do that with your balance sheet capital delivering a market rate financial return then you are creating this idea of a win-win-win model where all parts of your business can benefit and there is clear alignment between all of them. Pensions funds are similar because they have a long-term view and members are wanting their capital to be used in this way.

Q How do you identify the impact themes and projects in which to invest?

JD: I think the starting place has to be with your end client, the investor. You are looking to build a portfolio which is suited to what their needs are and therefore the conversation has to be taken to them. Typically, the client may want to have a specific nuance or a specific bias in their strategy to cover certain impact themes. When we talk about themes, this can be translated into sectors, whether its healthcare, financial services, education, environmental activities or it might be covered by geography. Where are these clients based? Where are there supply chains based? Where are their stakeholders based?

If you were to ask us, as an asset manager, where we have seen the biggest growth of assets and how do we create a portfolio on what our evidence has seen, we are looking for two things:

- We want to see what is delivering market rate financial return. Over our seven years of activity, we have a lot of data points showing where investment performance has delivered what we would expect - at or above market rate financial return - for those asset classes.
- Secondly, there is the question of how we achieve scalable impact. We are putting capital to work. Some of the measures we are looking for are how many people we are reaching and what is the current demographic or situation those people are in. We don't want to direct a lot of money into a space which is very niche. Two big areas for us are financial services and healthcare where we have seen good performance financially, and also in terms of scalability. We have an emerging consumer concept also in these areas where people have previously been excluded from access to products or services, and where through technology or business model disruption you can now reach a wider audience. You are therefore satisfying a key investment criterion in terms of creating scalable impact outcomes. And where we have seen exits and where we have seen financial performance in these areas, you've clearly seen alignment as to what we would expect to be market rate.

This can all be tied back to the UN Sustainable Development Goals (SDGs). Within that we see SDG 1 No Poverty and SDG 3 Good Health and Well-being as providing a very good supply of opportunities going forward.

Q What do you mean about meeting the basic needs of the emerging consumer and how do you create a positive impact as well as a financial return?

JD: When we talk about basic needs, I think you can isolate it to creating access to a product or service, which would be considered a basic necessity. A very easy example would be something around healthcare, with the end customer needing to be identified. This idea of an emerging consumer is someone who's not at the very bottom of the pyramid (who is typically reached by charitable intervention), but it's someone who is emerging from that area. They may have some disposable income but maybe don't have access to the same type of healthcare services and products as people in comparable countries or other parts of the world. They have a need for creating access to these areas. Access is closely linked to affordability, so it has to be cost effective, but it also means outreach.

We then need to assess who we are actually reaching. What is their current situation? Are we reaching a scalable population? What we don't want to do is really target just the top 1% of the population group and make a slight improvement to their access and outcomes. We want to target a much bigger population group in the middle. Because with that bigger size, you've got scalability and that's important for two reasons. Scalability in terms of the size of the impact means you can create measurable outcomes around the number of people you're reaching. Scale also reduces cost and makes the product and service affordable, and lastly, scalability tends to bring you the opportunity for profitability. So, there is this link between scalable impact outcomes and profitable financial outcomes.

We made an investment with a partner in healthcare; in a medical device to remove cataracts. Historically, cataract operations have required quite a significant piece of kit, which is typically quite expensive. In European and US hospitals, for example, they have committed the capital expenditure (capex) to have this piece of kit. It works very well and there hasn't really been a need to displace that. However, in the US, a company came up with a piece of technology, which was really a basic tool, that does the job at a much lower cost. It doesn't need to be plugged into the powerful piece of equipment in a theatre, it can actually be used as a handheld tool. The tool can still be used for procedures in the West at a fraction of the cost, but importantly, this same product has a global outreach. This global access commitment means the same product which can be used in a Western or developed market context, can and will be taken into an emerging market context. So the same product, the same technology and the same cataract removal operations can be delivered into the emerging market and emerging consumer context at a much lower cost. The cost per procedure can be reduced to around $1. So you're helping improve the health and life outcomes for underserved people around the globe – by restoring vision to people who would otherwise have been partially impaired or permanently blinded.

For us, that's clearly a positive impact outcome. And for this investment the financial return was driven by a strategic exit. This company, with the stimulus of such impact investment, was able to develop its product and its access, and has already been sold to a strategic buyer.

Q Your focus here seems to be on emerging markets. Why is that? And how does that align with UK and European investor needs?

JD: Focus on the emerging consumer is specific to the strategy I have just described which focuses on financial and healthcare outcomes for underserved populations around the world. That was driven by the scalability of the impact that we wanted to achieve. But for us, we have taken a global approach to all of our portfolio construction since 2012. It really is driven by what are you trying to invest in. Something which truly is global, which does have a European, or a developed market context would be climate change. You can address the needs of climate change across several different factors -protecting natural capital and protecting biodiversity, investing in communities to make them more resilient to the changes taking place around them and through adaptation (meaning how we can adapt to living in different environments that we're moving into in this day and age). That's a global strategy. You have two avenues for how you can put money to work here. One is project based, finding a project which is going to protect the natural capital and that has a local location. You can go in globally looking for these kinds of projects, which will really deliver impact outcomes by s howing things like conservation, preservation, biodiversity and sustainable land use restoration. The other one is technology - around circular economy, waste management and access to energy. These kinds of areas are more global in their nature. If you're investing in a technology which might remove the carbon output from a manufacturing process, that has a global context.

> **It does however need to be a diversified approach as you don't want to be taking specific concentrated country risk**

The specific emerging market basic needs strategy is really driven by where we're seeing the size of the opportunity set. And when you're looking at healthcare and financial inclusion, where we can create a biggest impact is in the areas where you've got this emerging consumer context. We are measuring our impact in terms of the people in the markets that we are delivering a product or service to. Our financial risk is quite diversified because the capital that we're investing is across companies globally. The company could be a European company, which is delivering a product or service into the emerging markets, as well as developed markets. So when you look at where your capital is and where the jurisdictions are that you are investing in, it truly is a global portfolio.

In terms of European investors and how this could be complimentary to them, it comes back to what their intentions are with their strategy. Some investors might only want to make an impact in the market they're serving now, or the market that their stakeholders exist in. And for them they're going to have a reduced investment universe in terms of where they can source assets from. Other investors, even though they're European-based might want to satisfy something which is more global. For example, investing in projects or companies that are going to support their supply chain. So, there's a very complimentary approach. It's really driven by, firstly, what the investor's appetite is and where they are placing impact in their asset allocation. It does however need to be a diversified approach as you don't want to be taking specific concentrated country risk. You want to have limits per country and limits per region but you want to allow yourself the flexibility to be able to move between sectors, themes and across different geographies.

Q What are the key risks that should be considered when investing?

JD: We look at risk in three ways when we're making an impact investment:

- The first is financial. We need to underwrite every single opportunity to the same standard that we would in any other private market asset class. We're looking at things like country risk, political risk, currency risk and illiquidity. It is all of the things that you would normally assess when underwriting an investment – the team develops a base case scenario, you stress those scenarios, and you need to be able to ensure that you're still coming out with your target return.
- The second is operational. This is looking at non-investment risk, very important when making long-term investments working with global partners in different jurisdictions. We put a lot of emphasis on the non-investment risks – people, process, governance and IT security.
- The third key part is impact assessment. We need to be super rigorous when we're looking at an investment and underwriting the impact risk return. We spend a lot of time thinking about what we are trying to achieve and what is the company's day-to-day activity. So really there's a lot of work that goes pre-investment into defining how we think about impact. To do that, we've signed up to some very important industry standards. A group of investors have got together and worked on a project called the Impact Management Project. That really gives a consistent group of criteria that through every investment you're looking at the impact opportunity risk can be judged.

Q What is the role for impact investing given the current economic outlook and global pandemic?

JD: The interesting element here is that we are seeing how a global health event is having a direct impact on the global economy.

Within AXA IM's impact healthcare strategy global health has been a long-term focus. This definition specifically covers seeking equality of healthcare access worldwide whilst recognising the interconnectedness of global populations in addressing this issue. We are experiencing a global health crisis now – so a lot of our focus over the past few months has been mobilising capital to back initiatives covering medical devices, diagnosis techniques, drugs and vaccines which have a global health application – to address not only this current health crisis but to better prepare for the future. Another response, beyond healthcare, is to focus on the subsequent recovery and how impact investing can play an important role there. For example, financial inclusion, or providing access to financial services, will be a very important catalyst in supporting the recovery for certain population groups around the world. In fact, we see the relationship between health and financial inclusion to be so closely related, and vital as a response to the current global context, so a lot of our focus has been to develop investment opportunities there.

There has been a lot of references to a "Green Recovery" leading out of the pandemic, and there certainly seems to be some merit in suggesting that the disruption to society and business does create the opportunity in certain areas to reset and rebuilt with societal and environmental objectives in-mind. Impact investing will play a leading role in this.

Q Would you say impact investing is now mainstream?

JD: I think the case can be made that it is. We're seeing more and more household asset managers come to the market with impact investing projects and products. And an increasing number of asset owners are bringing capital to this space. I think there's a huge tailwind behind us. lot of room to grow, and I can see that there's a huge tailwind behind us.

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Tackling the turmoil

How insurers have responded to the COVID-19 crisis and the evolving challenges it has presented

WRITTEN BY **ADAM CADLE**

The coronavirus (COVID-19) pandemic is a crisis the likes of which hasn't been seen in 100 years. Sweeping across the globe, it has resulted in an abhorrent amount of mortalities and an exceptional uncertainty across societies, financial service arenas and economies. Indeed, financial regulators have had to shift longer term business priorities – including supervision and policy reform – to short-term crisis management.

Engulfed by ultra-low interest rates, plummeting asset values, equity falls and credit spread widening, insurers are increasingly being urged to be at the forefront in identifying the potential impacts on longer-term business models, in order to meet changing customer expectations. The adequacy of insurance firms' capital and risk management during this global, systemic event is being tested and for Bank of England (BoE) executive director of insurance supervision Charlotte Gerken, risk monitoring should be "increased". At a speech delivered at the ABI's prudential regulation webinar recently, Gerken said "where necessary insurers should update their risk and capital assessments accordingly".

"A key challenge of the COVID-19 crisis for us has been isolating the signal – the increased risk to insurers and their policyholders – from the noise caused by markets finding their way with very sharp but temporary overreactions," she added.

The beginning of the crisis seems like a distant memory, given how deep into it we are now, but right from the word go insurers have had to be prudent and attentive when overseeing their investment portfolios and solvency levels, to mitigate any risk or impact from the pandemic. And changes have been seen.

"At the start many insurers, especially life, reinsurers and multinational insurers felt a huge impact on their solvency capital due to credit spreads, the likelihood of downgrades and defaults," HSBC Global Asset Management head of insurance EMEA Deepak Seeburrun explains.

"Some insurers are more correlated to market risk than others, as many have a less diversified portfolio. Effects on solvency capital really depend on the type of insurer and the business it writes. Investment officers who had not considered hedging before, started exploring credit hedging strategies in their portfolios, in the form of credit default swaps. From the beginning of the crisis, liquidity started drying out rapidly and the need for collateral calls within derivative contracts and reserving for unexpected claims shot up. With an intensifying pressure on investment income, those with strong solvency are increasing investment in credit and are taking advantage of market dislocation through high yield bond and infrastructure mandates as well as direct lending opportunities, for example, accessing mid-market loans."

Seeburrun states that for those who were not interested in stretching their investment guidelines before the crisis, now "a number of solvency efficient strategies have been explored including lifetime mortgages as a natural asset class for annuity writers which is also matching adjustment (MA) eligible if structured, also, asset-backed securities that fulfil the Simple Transparent and Standardised (STS) criteria, infrastructure emerging market opportunities and Asian credit".

The distribution of profits in the current climate is another area that insurers have had to address on their agendas. In April, PRA deputy governor and CEO Sam Woods said UK insurers' boards considering any distributions to shareholders or making decisions on variable remuneration "must pay close attention to the need to protect policyholders and ensure their firms can play a full part in supporting the real economy throughout the economic disruption arising from COVID-19".

"Through their provision of both general and life insurance products, insurers provide an essential safety net for individuals and businesses," he added. "They also have an important role and are long-term investors in the UK economy. In the current

> Investment officers who had not considered hedging before, started exploring credit hedging strategies in their portfolios, in the form of credit default swaps

situation of high uncertainty, it is therefore critical that insurers manage their financial resources prudently in order both to ensure that they are able to meet the commitments they have made to policyholders in a way that is consistent with the expectations of the FCA, and to enable them to continue to invest in the economy."

Woods also reminded insurers that when deciding on distribution, boards should satisfy themselves that each distribution is prudent and consistent with their risk appetite.

This has indeed seen a number of insurers suspending dividend payments. Admiral, Hiscox, RSA and Direct Line to name but a few have all halted shareholder dividend payments. Aviva said it has also halted executive bonuses and pay rises until dividend payments are restarted for ordinary shareholders. bfinance director – insurance, client consulting Neil Holmes emphasises that for life companies this non-payment of dividends will add to the already existing pressures on companies as it will "reduce income flows".

Prepared?

So with a number of insurers taking a dent in their profits as a result of the pandemic, and insurers having to analyse their investment operations closely, it begs the question as to how prepared were insurers to a crisis like this? Allianz chief investment officer Ying Ye says "while it would be unrealistic for anyone to say they were prepared for a crisis of quite these proportions, we [Allianz] were certainly concerned about a major downturn".

"To protect against the downside and preserve more liquidity, we had switched to be underweight in equities and overweight in cash since the beginning of the year. In a crisis like this, there are two very important factors, the capital and the liquidity. Only when there is sufficient capital in place can you hold the strategic asset allocation and implement your tactical allocation in good time. Secondly, how much liquidity, including those highly liquid assets does one hold to meet the outflows? The last thing you want to do is to force-sell amid market sell-off. Instead, we prefer to hold some dry powder and be prepared when the opportunities arise. I would expect the industry to take a slightly more conservative approach in risk-taking."

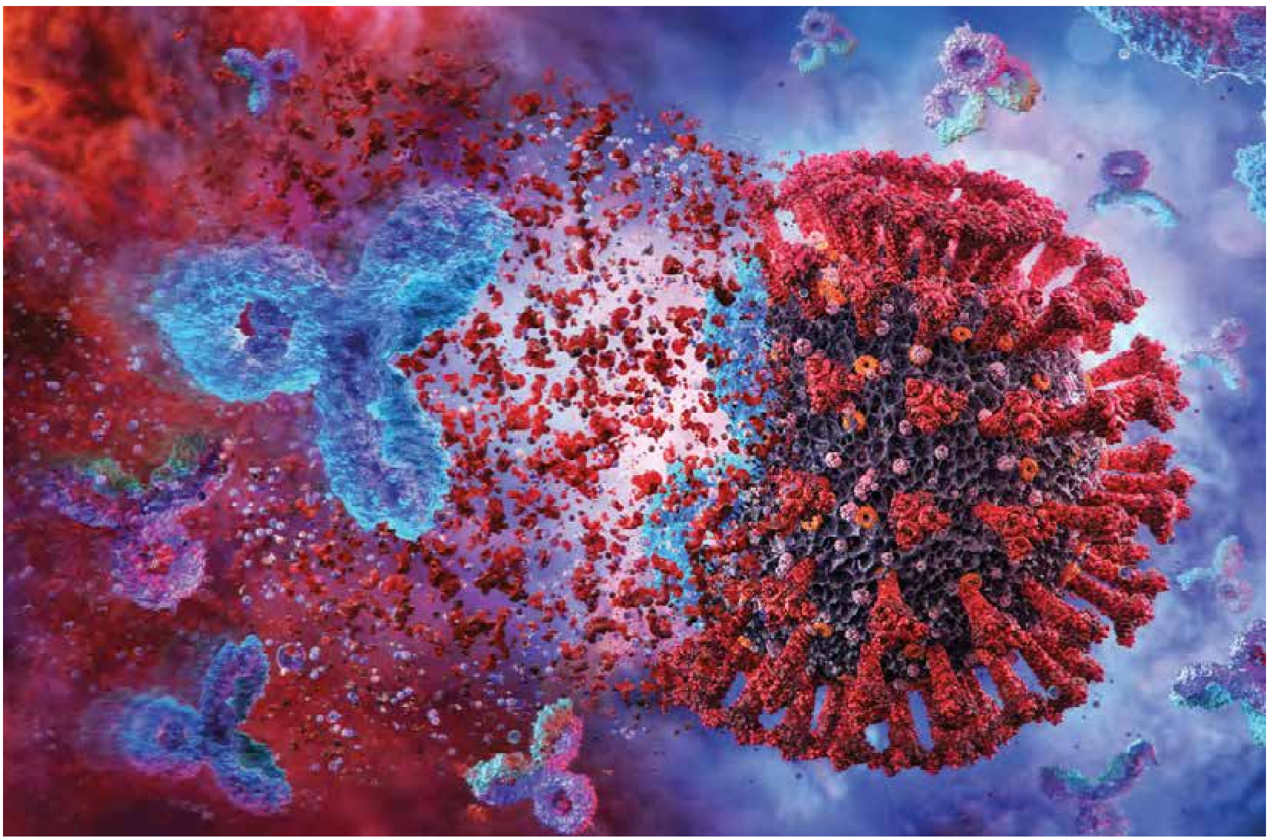
On a regulatory basis, one can seriously argue that the measures contained within the Solvency II framework have also helped insurers effectively mitigate the pro-cyclical effects caused by the disruption to financial markets. The measures – the MA, the transitional measure on technical provisions (TMTP), the Standard Formula Symmetric Adjustment of the Equity Capital Charge (the symmetric adjustment) and the Volatility Adjustment (VA) have all helped the cause. The Ladder of Intervention can also be used if needed.

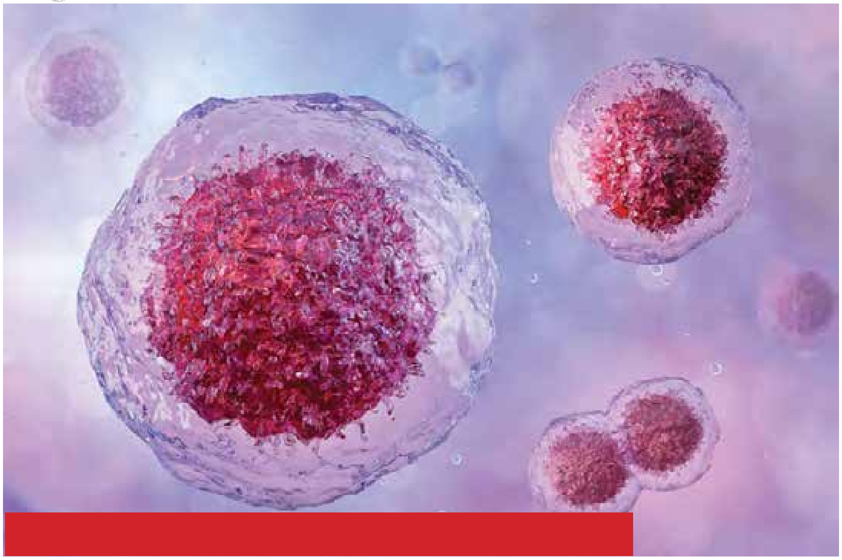
"The MA is, for UK life insurers, the most material Solvency II long-term guarantees measure, and has been the most significant in the current crisis," Gerken commented.

"The MA is intended to enable insurers to hold assets to maturity and avoid changes in spread from impacting their solvency. When appropriately cash-flow matched, their locked-in funding means that annuity writers are unlikely to have to sell assets prior to maturity, even in a severe stress."

On the symmetric adjustment strategy, Gerken said: "It increases capital requirements when markets are buoyant relative to their historical average and reduces them when markets are relatively depressed. When the COVID-19 outbreak began the symmetric adjustment decreased sharply. In this way, it led to insurers building capital buffers when markets were rising, and then allowed them to be released when markets fell. The VA is another explicitly countercyclical element of Solvency II that aims to mitigate the effect of exaggerations of bond spreads. From the end of 2019, the VA more than tripled to its peak of 50 basis points in March, coinciding with a rapid rise in credit spreads. The increase in the VA while large relative to its historical level, isn't as large as the increase in corporate bond spreads. As spreads have moderated in the last few weeks the

> The MA is, for UK life insurers, the most material Solvency II long-term guarantees measure, and has been the most significant in the current crisis





> An increasing number of insurers will be looking to partner with asset managers on strategic deals. This partnership could also be extended to enhanced bespoke investment reporting

VA has also declined, though it still remains elevated by historical standards. As a result, while the VA provided some cushion against the rise in spreads, a significant amount of the market stress would have been passed through to insurers' balance sheets."

The ladder of intervention is a tool yet to be deployed in the crisis, but allows an insurer that fails to meet its SCR some time to work with the regulator to find a solution to restore their compliance with the SCR.

"We therefore see this as an additional tool to promote the safety and soundness of UK insurers and to protect policyholders by avoiding a "cliff-edge" effect of a winding-up," Gerken said.

What's next?

It is impossible to predict exactly when the COVID-19 pandemic will cease and when we will see an upturn in economic markets again. Many non-life insurers expect to see a hardening market coming and among this sector of the insurance market there seems to be a "quiet optimism", Holmes notes.

"Even lower for longer interest rates keeps the pressure on the asset side of the balance sheet, and companies will continue to seek new asset classes that are higher yielding. However, many companies retain strong balance sheets and will survive. However, life companies now have a further extenuation of the issue they have been facing for a decade - low interest rates - and may need to consider if their current model is sustainable for the future."

With the challenges around investment income, capital optimisation and competitive insurance policies, insurers will be looking for new ways to make sure they keep or increase their share in the market.

"One option for them is to invest in alternative asset classes," Seeburrun states. "We think investing in this asset class will continue to play an important role for insurers and we also think that an increasing number of insurers will lock book-yield in buy and maintain fixed income strategies. In terms of partnerships, an increasing number of insurers will be looking to partner with asset managers on strategic deals. This partnership could also be extended to enhanced bespoke investment reporting."

LV= capital and investment director Emily Penn raises a concern around credit downgrade exposure. "The quality of credit portfolios have drifted over the last few years with annuity portfolios heavily invested in BBB rated credit. This leaves insurers quite exposed to credit downgrades due to higher capital charges for sub-investment grade bonds."

One main and concerning question arises from this COVID-19 crisis however. Can insurers survive more macro events going forward?

"As with everything, some will do better than others," Holmes concludes.

"Many see this current dislocation/event as a P&L issue, not a capital one and many non-life insurers are gearing up to make the best of the opportunities in an expected hardening market. We are going to see companies continue to explore and invest in higher yielding assets. The main concern for insurance companies and the biggest question for me is how long and deep could this recession be, and with an extremely low interest rate environment set now for an even longer period, for many life companies, does the model still work? Will we see more groups put businesses into run-off?"

Zooming towards change

Michael Griffiths explores how insurers have used technology to adapt to COVID-19 and how it could impact the industry beyond the pandemic

WRITTEN BY **MICHAEL GRIFFITHS**

If there is one safe assumption to be made about this pandemic, it is that we have become surprisingly proficient in using Zoom. The formerly obscure communications tool has grasped at the timely chance presented by the coronavirus crisis, and its mass adoption has contributed to a gigantic increase in profits for the American firm.

Many of us are now used to its meeting codes, the pixelated faces in boxes and those 40-minute time limits. The feelings that accompany the teleconference, the drink at the virtual pub, or yet another family quiz. One could argue, though, that Zoom's boom reflects a much wider digital adoption of technologies across society.

In the increasingly virtual world created by lockdown, technological shifts have not just stopped at socially distanced communication. Digital moves are taking place in multiple walks of life and workplaces. In the insurance space, how do such technological developments appear? And have insurers even used technology to mitigate the risk posed by COVID-19?

Clearwater Analytics enterprise sales and CFA charterholder, Ryan Brassey, suggests insurers have been faced with two primary risks; business continuity risk in terms of the accessibility of a firm's systems, and portfolio risk arising from market volatility. Clearwater, a SaaS-based data aggregation, investment accounting and reporting solution for investment portfolio data, has a cloud-native deployment model. Brassey notes that operating fully on the cloud helped the firm to move its internal workforce to work from home in just two days.

Over Zoom, he tells *Insurance Asset Management*: "We were at 99.2%

on-time delivery at quarter end, in line with normal operations, and that's been the basic goal for insurance companies; how do you transition to a 'new normal' and maintain operating consistency?

"We saw in that transition, particularly those using more legacy software, a lot of people delaying the transition to work from home because you literally had to keep bodies in the office to both access systems and keep them running. I think that's a primary challenge, whether the underlying technological infrastructure can adapt to the changing needs of the working realities that we're experiencing.

"Do you have a technological infrastructure that's flexible enough to meet those needs? From claims processing and underwriting analysis, to the asset side of the business, all of these things must be usable and accessible. The first question to ask is whether you have an operating model that can continue to function when 99% of your workforce has moved home.

"I think that's the first risk that we saw insurance companies trying to mitigate, for those that weren't in the cloud."

Accelerating the pace

The second major challenge for insurers posed by COVID-19 has been responding to market volatility and mitigating potential threats to the portfolio.

"In order to be able to respond to market events, you first need to know what's going on in the portfolios," Brassey adds.

"What we've seen from the COVID-19 situation is a reinforcement rather than a realignment of priorities – reinforcing the fact that we need to double down on the core value that we've always offered, which is daily data accuracy and transparency."

Most insurance companies that we speak to describe the move to the cloud as inevitable – that it's going to happen sometime in the next decade, they just have a slow process to prioritise the change

The CFA charterholder suggests data transparency has become "more important than ever" to support workforces that may need to be more flexible in the future. He suspects companies around the world will update working from home policies that might have been "five or ten years in the making" and that having the flexibility in a system infrastructure to support this type of model will become even more paramount.

"We have to continue to be urgent about leveraging the new tools available to us in the AI and Machine Learning space," he adds. "We must continue to be urgent about moving companies to the cloud because those risks are only going to grow. Whether we're even ever going to see the workforce return to normal isn't clear, but these risks and disruptions resulting from legacy technology aren't going away.

"Most insurance companies that we speak to describe the move to the cloud as inevitable – that it's going to happen sometime in the next decade, they just have a slow process to prioritise the change. I think this [virus] is going to accelerate that massively."

If insurers have absorbed the initial shock of COVID-19 while adapting to a virtual world, there is also a sense of

urgency that investment strategies must keep up. That capital models will need to adapt to changing input variables, as Guidewire Software chief innovation officer, Paul Mang, suggests. He agrees that after years of evaluation, COVID-19 has seen insurers finally begin to adopt cloud-native systems.

> After years of evaluation, COVID-19 has seen insurers finally begin to adopt cloud-native systems

"Moving data and workflow to the cloud is not an easy process but it provides exponentially more compute capacity to run heavy analytics, it reduces the overhead of data centre maintenance, and eases the complications of running highly distributed, international insurance operations," he comments.

"The pandemic will make remote work more common in many industries, and the resulting decentralisation of business operations may complicate insurance underwriting and claims adjustment. Insurers will rely on more detailed data, advanced analytics, and more modern modular systems to adapt to this new reality."

Mang believes change is happening in two areas; core systems and analytics. He suggests the importance of open and modular core systems in unprecedented times "cannot be understated", and like Brassey, backs the wider industry move towards robotics.

"Many insurers have started investing in next generation core systems, and in AI and Machine Learning based analytics to accomplish this. COVID-19 will only accelerate their adoption, and shorten implementation timeframes," Mang adds.

"On the analytics side, insurers' underwriting strategies must keep pace with the changing business environment so they assess risk correctly, price adequately, and avoid adverse selection. Analytic product development is focused on enabling insurers to identify changes in real-time and respond to them appropriately.

"The increased focus on operational resilience by companies will push business models to be more reliant on interconnected technologies. This in turn will increase exposure to cyber disruptions. The insurance industry will use new advanced analytics to create the type of risk management solutions that are needed in the future."

Maintaining speed

Despite the volatility in the insurance space, the consensus from the industry about any lasting impact of COVID-19 appears to be about speed. While complex protection products can offer require human interactions, insurers believe they have access to the technologies that can ensure these are minimised. As executive VP, EMEA at Munich Re Automation Solutions, Paul

Donnelly explains, these technologies can limit interactions while, at the same time, preserve the quality of the experience.

He agrees the pandemic has allowed for significant acceleration in the adoption of technology to digitise processes, and tells *Insurance Asset Management*: "Insurers that have invested in state-of-the-art underwriting rules engines are able to respond immediately. They can implement in real-time new underwriting standards to ensure that they apply either a fair premium where the risk is increased, or an exclusion where the risk is undefinable.

"Data has become even more relevant as it can be used to replace certain processes. In the US, there is a rich ecosystem of third-party data aggregators providing detailed applicant information for use in underwriting. These range from detailed financial reports, through to reports on an applicant's driving history, to their use of prescription medicines.

"We anticipate that globally, insurers will follow the US lead and seek to replace new, person-centred interactions in the underwriting process with data-driven alternatives.

"Looking to the longer-term, we also anticipate that nimbler insurers will increasingly deploy augmented automated underwriting systems. Such systems will use Machine Learning and AI to pre-assess applicants to identify those who can be routed through a lighter-touch underwriting process. This will remove the need for person-to-person interactions entirely."

Change centred on robotics looks set to have a lasting effect as insurers keep adapting to COVID-19. Head of UK insurance at technology consultancy, Capco, Matt Hutchins, suggests the industry will also look to invest in years' worth of data.

> I think we're seeing a change in prioritisation and risk analysis relative to priorities in the past

"In terms of massive systems implementation programmes, where firms are replacing entire policy management or claims systems and investing tens of millions into a single programme, we see such initiatives being reassessed," Hutchins adds.

"Some challenger component-based policy platforms are also being considered. Rather than a massive 'rip and replace' exercise, they are looking to enhance the existing eco-system over time with new components that offer the same or better level of automation.

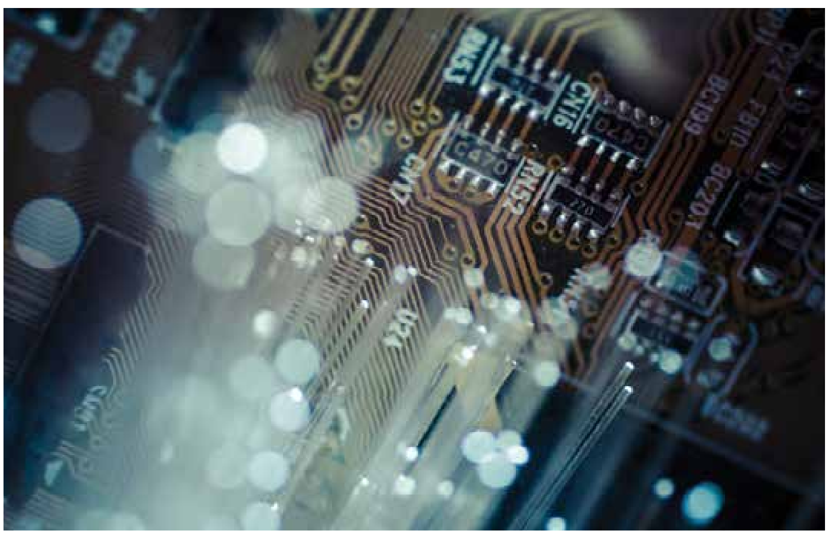
"As a part of their IFRS 17 planning, firms are implementing technology suites to better understand the cashflows within their business – not just over the next couple of months, but over 30 to 40 years – given that is how far out life and pensions liabilities stretch.

"Investment in data capabilities is a key focus in the longer-term, and firms are prioritising spend on data projects to better understand their customers, liabilities and assets. Data is often stuck in policy admin systems – the ability to lift it up to group level to model investment and cashflows over that 30 to 40-year period has historically been a challenge. Data virtualisation facilitates that in real-time fashion."

The industry appears to be zooming towards operating entirely in the cloud. Driven by long-term investment in data capabilities, these themes have been brought into focus by COVID-19. The message emerging from insurers is that the virus has only accelerated the pace of change.

Even as lockdown restrictions look set to ease, and as the virtual world returns to some form of normality, fewer calls over Zoom required, the technological drive within the insurance sector seems to be on a set course. For the early adopters already cloud-native in operations, perhaps they are wondering when the rest will catch up.

"I think we're seeing a change in prioritisation and risk analysis relative to priorities in the past," Clearwater's Brassey adds. "Insurers are starting to look around and say technology could be an incredibly powerful tool for business, not a transition to be feared."



The Italian way

The Italian National Association of Insurance Companies, ANIA, provides an update on how Italian insurers have performed during the COVID-19 pandemic and the outlook ahead

WRITTEN BY **ADAM CADLE**

Q How have Italian insurance companies performed during the COVID-19 crisis? Are their solvency ratios stable?

Despite the adverse events of the recent months due to the COVID-19 pandemic, Italian insurers continued to provide services to customers and to the wider society, offering flexibility, particularly to those most adversely affected by COVID-19 or by national lockdowns and through additional voluntary "solidarity" actions. On the management side, they were able, despite important pressure deriving from unstable market conditions and in line with the entire European insurance industry, to maintain their solvency ratios to comfortable levels, like in all previous crisis situations.

Q What regulation do you think (if any) will have to be added or modified for Italian insurers and European insurers in general as a result of COVID-19?

Solvency II, as a risk-based approach – in contrast to the previous Solvency I - has many good features. Nevertheless, some improvements need to be made for it to properly capture the real economics and risks of insurers' long-term business and to avoid an underestimation of solvency strength. During periods of high market volatility, these flaws can push insurers into unnecessary procyclical behaviours. Although this issue is already part of the Solvency II review, the COVID-19 crisis and the extreme turbulence experienced in particular in March, reinforces once again the need to address those flaws of Solvency II. This should be primarily done by reviewing the Volatility Adjustment (VA). In particular, for the Italian industry it is key to achieve an effective country component, in order to ensure the VA's correct functioning.

Q Have you seen a change in investment allocations during the crisis among Italian insurance companies? If so, what?

In the last twelve months, ending in March 2020, insurance company portfolios increased predominantly in investment in mutual fund shares (primarily allocated in Europe, followed by USA and rest of the world), followed by government bonds, listed bonds and listed equities. In March 2020 the market dropped significantly and Italian insurance company portfolios were impacted negatively, both in their equity and bond allocations, the latter mainly because of spread volatility in the Italian government bond allocation. Part of the asset drop was absorbed in April 2020 but volatility is still an issue for insurance company portfolios.

Q Infrastructure fund manager 2i SGR and Ania, recently announced the acquisition of a 92.5% stake in independent freight operator Compagnia Ferroviaria Italiana (CFI). What were the reasons behind this and do you expect to expand your infrastructure investment going forward?

Early this year ANIA announced the launching of an Italian Infrastructure Fund with a target asset under management of €500 million, sponsored by local insurance companies to support the Italian real economy. The fund, a closed-end vehicle with a time horizon of 10 years, invests in core and brownfield infrastructures' equity, in sectors such as energy, highways, ports, renewables, logistics, transport, healthcare, airports

and telecommunications. It aims to invest in qualified infrastructures, in line with Solvency II regulation that allows a lower capital absorption for those instruments. The fund applies ESG criteria to screen best in class opportunities among the investible universe. Within this framework, the fund has made its first investment in CFI, Italy's largest independent operator in rail freight services. Founded in 2007, CFI operates approximately 170 trains a week connecting the main production areas of the country, from north to south and has among its customers some of the largest Italian companies, employing about 230 staff. Over the years, the company has specialised in providing services within the steel, automotive and agri-food supply chains, through the design and construction of full train transport (training, verification, management and escorting of trains with its own personnel and traction means). The fund expects to invest over four years and its second closing during 2020.

We have also observed a greater geographical diversification of Italian insurance portfolios across all asset classes, except for government bonds, where the allocation is still focused on domestic instruments

Q What is your outlook for the Italian insurance space?

In the past few years insurance companies have diversified their assets to cope with low interest rates that depress the return on their assets. In particular, we have seen an increase in alternative investments versus bonds, with a focus on private debt and infrastructure equity, although government bonds remain an attractive asset from a solvency perspective, given their risk-return ratio. We have also observed a greater geographical diversification of Italian insurance portfolios across all asset classes, except for government bonds, where the allocation is still focused on domestic instruments. In particular, as far as infrastructure funds are concerned, investment by insurance companies almost doubled between 2017 and 2018, going from €1.2 billion to €2.3 billion and reached €3 billion at the end of 2019. Of these, the percentage invested in Italy decreased from 40 per cent to 36 per cent, thereby contributing to a greater geographical diversification. We think this diversification trend will continue and low interest rates may support the switch from safe assets to risky ones, although COVID-19 effects on portfolio allocation are constantly under analysis, in terms of asset volatility and liquidity constraints.

Ania
Associazione Nazionale
fra le Imprese Assicuratrici

Insurance Asset Management highlights the key COVID-19 investment decisions and financial results over the past few months

Around the globe

1 Italian insurer Cattolica Assicurazioni has been asked by Italy's insurance regulator IVASS to strengthen its capital by €500m and to draw up a plan to boost its solvency and liquidity position.

Cattolica said IVASS had highlighted the weakened solvency position of the insurer "as a consequence of the deterioration of the financial markets following the spread of the COVID-19 pandemic". Shares in the company have fallen more than 15% to hit an all-time low.

IVASS also warned the group about its asset allocation "highlighting the exposure to lower quality bonds", describing them as those with BBB- or lower ratings or unrated ones.

2 A refreshed investment strategy is helping LV='s smoothed managed funds reduce the effects of stock market volatility caused by COVID-19. The LV= investment management group adjusted its investment approach in 2019 as part of a strategic asset allocation review to rebalance the funds. Four new asset classes - US Treasuries, overseas corporate bonds, high yield bonds and dynamic real return - were introduced while the amount invested in UK equities was reduced.

3 Beazley has raised gross proceeds of approximately £247m (US$300m) by conducting a placing of new ordinary shares and via shares subscription. Together, the total number of New Ordinary Shares represent approximately 15% of the company's existing issued share capital. The insurance group said the equity will continue to support ongoing organic growth. J.P. Morgan Cazenove and Numis Securities Limited acted as joint bookrunners. "The board has considered the optimal capital structure for the group and believes that it is an appropriate time for the company to raise equity in order to position the business for future growth opportunities as well as providing further strength to the balance sheet in light of the continued uncertainty from COVID-19," Beazley said in a regulatory filing.

> The board has considered the optimal capital structure for the group and believes that it is an appropriate time for the company to raise equity in order to position the business for future growth opportunities

4 French insurer AXA has said the coronavirus crisis would have a "material" impact on its 2020 earnings, although the claims it received in March in relation to the COVID-19 outbreak were limited. AXA's Solvency II ratio stood at 182% at end-March, down 16 percentage points versus end-2019, driven by unfavourable market conditions, primarily from higher corporate and sovereign spreads and lower interest rates, partly offset by a positive operating return for the quarter. The company's first quarter revenue was down 9% on a reported basis and up 4% on a comparable basis.

5 Prudential Financial has lost $271m for Q1 2020 due to lower investment spreads amid market turmoil tied to the new coronavirus. The company reported an adjusted profit of $2.32 a share, down from $3 a share in the first quarter last year. The company reported lower investment spreads across its US business unit as well as lower net fee income. International businesses also saw lower net investment spreads.

6 Widening of credit spreads has impacted Direct Line's available-for-sale (AFS) asset valuation, with the insurer seeing AFS reserves dropping from £138m, net of tax, as at 31 March 2020, to £55m, net of tax, at 1 May 2020. Falling interest rates mean that the insurer now expects investment income yield to be approximately 1.8% in 2020, compared with 2.0% expected at 2019 year-end. At 31 March 2020, Direct Line held £3,814m of debt securities with £3,436m of these investment grade quality. The residual £378m of debt securities were high yield debt securities with a benchmark duration of 2.5 years, less than 10% of which are exposed to sectors most impacted by COVID-19.

7 Warren Buffett's Berkshire Hathaway recorded a $49.7bn loss in Q1 2020, as the sharp sell-off in global stock markets hammered its investment portfolio. The decline in value of the insurer's stock and derivative portfolio, which includes shares in Apple and Bank of America, generated a $55.6bn loss in the quarter. Operating profits rose 5.7 per cent from a year earlier to $5.9bn, as investment gains from its insurance business climbed.

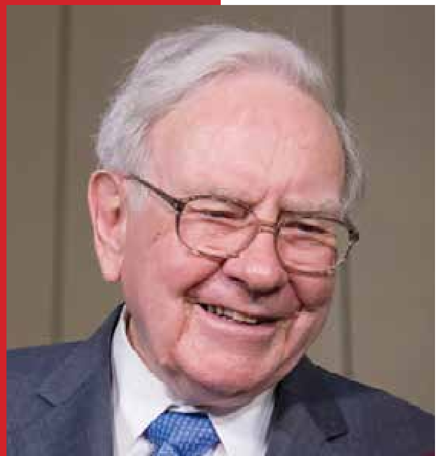


Photo by: Kent Sievers / Shutterstock.com

> The decline in value of the insurer's stock and derivative portfolio which includes shares in Apple and Bank of America, generated a $55.6bn loss in the quarter

8 Swiss insurer Helvetia has slowed the fall of its SST ratio though increased hedging of equity positions. The SST ratio declined to around 200% by mid-March 2020 owing to market trends, in particular the increase in credit spreads and lower share prices, and the COVID-19 situation, but is now above 200% and thus remains comfortably within the strategic target range of 180-240%. As at 1 January 2020, the group recorded a SST ratio of 235%.

9 Danish insurance and pension provider, Topdanmark, has revealed it made a loss of DKK 193m in the first quarter of 2020, as a result of the financial impact of coronavirus. As a year on year comparison, the first quarter return in 2019 saw Topdanmark make a profit of DKK493m.

As a result of the current economical situation, the company's post-tax profit according to the model profit forecast for 2020 is now DKK 450m lower compared with the previous profit forecast for 2020 in the Annual Report 2019. This had been DKK950-1,050m, excluding run-off.

10 Talanx Group has withdrawn its outlook for the financial year 2020, due to the COVID-19 pandemic and the considerable uncertainty around how the economic and capital markets environment will develop. "From today's standpoint, the existing net income target of between "more than €900m" and €950m is subject to too many uncertainties to be maintained," it said. "The preliminary consolidated net income for the first quarter 2020 of €223m is roughly in line with the previous year (€235m). To project the full-year results for 2020 based on the results for the first quarter appears impossible because the corona-related impact on our investment results and on our insurance business is only reflected in one out of three reporting months."

Key decisions

Adam Cadle chats to Una Seguros de Vida chief investment officer Huayin Liu about the insurance company, its investment thinking and COVID-19

WRITTEN BY **ADAM CADLE**

Q Could you provide an overview of Una Seguros?

Una Seguros is a newly created insurance brand in Portugal, after the acquisition of Groupama's Portuguese operation by the China Tianying group (CNTY). The CNTY group is an international environmental management company with 73,000 employees globally, serving clients in 34 countries. With almost 100 years of activity, Una Seguros represents an evolution as an organisation, a new way relating to our clients based on proximity, clarity, and trust. Through the two companies, Una Seguros de Vida SA and Una Seguros SA, UNA develops solutions for individuals and companies in the area of health, accidents, life, finance, automobiles, multi-risk, and worker compensations.

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

The investment structure prior to my time was relatively simple and straightforward with asset allocations mainly in European government bonds and corporate bonds. The investment portfolio has a small allocation to high yield sectors in the form of loans and high yield bonds and we have a small property exposure. I am targeting longer-term stable cash flows through diversified sources of returns. In particular, we have focused our research of the market on private assets and environmentally friendly projects that can generate enhanced stable cashflow for the insurance businesses. We want to gradually allocate up to 30 per cent of our assets to alternative investment asset classes with diversified income sources.

Q How is the firm adapting to COVID-19 in terms of its investment thinking and business direction?

The COVID-19 health crisis has reinforced our investment belief to build a portfolio with sustainable, stable, diversified sources of returns.

This crisis has brought unprecedented financial strain to companies we lent to (through our fixed income allocations) and our customers. From the investment point of view, we have worked with our outsourced investment managers to conduct a line-by-line review of the portfolio holdings. For sectors and companies whose profitability and liquidity profiles are more severely affected, we have conducted focused meetings with the sector analysts to discuss and debate trading strategies. We aim to protect the company's balance sheet from any permanent credit impairments.

From a business direction point of view, UNA has made every effort to guarantee the continuity of operations to serve our customers during this very challenging period. As new business activities almost came to a halt at the height of the crisis, our team has taken the opportunity to speak with key intermediaries in the market to understand the evolving demand of corporate and individual customers and design solutions to address those needs.

We want to gradually allocate up to 30 per cent of our assets to alternative investment asset classes with diversified income sources

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

In the history of UNA, the implementation of Solvency II has shaped how UNA designs insurance products and conducting investment strategies. The Solvency II consideration is very important to every single investment decision we make. As a company, we have now passed the stage that the focus was on the understanding and the calculation of the capital requirements under Solvency II. We have started to explore investment strategy changes which will allow us to optimise the capital consumption under Solvency II. Introducing the Solvency II capital requirements to the investment process will allow us to have an additional lens when looking for new ideas and trading strategies. For example, high yield bonds no longer represent a strategic component in our portfolios. The allocation to high yield is made tactically. When this asset class trades at a very tight spread level, it no longer represents an efficient use of our Solvency II capitals.

Q What is Una Seguros's ESG investment thinking?

UNA is adopting an outsourced investment management model. Our asset allocation is implemented by selecting specialised investment managers. We have a small investment team at UNA. As a result of the small operation size, we focused more on the due diligence of our outsourced partners. We prefer managers who embedded the ESG considerations in their investment decision-making processes.

With our parent company in the environmental business, we have a natural preference and bias toward sustainable investments. When we expand our allocation of alternative investments, we prefer to build our exposures in projects that are socially responsible and sustainable.

Q What are your main aims over the coming years for Una Seguros and yourself as CIO

Before I arrived at the current role, there was no independent investment function at UNA. The investment decisions were conducted by the CFO and the rest of the management team. This is a common situation with many small and medium insurers like UNA. This governance structure may come with a few drawbacks: the investment decisions are made by non-investment professionals, the management team only receives delayed information as portfolios are not monitored daily internally and there is a lack of independent challenge to the decisions and investment ideas offered by the outsourced managers.

As the CIO of the group, my main aim currently is to establish an investment culture within the management team, educating different stakeholders on investment management and risk management related issues. Through time, I wish to promote healthy and informative discussions and debates amongst the executive committee and the investment committee of UNA. Those investment discussions and debates will reinforce the process of how UNA designs new insurance products and influence the long-term business strategies.

As the CIO of the group, my main aim currently is to establish an investment culture within the management team, educating different stakeholders on investment management and risk management related issues

Saving the planet

Insurance Asset Management takes a look at the latest developments around ESG planning and positive social outcome thinking

1) A GROUP of financial services trade associations – including Insurance Europe – has called for the creation of a centralised public register for Environmental, Social and Governance (ESG) data in the EU. New regulatory obligations that come from the EU Sustainable Finance agenda require financial market participants to have access to comparable and reliable ESG data. Financial institutions and investors also need more ESG data to be able to steer their portfolios towards the objectives of the Paris Agreement and of the European Green Deal. This has created an urgent need for such data to become publicly available. "The availability of high quality and comparable public ESG data is currently rather limited and is insufficient to comply with new regulatory requirements, including sustainability disclosures and taxonomy regulations," Insurance Europe said.

2) A TOTAL OF 109 investors, representing €11.9trn in assets under management or advice, have written to European leaders highlighting the need to ensure the economic response to the COVID-19 pandemic delivers a sustainable recovery. Institutional Investors Group on Climate Change (IIGCC), that led the development of the letter, in coordination with Principles for Responsible Investment (PRI) and CDP, co-ordinated the letter calling for the need to ensure "an accelerated transition to a net-zero emissions economy in line with the Green Deal and the Paris Agreement."

3) FINNISH mutual pension insurance company Varma is joining a global real estate and construction industry initiative that advocates for carbon-neutral buildings. The global Net Zero Carbon Buildings Commitment of real estate investors challenges construction and real estate companies as well as cities to set the target of carbon-neutral buildings in operation by 2030. Varma's goal is to switch to fossil-free energy consumption in the properties it owns by 2030. "Varma wants to be a forerunner in reducing the energy consumption of the properties it owns and in calling attention to building-related emissions, which play a significant role in climate change. As a major Finnish real estate investor, we have an obligation to focus efforts on reducing emissions and aiming for carbon neutrality. Achieving buildings that are zero carbon in operation calls for actions, and the goals of the commitment are in line with our own climate objectives," Varma's investment manager, real estate, Johanna Haikala said.

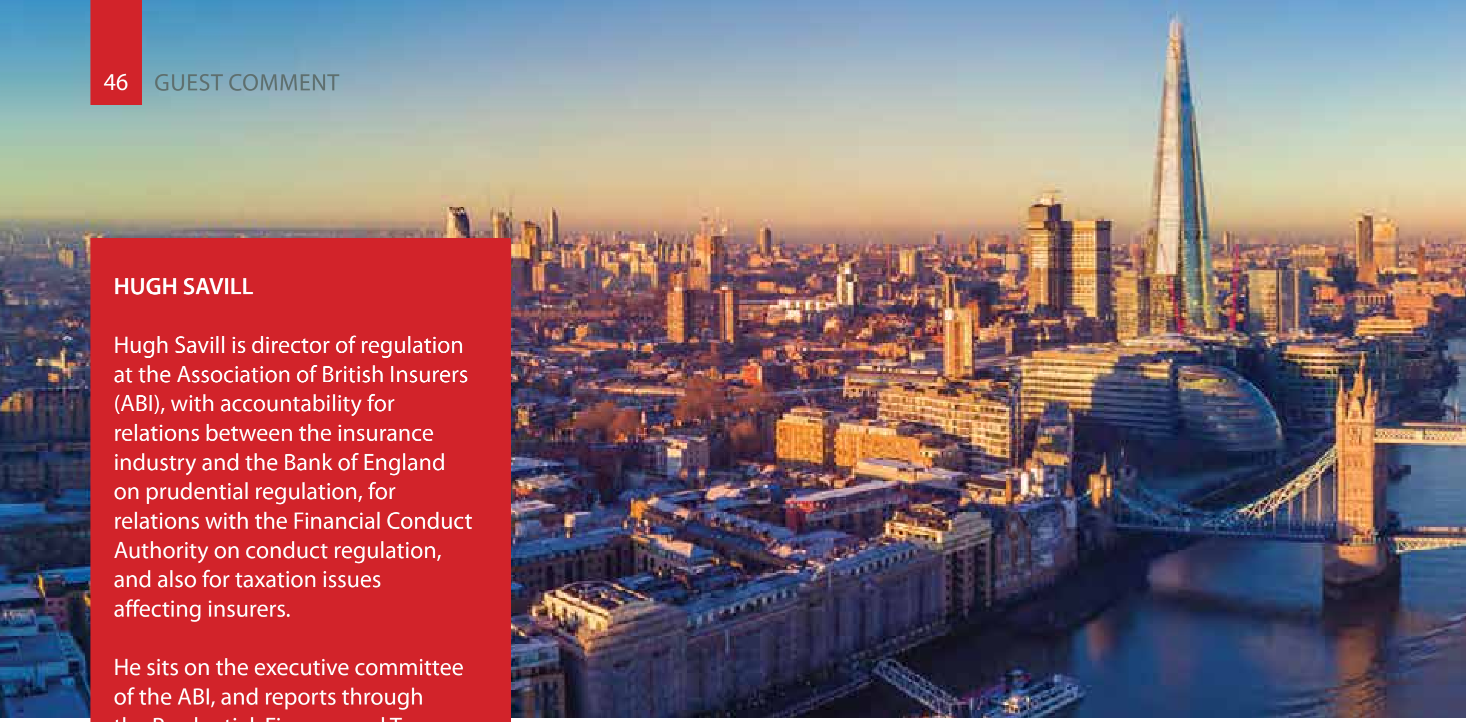
4) SWEDISH ICMIF member Länsförsäkringar has announced it has made an additional investment of SEK 540m ($55m) in socially-oriented bonds to mitigate the health and economic effects of COVID-19 in the Nordic countries and in Africa. In the past month, Länsförsäkringar has invested a total of SEK 1.2bn ($120m) in social bonds on behalf of customers, financing social projects in the Nordic countries, Europe, Africa and in several emerging countries. In this, Länsförsäkringar's third recent investment in social bonds, SEK 240m ($25m) has been invested in a bond issued by the Nordic Investment Bank, intended to finance projects with clear social goals. Another SEK 300m ($30m) has been invested in a social bond issued by the African Development Bank. This bond will fund the struggle of African countries and companies to fight COVID-19.

5) LEGAL & GENERAL CAPITAL (LGC) has announced it has taken a 36% stake in The Kensa Group, one of the UK's largest players in the ground source heat pump technology sector, as it scales up its investments in addressing decarbonisation. Complementing Legal & General's existing clean energy investment portfolio, which now includes low carbon heat, transport and power generation, the deal follows Legal & General's increased stake in Pod Point, one of the UK's largest electric vehicle charging companies, alongside EDF. Investing in sub-scale industries that it can use its platform to grow rapidly in the post-crisis period, the investment in Kensa supports Legal & General's ambition to form part of the UK solution to reaching net zero carbon emissions by 2050.

6) SWEDISH pension and insurance company, Länsförsäkringar, has made it easier for its members to identify low carbon funds by adding a green leaf symbol next to them on its funds list. Funds with the green leaf have low CO2 risk (carbon dioxide). To be awarded the green leaf, funds need to have a low risk when transitioning to a global economy that has low CO2 emissions and limited exposure to fossil fuels. Länsförsäkringar determined this by using Morningstar's calculation and sustainalytics analysis. The calculations are mainly based on equity funds and are done once a quarter.

MACIF will no longer invest in issuers which draw more than 30% of their turnover from the production or exploitation of thermal coal. From 2021, this threshold will be lowered to 20%

7) FRENCH mutual insurance company MACIF is strengthening its commitments to end its exposure to thermal coal worldwide from 2030. This choice is fully in line with the CSR policy of the MACIF group to fight climate change and preserve global biodiversity. This exit strategy for thermal coal consists in excluding from its investments companies that do not meet the criteria defined in its policy. It concerns investments in activities linked to thermal coal, ie the exploitation of coal mines and the production of electricity from coal. MACIF will no longer invest in issuers which draw more than 30% of their turnover from the production or exploitation of thermal coal. From 2021, this threshold will be lowered to 20%. In addition, the group will no longer invest in issuers with a coal-based electricity production capacity, or default installed capacity, exceeding 30%. From 2021 this threshold will be lowered to 20%. Finally, it will cease investing in issuers whose installed power of coal-fired power plants exceeds 10GW. From 2021 this threshold will be lowered to 5GW.



Food for thought

ABI director of regulation Hugh Savill is set to retire this autumn. He provides his thoughts on the insurance industry and how things have changed

WRITTEN BY **HUGH SAVILL**

When I retire from the Association of British Insurers this autumn, I will have spent more than 15 years representing the insurance industry. I have great memories of insurance, which is an industry with good values, doing a lot for its policyholders.

For the past ten years, since I accidentally became director of investment affairs here, I have been closely associated with the asset management aspects of insurance. This interest continued when I became director of regulation. Again, I have a lot of respect for those brave people who run money for insurers. As I have often said on

HUGH SAVILL

Hugh Savill is director of regulation at the Association of British Insurers (ABI), with accountability for relations between the insurance industry and the Bank of England on prudential regulation, for relations with the Financial Conduct Authority on conduct regulation, and also for taxation issues affecting insurers.

He sits on the executive committee of the ABI, and reports through the Prudential, Finance and Tax Committee to the ABI Board. At the ABI, Savill has held a number of assistant director roles, covering EU and international affairs, UK public affairs, and ABI member relations and events. He was temporary director of investment affairs for 18 months before moving into his current role in 2012. Savill joined the ABI in 2005 from the UK Department of Trade and Industry (DTI), now the Department for Business, Innovation and Skills.

In 20 years at the DTI, he worked on the finance and governance of the Department, faced off to the Scott Inquiry into the sale of arms to Iraq, and specialised in the negotiation of EU regulation.

He is a well-known insurance lobbyist at European and international level, member of the ECOFIN Committee of Insurance Europe, and chairs the Capital Task Force of the Global Federation of insurance Associations.

Savill was educated at Harrow School, and read Modern Languages at New College, Oxford University. He started his career in the Fine Art Department of Phillips Auction House.

the platform at *Insurance Asset Management* events, insurers are fussy investors. A liability driven approach is a bit of a shock to generalist asset managers. Regulatory constraints restrict our appetite for certain classes of assets. On the other hand, the long term nature of insurance liabilities gives us the luxury of being able to play a long game in times of stress.

Things are greatly changed over these years. When I started, insurers were major equity investors, and fixed income meant highly rated govvies. Corporate bonds were considered a bit racy. Insurers' balance sheets have undergone a sea change under the pressure of an unprecedented period of low interest rates. Govvies provide a miserable return, and have declined as a percentage of the balance sheet. Corporate bonds are now the staple diet, and insurers' preferred investments have moved down the notches of credit quality steps in an effort to earn a decent return for policyholders, while largely remaining within the bounds of investment grade.

More recently, insurers have tried to leverage their status as long-term investors by moving increasingly into a variety of illiquid investments - infrastructure bonds and equity, equity release mortgages, rented accommodation, commercial real estate. This makes a lot of sense. Insurers are well placed to take on long-term investments, and we could do with the additional yield available on illiquid assets.

It has not been an easy journey. At every step we have had to reassure conservative regulators that these unfamiliar assets are just as safe as insurers' traditional investment material. Some of the regulators' recommendations were sensible, however. Usually they insisted that insurers should hire staff with adequate expertise and experience in the behaviour of these asset classes.

They have also focused much more on insurers' liquidity planning. This is quite new. When Solvency II was negotiated after the last crisis, we could say to our regulators with a straight face that liquidity was not an issue for insurers - usually taking the opportunity to remind them

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that insurers are not banks. Nobody would say that now. A greater percentage of illiquid assets naturally requires more sophisticated liquidity management.

In addition, some of the assets traditionally considered liquid may not be that liquid any more under stress. Since the bank regulators stopped banks from acting as market makers in the bond markets, there has to be a real question whether these assets are quite as liquid as they feel.

So much has changed. As old men have always said. But I am glad to be able to end with the thought that one factor that has remained constant over these years is the friendliness and courtesy of those working in the industry.

Current ponderings on industry themes

On proposed ESG disclosure standards for financial market participants, advisers and products

The principal adverse impacts that investment decisions have on sustainability factors should be disclosed on the website of the entity, and the proposals set out rules for how this public disclosure should be done. The disclosure should take the form of a statement on due diligence policies with respect to the adverse impacts of investment decisions on sustainability factors, showing how investments adversely impact indicators in relation to climate and the environment and social and employee matters, respect for human rights, anti-corruption and anti-bribery.

THE EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

THE EUROPEAN SYSTEMIC RISK BOARD (ESRB)

On developing a liquidity monitoring framework for (re) insurers as a response to the COVID-19 pandemic

This would facilitate a more informed and timely assessment of any potential financial stability risks stemming from liquidity risks in the insurance sector (including any liquidity risks stemming from the mismatch between the redemption profile and the asset liquidity of their unit-linked products). The COVID-19 crisis highlights the need to better equip (re)insurers to deal with future periods of stress.

On its debt issuance announcement to capitalise on new business activity

Despite the evolving situation with COVID-19, L&G remains well placed to deliver strong, attractive growth and returns in our core markets, which are aligned to our six, long-term, structural growth drivers: ageing demographics, globalisation of asset markets, investing in the real economy, welfare reforms, technological innovation and addressing climate change.

LEGAL & GENERAL

On the development of strategies and solutions addressing climate change

MARK CARNEY
UN Special Envoy for Climate Action and Finance

Corporates and the financial sector have jumped ahead of government. Companies that have a strategy will be rewarded. This is not a passive investment strategy, you need the information but you also need the judgements around it. So yes I do think the industry is leading and I think the public will soon jump a bit ahead of us as well. As we come out of this period what regulatory interventions are there going to be to point the way? Will there be regulatory demands on fuel consumption? Will there be retrofit standards or other standards that point the way in which climate policy is going, which leads to innovation, which leads to investment?

On Carlyle Group and T&D acquiring majority share in Fortitude Re from AIG

Closing this transaction marks the completion of a significant milestone in AIG's strategy to efficiently manage our legacy liabilities while strengthening our balance sheet and upholding our commitments to regulators and policyholders. Fortitude Re will continue to be an important partner for AIG, and I would like to thank colleagues across AIG and everyone who has worked diligently towards today's announcement."

BRIAN DUPERREAULT
AIG CEO

On AXA's decision to cut its dividend by 50%

DENIS DUVERNE
AXA chairman of the board of directors

From the very beginning of the COVID-19 crisis, AXA's priority has been to act responsibly towards all its stakeholders. AXA's first priority has been to help its customers navigate through this crisis and to protect the safety of its employees, including guaranteeing their full employment for the duration of the confinement period. The group also continues to support its most impacted customers by taking a range of exceptional measures beyond its contractual obligations, and the wider community by participating in national solidarity efforts including contributions to various public funds. Reflecting the strength of the group's balance sheet, AXA has fulfilled these undertakings without requesting any government aid. The board of directors' decision to reduce the proposed dividend demonstrates the same sense of responsibility towards AXA's institutional and individual shareholders, while adopting a prudent approach in the current environment.

INTERNATIONAL NGOS SUPPORTING UNFRIEND COAL CAMPAIGN

On the need for insurers to champion a green and fair recovery from COVID-19

International insurance associations and many of their member bodies have made numerous public commitments about the need for rapid climate action. If you are serious about these commitments you now need to speak out, vigorously and publicly, at the international and national level for green and fair recovery programs which are consistent with the IPCC's 1.5°C pathways. In addition, the insurance industry has to get its own house in order with regard to the climate crisis. Insurance associations should encourage their member companies to divest from fossil fuel companies, to end cover for coal projects, coal companies and for oil and gas expansion projects, and to commit to phasing out cover for oil and gas companies in line with a 1.5°C pathway.

On Royal London joining International Corporate Governance Network (ICGN)

Signing up to the ICGN will enable us to collaborate with other asset owners to positively influence issues around investor stewardships and promote high standards of corporate governance. It is an ideal next step in our responsible investment journey.

LORNA BLYTH
Royal London head of investment solutions

INSURANCE EUROPE

On there being no one-size-fits-all solution to climate change

There is no one-size-fits-all solution at EU level. While all countries are affected by the changing climate, member states each have different risk exposures resulting from regional environments, different levels of public awareness about potential risks, the extent of government intervention, liability regimes or adaptation practices. These factors result in a highly diverse insurance market for natural catastrophes (NatCat) across the EU. For instance, certain markets have a pool-solution in place where in others optional private market solutions are more common.