Insurance Asset Management

Summer 2024

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The major pension scheme de-risking deals of late

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Editorial Comment

We can all agree that the future political landscape will undoubtedly affect the financial services arena in one way or another

It's all systems go here in the UK, as voters prepare to flock to the polling stations on 4 July after Prime Minister Rishi Sunak's sooner than expected decision to call a General Election.

The announcement comes on the heels of a drop in UK inflation to 2.3%, and marks a crucial moment that could reshape the regulatory and economic landscapes for UK insurers.

With a significant shift in the political landscape expected, according to current polls, the ABI has again re-emphasised its vision for collaboration with the future government and stakeholders. Its industry manifesto emphasises driving growth and competitiveness, boosting investment, enabling the transition to clean energy, and enhancing climte resilince, along with improving the nation's response to emerging risks. We can all agree that the future political landscape will undoubtedly affect the financial services arena in one way or another, and it is how insurers adapt to these changes that will determine the health of the industry.

In this issue of *Insurance Asset Management* we provide a review of our recent roundtable held in association with Muzinich & Co., (p.34) looking at the benefits of public and private credit for insurers, and how these asset classes are currently being used within existing investment portfolios.

Our focus feature in association with Legal & General Investment Management (p.26) also looks at net-zero credit, and how insurers can use credit to meet climate objectives without compromising on financial objectives.

Elsewhere, we also look at insurers current usage and ponderings around AI, and how this can be used to aid data compilation for investment decision making, and also for the investment strategies and processes themselves. It is certainly an interesting time in the AI sphere at the moment, as developments continue to gather pace The question now is who will be left behind in this space.

So, as we await the summer sunshine to arrive in the UK, and the electoral results, I'll leave you to have a good read of this issue of the magazine and as per usual, any queries or comments please do get in touch. Enjoy!

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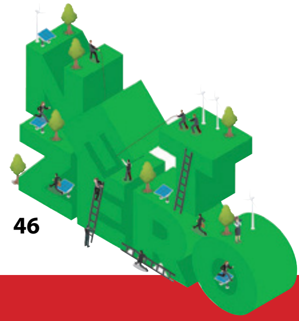

Summer 2024

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ROUNDTABLES

News focus

Global insurance industry grows by fastest rate since era before 2008 financial crisis

7.5% growth rate reported in 2023 as insurers amassed €6.2trn in premiums

Written by **Michael Griffiths**

The global insurance industry grew by 7.5% in 2023, a new report published by Allianz has revealed.

This was the fastest rate since the era before the 2008 global financial crisis, as insurers amassed €6.2trn in premiums across life (€2.6trn), property and casualty (P&C) (€2.2trn), and health (€1.4trn) segments.

However, Allianz did also state that high inflation contributed decisively to these gains, and that the real growth rate has been a more modest 0.7% since 2020.

> The life segment led the charge, contributing 46.9% of the total increase

"Unlike 2022, where growth was primarily driven by the P&C segment, 2023 saw more balanced growth," Allianz stated.

"The life segment led the charge, contributing 46.9% of the total increase, with P&C and health following at 32.7% and 20.4%, respectively. Notably, the life segment rebounded significantly, driven by Asia, the world's largest life market."

Asia held a 39% global share in the life insurance market during 2023 as premiums grew by 14.9%.

China led with a 12.8% increase ahead of Western Europe, the second largest market, which grew by 3.3%, despite challenges in Germany and Italy. North America saw steady growth at 5.3% in the life sector.

Other markets, with a 4.3% global share, accelerated to 9.9% growth, driven by nearly 20% growth in Latin America.

Allianz has suggested the global insurance market will maintain a steady growth rate of 5.5% annually over the next decade, matching the growth rate of the global GDP. The group has forecast the life sector's growth to accelerate to 5.1% annual growth, buoyed by higher interest rates.

> Asia will remain the powerhouse of growth in the life insurance sector

"Asia will remain the powerhouse of growth in the life insurance sector, accounting for half of the absolute premium growth," the Allianz report also suggested. "China will continue to lead, but India is poised to be the true growth champion with an expected annual growth rate of 13.6%."

In a separate study published by Swiss Re Institute, it was revealed that an additional US$1.5trn of global life savings premiums will be generated over the next decade, more than double the amount of the previous decade. Swiss Re Institute said consumers are moving to buy life-savings products that secure higher retirement incomes. As a result, total global premiums are forecast to grow to US$4trn by 2034. In contrast, global life insurance premiums grew by only US$300bn in the entire low interest rate decade of 2010 to 2019.

Jérôme Jean Haegeli, Swiss Re's Group chief economist, said: "Higher interest rates are a game changer, providing life insurance and pension products a tailwind to much better tackle the retirement savings challenges of ageing demographics."

News in brief

- **Broadstone has launched a new carbon footprinting service to enable employers, trustees and asset owners to accurately measure, manage and monitor their corporate sustainability progress in line with increasing regulatory requirements. Measurements will be carried out by means of a carbon footprinting exercise, management and setting of reduction targets will be conducted via a carbon management plan, and monitoring will be carried out to see trends and quantify progress.**

- **BNP Paribas Cardif is set to acquire French life insurance firm Neuflize Vie from its parent companies AXA and Dutch investment bank ABN Amro. ABN Amro said that BNP Paribas Cardif "intends to acquire all shares in Neuflize Vie for an undisclosed amount", adding that the combination will "constitute an undisputed leader in high-end life insurance in France".**

- **Pacific Life Re has announced an asset intensive reinsurance agreement in Japan with Tokio Marine & Nichido Life (Anshin Life). The deal covering in-force whole of life policies will provide Anshin Life a new method to reduce long-term interest rate risk of its portfolio and will also contribute to the advancement of its asset liability management capabilities.**

- **Ireland's funds and asset management industry has surpassed €4.3trn AuM at end-March 2024, a 15% increase year-on-year, the Irish Funds Industry Association (Irish Funds) has revealed.**

US P&C insurers achieve record investment income

Value of $73.9bn recorded, bolstered by higher interest rate environment

Written by Adam Cadle

Net investment income in the US P&C insurance segment hit a record high in 2023 of $73.9bn, bolstered by the higher interest rate environment, AM Best has revealed.

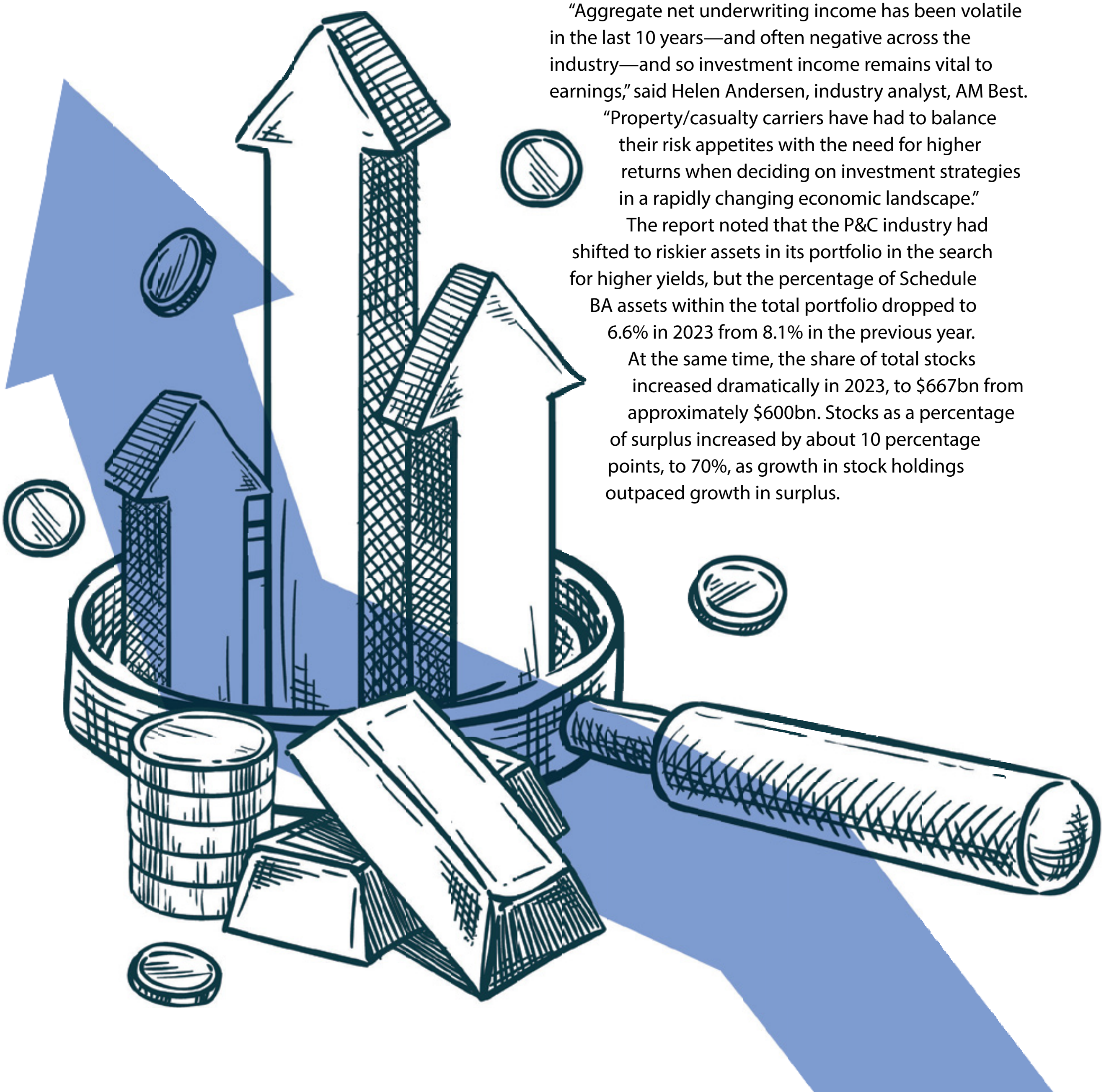
The net investment income improvement represented a 1.4% increase over the previous year.

"Aggregate net underwriting income has been volatile in the last 10 years—and often negative across the industry—and so investment income remains vital to earnings," said Helen Andersen, industry analyst, AM Best.

"Property/casualty carriers have had to balance their risk appetites with the need for higher returns when deciding on investment strategies in a rapidly changing economic landscape."

The report noted that the P&C industry had shifted to riskier assets in its portfolio in the search for higher yields, but the percentage of Schedule BA assets within the total portfolio dropped to 6.6% in 2023 from 8.1% in the previous year.

At the same time, the share of total stocks increased dramatically in 2023, to $667bn from approximately $600bn. Stocks as a percentage of surplus increased by about 10 percentage points, to 70%, as growth in stock holdings outpaced growth in surplus.



US Alt IM-backed insurers bring 'higher but manageable risk'

Credit profile differs from broader industry which can add credit risk, Fitch Ratings says

Written by **Adam Cadle**

US Alt IM-backed insurers bring "higher but manageable risk", Fitch Ratings has said.

The credit profile of Alt IM-backed insurers differs from that of the broader industry, which can add credit risk.

Furthermore, Fitch Ratings director, Douglas Baker, said: "Alt IM-backed insurers tend to exhibit increased investment risk, higher regulatory scrutiny and uncertainty around the long-term willingness and ability of Alt IMs to support the insurance operations."

> Alt IM-backed insurers tend to exhibit increased investment risk

However, Baker stated that the asset origination capabilities and added financial flexibility of an Alt IM partner can be advantageous.

Relative to the broader life insurance industry, Alt IM-backed insurers allocate a higher proportion of their portfolios to structured securities and private asset classes while often having higher allocations to lower-rated instruments. Additionally, Alt IM-backed insurers exhibit higher allocation to commercial mortgage loans.

Portfolio yields of US life/annuity insurers rebound

Yields rise by nearly 30 basis points to 4.74% from 4.47% thanks to rising interest rates

Written by **Adam Cadle**

Rising interest rates in 2023 helped boost the portfolio yields of US life/annuity insurers by nearly 30 basis points, to 4.74% from 4.47% in the previous year, according to AM Best.

AM Best said that the improvement in total portfolio yield occurred as new dollars from strong annuity sales and older maturing bonds were replaced with new bonds yielding higher rates, along with new mortgages issued at higher rates. The 2023 gross yield was the highest recorded by the industry since 2019. Net investment income for the life/annuity segment grew by 9% in 2023 to more than $224bn, the second-highest percentage growth in the last 10 years.

Credit quality has begun to improve, with a notable migration up the credit scale to NAIC-1, in the higher interest rate environment," said Kaitlin Piasecki, industry analyst, AM Best. "Insurers have been able to earn higher yields while simultaneously investing in higher quality securities."

$3.6trn in insurance AuM outsourced as trend continues to grow

Public fixed income continues to dominate outsourced assets with 70% of AuM in the category

Written by **Adam Cadle**

Insurance investment management outsourcing continues to grow with $3.6trn in insurance AuM reported for YE2023, compared to $3.2trn in 2022, Clearwater Analytics has revealed.

In its *2024 Insurance Investment Outsourcing Report* (IIOR), Clearwater Analytics found that more managers are entering the insurance asset management business each year. Over the last three reports, 22 new managers joined the IIOR.

> The sheer variety of specialty asset managers now available to insurers is a testament to the evolution of the industry

Private asset classes reported grew to $602bn, up 40% over the last two years, while public asset classes were flat over the same period. Investment consultants have become more prominent in the space, with many helping insurers extend their investment strategy into private asset classes.

The report added that while there is a lot of activity in private asset classes, public fixed income continues to dominate outsourced assets with 70% of AuM in the category.

"The trend of insurers moving towards external asset management speaks volumes about the expertise and scale that external managers offer," said Steve Doire, strategic adviser at Clearwater Analytics and owner of DCS Financial Consulting.

"The sheer variety of specialty asset managers now available to insurers is a testament to the evolution of the industry."

Investment grade debt allocations among insurance CIOs surge back to 56.6% of total assets

Levels not fully rebounded to peak levels seen in 2017

Written by Adam Cadle

Investment grade debt allocations among insurance CIOs have surged back to 56.6% of total assets, from 48.5% in 2021, according to KKR's latest report into the global insurance market.

KKR said the increase is due to the rise in interest rates, but investment grade debt allocations have not fully rebounded to peak levels seen in 2017.

Despite the record increase in interest rates in recent quarters, insurers' allocations to non-traditional investments, including alternatives, declined only slightly to 28.9% in 2024, from 31.8% in 2021, but were still well above 20.3% in 2017.

Within non-traditional investments allocations to structured credit, such as CLO debt, asset-based finance, and other tradeable structures, increased the most, from 5.9% of portfolios in 2017 to 8.3% in 2024, with US insurers having the highest allocations to the asset class. Private credit allocations, which jumped to 7.7% in 2021, fell back to their 2017 levels of around 5.3% as CIOs shifted their portfolios to take advantage of higher yields in more liquid products as rates increased. However, private credit remains attractive to CIOs, with most choosing the asset class as their top choice for future allocations.

Infrastructure and private equity also rank high on the list for future allocations, and CIOs are now finally seeing more opportunity in real estate equity after the recent compression in values.

KKR said asset allocation priorities vary by type of insurer. On average, life and annuity CIOs tend to allocate more to structured credit and real estate credit, while P&C CIOs tend to hold more than the average in private equity, public equities, and bank loans and high yield.

Ireland's funds and asset management industry grows

AuM surpass €4.3trn at end-march 2024, a 15% increase year-on-year, the Irish Funds Industry Association reveals

Written by **Adam Cadle**

Ireland's funds and asset management industry has surpassed €4.3trn AuM at end-March 2024, a 15% increase year-on-year, the Irish Funds Industry Association (Irish Funds) has revealed.

The increase reflects continued growth across a range of fund types and strategies, including Ireland's ETF offering which currently stands at €1.24trn AuM, 70% of the European market, Irish Funds added.

At its 25th Annual Global Fund Conference Inflection Point: Ireland and Innovation, held in Dublin, policymakers, regulator and industry leaders highlighted innovation as a driving force in Ireland's success, including the ongoing evolution of private markets, with the launch of European Long Term Investment Funds (ELTIFs) following recent changes by the Central Bank of Irland, and the growth of Investment Limited Partnerships, now numbering more than 50, after the overhaul of the partnership regime in Ireland in 2021.

> The increase reflects continued growth across a range of fund types

Additionally, Ireland has also emerged as a leader in sustainable finance, being home to 1.664 Article 8 funds with around €1.2trn AuM and 159 Article 9 funds with around €30bn.

Irish Funds CEO, Pat Lardner, said: "The Irish funds and asset management industry's continued growth highlights the expertise and stability of Ireland's asset management landscape, buoyed by constant innovation."

German insurers less enthusiastic about private credit, BaFin says

Rising interest rates make asset classes with higher liquidity more attractive

Written by **Adam Cadle**

German insurers are becoming less enthusiastic about private credit as rising interest rates make asset classes with higher liquidity more attractive, according to the country's top financial regulator.

"I see the investment volume stagnating," said Julia Wiens, who leads insurance supervision at BaFin. "Firms made these investments more boldly in the low-interest rate environment, but there are now other options that you can invest in with less know-how and much less risk.

"One can't forget that the issue of liquidity is still an issue for the industry and that these investments are by nature difficult to liquidate and that doesn't really fit with the business of an insurer. I see this staying more of an addition in the asset allocation, but I don't see big growth."

Private equity made up 5.2% of German insurers' investments in mid-2022 while private credit accounted for 4.1%, up from a combined 4.7% at the end of 2019, according to findings of a BaFin survey published last year.

Private debt accounted for as much as 30% of investments at some insurers in 2019, the regulator said.

Insurers lead pension funds with investments in funds allocating to transitioning companies

47% of insurance firms already invest compared to 29% of pension funds

Written by **Adam Cadle**

Insurance companies are ahead of pension funds with their investments in funds or strategies allocating to transitioning companies, a new report published by Robeco has stated.

Forty-seven per cent of insurance companies already invest in funds or strategies allocating to transitioning companies, and 27% plan to within the next one to two years.

This is compared to 29% of pension funds already investing in transitioning companies and 26% plan to do so within the next couple of years. By region, European investors are most likely to invest in transitioning companies (45%) or are planning to do this in the near future (26%).

> European investors are most likely to invest in transitioning companies

The report also revealed that the number of APAC investors for whom climate change is central to, or a significant part of, their investment policy was 79%, surpassing Europe (76%) for the first time.

Enthusiasm is, however, continuing to fall in North America amid political wrangling over the perceived cost of integrating ESG factors into investments, where only 35% prioritise climate investing. This knocked back the global average to 62% from 71% in 2023, but still signals that a majority of investors have climate investing as a priority.

Lucian Peppelenbos, climate and biodiversity strategist at Robeco, said: "When we look at the survey findings, we can see that many investors are adopting a focused and diligent approach to the work of decarbonising investment portfolios and moving towards the low-carbon economy of the future. As they get to grips with the hard work involved in the climate transition, there is less naivety, and more careful deliberation and scrutiny over what is needed to embed sustainability into the many aspects of running investment portfolios."

Bermuda's P&C insurers more reliant on individuals to manage ESG risk, BMA reveals

Insurers say CRO manages both ESG strategy and risk

Written by **Adam Cadle**

Bermuda's P&C insurers rely more heavily on a single individual, such as the CRO, to manage ESG risk overall than long-term insurers, a survey by the Bermuda Monetary Authority (BMA) has revealed.

Out of 114 insurers in the Bermudian insurance market, the BMA found that nearly a quarter indicated that the CRO manages both ESG strategy and risk. Several insurers (12%) indicated they have a dedicated ESG officer, who is the senior-level decision-maker responsible for strategy, risk and goals. The officer often works in collaboration with the CRO.

The majority of insurers (93%) indicated that they incorporated ESG risks into their ERM strategy to some extent. Almost half of them (48%) have a stand-alone overarching strategy incorporated in ERM processes. According to the survey, 26% of companies consider ESG risk in the ERM only, while 18% of the market indicated their strategy is under development. Nearly half of those in the process of incorporating ESG risks into their ERM frameworks indicated that tangible plans are in place to complete these processes by the end of 2024. In the limited cases (7%) where an entity does not implement an ESG approach, this is either due to having assessed the risk as not material or the insurer not yet finalising the initial assessment.

> Several insurers indicated they have a dedicated ESG officer

Approximately one-third (31%) of organisations surveyed have completed a formal materiality (impact) assessment to drive the focus of their ESG efforts. For the majority of the industry, the biggest advancements and focus remain on climate change and DEI. Close to half (42%) of the organisations surveyed have not done a materiality (impact) assessment.

"This could be an area of focus for the insurance industry in the future particularly for the purpose of effectively limiting material risks and being able to seize upon opportunities as sustainability approaches evolve," the Authority stated.

NZAOA releases latest target-setting protocol covering all private assets

Latest edition will govern next five years

Written by **Adam Cadle**

The UN-convened Net-Zero Asset Owner Alliance (NZAOA) has released the fourth edition of the Target-Setting Protocol, which now covers all private assets and will govern the next five years up to the critical milestone of halving emissions by 2030.

This latest protocol is streamlined into a standing document, to be updated as new methodologies evolve no more frequently than every twelve months. Furthermore, the protocol now covers private debt funds, directly held private debt, directly held real estate debt funds and residential mortgage loans, to ensure that high-emitting companies develop transition plans regardless of their ownership structure.

The NZAOA said the protocol demonstrates that its members remain firmly committed to achieving net-zero for all greenhouse gas emissions by 2050 and aligning with 1.5°C pathways, with no or limited overshoot. Under their commitment, members shall target 40 to 60% GHG emissions reductions by 2030 (compared to 2019) in line with IPCC Sixth Assessment Report estimates.

Günther Thallinger, board member Allianz SE and Alliance chair, said: "We must close the widening gap between our ambitions and the real economy, which is lagging behind science."

Global investment industry urged to double resources dedicated to stewardship

Industry average stewardship resourcing level is currently at around 5%

Written by **Adam Cadle**

The global investment industry must double the resources dedicated to stewardship, a new report from the Thinking Ahead Institute (TAI), commissioned by the United Nations-supported Principles for Responsible Investment (PRI), has said.

The report said the industry average stewardship resourcing level is currently at around 5%. This is a percentage of total investment management costs. Examples of resourcing include spend on internal staff time, third party providers of stewardship services, data, subscriptions, memberships or reporting costs, among several others mentioned in the report.

Furthermore, the report pointed out that the industry currently lacks the measures of costs needed to unpack the resourcing model for stewardship. Therefore, the TAI has launched the Stewardship Resources Assessment Framework, to enable the investment industry to assess the resources available to stewardship efforts in a more structured way, as well as the subsequent improvement of such stewardship efforts over time.

Nathan Fabian, chief sustainable systems officer at the PRI, commented: "Strong stewardship is needed now more than ever."

People on the move

JUAN BERNAL

Chief investment officer, MAPFRE

MAPFRE has appointed Juan Bernal as group chief investment officer. Bernal, who has more than 25 years of experience in financial markets, has headed up asset management, private banking and personal banking in numerous leading financial institutions in Spain. Most recently, he held the position of general manager at CaixaBank Asset Management, among other roles.

CECILE RETAUREAU

Head of Private Markets, Phoenix Group

Phoenix Group has hired Cecile Retaureau as its new head of private markets to lead Phoenix's growing private market team of 16 investment professionals across real estate, infrastructure, public finance, corporate credit and private equity. She has nearly twenty years of experience and joins from UBS. Retaureau will report into Nuwan Goonetilleke, head of shareholder assets.

JAMES YOUNG

Director, Switzerland - Germany - Austria, Russell Investments

Russell Investments has appointed James Young as director for Germany, Austria and Switzerland to further strengthen its coverage in the EMEA region. In this new role, Young is responsible for developing Russell Investments' business across the DACH region, with a particular focus on private market strategies. Young joins Russell Investments from Stoneweg.

AMRIT SUMMAN

Investment strategy solutions lead, Ortec Finance

Ortec Finance has appointed Amrit Summan as investment strategy solutions lead. In her new role, she will oversee relationships with multiple global clients, bolstering Ortec Finance's presence across asset managers, insurers, and pension funds. Prior to joining Ortec Finance, Summan held key roles at Moody's Analytics and also worked at Willis Towers Watson.

SOPHIA SEDNAOUI

Head of investor relations, CG Asset Management

CG Asset Management (CGAM) has appointed Sophia Sednaoui as head of investor relations in its new investor relations team. She will focus on team strategy, institutional and intermediary client relationships, and oversight of the open-ended funds. Sednaoui joins after six years at Carmignac, where she was business development director.

GEOFFREY CORNELL

Chief investment officer of insurance, AllianceBernstein

AllianceBernstein (AB) has announced that Geoffrey Cornell will join the firm as the chief investment officer (CIO) of insurance. Cornell is the former CIO of AIG's life and retirement business (now known as Corebridge Financial) and former deputy CIO of AIG. He had a thirty-year career at AIG across all asset classes and both the P&C and life & retirement businesses.

WRITTEN BY **PETE CARVILL,**
A FREELANCE JOURNALIST

A game-changer?

AI is starting to be seen as a big portfolio question by insurers. But how are insurers utilising it as part of their investment allocations, how has this changed, and how far do they see it developing and aiding the investment decision making processes?

The two most-commonly used letters in any discourse about business in 2024 seem to be 'A' and 'I', put together to form the acronym for artificial intelligence (AI). While AI in various forms has been present for years, it seems in the last eighteen or so months to have reached **a kind of lightspeed with the release or** rollout of products such as ChatGPT and Dall-E.

It is a trend that has not gone unnoticed by the insurance industry. The recent *Global Insurance Survey 2024: Risk and Resilience* by Goldman Sachs reported that 29 per cent of insurers said they were using AI, with a further 51 per cent saying that they were considering using it. Of those surveyed, only 20 per cent demurred, saying that it was not yet on their horizon.

Neural CTO Dan Lopez says that growth and development have been apparent in the last five years, expanding from primarily fraud detection and claims processing to gaining traction in investment strategy. This notable acceleration, he adds, was being driven by advancements in AI technologies, increased availability of high-quality data, and a growing recognition of AI's potential to deliver competitive advantages.

He adds: "The COVID-19 pandemic also played a role, as the volatile market conditions underscored the need for more sophisticated, data-driven investment strategies. Many insurers have ramped up their AI initiatives, focusing on developing proprietary models, partnering with insurtech firms, and investing in AI talent."

There is no doubt that it is being used across certain lines of the insurance industry or, more accurately, in certain parts and segments of individual businesses.

Law firm Kennedy's partner and global AI programme lead Martin Stockdale says that firms are seeing the potential across the whole of their business, from

operations to underwriting to claims.

"Insurers are speaking to us," he tells *Insurance Asset Management*, "in respect of both their interest in solutions we can offer through Kennedys IQ in addition to leaning into our experience and thinking as a partner business both as to how we are planning to reorganise ourselves for the future benefit from AI and our approach to innovating with it. As AI evolves at pace, the exchanging ideas and experiences is as valuable as the technology itself."

It is likely, though, that some are struggling with the definition of AI as it is a broad umbrella encompassing such disciplines as machine learning, natural language processing, and natural language generation. Analytics falls under this umbrella, too. And certain aspects of an insurer's business—claims, for example, or underwriting—are relatively more straightforward to automate than others.

WTW director Muhammad Amjad says that defining AI was part of the issue here, with many firms implementing measures that could fall under its umbrella but are often called by different terms.

He says: "It is being used by people, but the question is whether they see it as AI or not. It's a topic that comes up in what we call optimisation problems."

Amjad laid out some potential scenarios, saying, "An insurance investor may think in terms of what they want to optimise in their asset portfolios or strategic asset allocation, or a chief actuary might want to opt their matching adjustment portfolio. They're not thinking of AI, but they are looking at different techniques to carry out optimisation. We find technology such as genetic algorithms and similar optimisation routines like particle swarm optimisation. There are different techniques that get used but are essentially applications of machine learning, which is under the umbrella of AI."

That would include asset allocation. When Goldman Sachs did its *Global Insurance Survey 2024*, only a fifth of respondents said they were considering AI in this area. Even a study last year from PWC, *Artificial Intelligence for Insurance Companies*, mentioned AI in relation to pricing, underwriting, distribution, customer service, claims handling, analysis, and monitoring, but conspicuously made no mention of investment allocations.

It is a hard subject to broach. *Insurance Asset Management* contacted many insurers and reinsurers to talk about this issue, but most would not speak openly on the subject, citing lack of knowledge in this area or a full-on reluctance to talk about the subject.

> Many insurers have been using AI technology to leverage their investment strategies

One who did speak said, on condition of anonymity, that their experience showed that insurers were not using AI for investment decisions.

"Some insurers do use forms of optimisation algorithms or routines to attempt to increase their matching adjustment," they said, "but this isn't AI, and it isn't that new a development. Insurers are mainly using General AI to automate processes to manage insurance claims and underwriting. There are some trends happening this year, such as OpenAI GPT-4o (which is impressive). That is a multimodal AI model, or autonomous agents that show self-learning capabilities."

There were, they added, no 'specific use cases for making investment decisions yet'.

Others, such as Lopez, disagree. His company, Neural, is a US-based AI firm that recently received £1.4 million in funding and offers data analytics amongst other services to a variety of industries, including insurers. Lopez says that "many insurers have been using AI technology to leverage their investment strategies".

He says: "Traditionally conservative in their approach, insurers have recognised the potential of AI to enhance decision-making processes, identify lucrative investment opportunities, and mitigate risks."

Lopez went on to risk all the advantages that the technology brings to the allocation table.

"AI's capabilities in processing vast amounts of data and providing predictive analytics," he says, "have allowed insurers to move beyond traditional methods, incorporating machine learning models to forecast market trends, assess interrelationships of risks, and optimise portfolio allocations. However, the extent of AI integration varies across the industry, with some leading brokerage and reinsurance firms fully embracing these technologies while others such as carriers, remain in exploratory phases."

It is no secret that the insurance industry is very conservative, a sector of the economy that likes to sit back, assess, and take a measured response to problems. With that in mind, a middle ground may exist between all-out attempting to bring AI into asset allocation or otherwise leaving it on the shelf.

Swiss Re Asset Management's chief technology officer Matthias Gebhardt's comments fall under this umbrella. The process behind investment allocation decisions, he says, is a broad one between research and actual selection.

He adds: "Our current view is that generative AI has the potential to help with the first part, with stock selection seeming further removed from what technology can provide at this point."

Conning's managing director and head of insurance solutions Matt Reilly takes a similar tack, pointing to the 'thoughtful deployment' around new technology, which he called a 'measured approach' that insurers tend to take.

Reilly says that while full integration 'across the board' when it comes to allocations is not yet there, it is something that he expects to see within his lifetime.

He adds: "We invest a lot of time and resources in tools to help insurers think about allocations and investment strategies. But even with highly quantifiable tools and sophisticated models, there is still an artistic side to the decisions made by these teams."

Perhaps key, he said, is the fact that AI solutions are hard to implement within an allocation strategy, with current advances best deployed amongst other areas such as pricing and underwriting.

"When you look across the value chain of an insurer," he says, "the investment side is often not the highest priority or the easiest deployment of these tools. But what I would say is that companies are integrating these types of tools and technology into places like their modelling capacity because that's where they provide the most efficiency."

There is also a great deal of risk in deploying AI in asset allocation, one that may be mitigated by waiting to see what emerges as best practice. Many firms in 2024 will be monitoring their assets and investments closer than they did before, given current geopolitics. The latest *Frontiers in Finance*, put out by KPMG, saw global head of asset management Dean Brown and principal for capital markets Agnel Kagoo write that asset managers around the world were struggling to deliver sustained and profitable growth with investment returns disrupted by current volatility.

"Competitive dynamics are accelerating," the pair wrote earlier this year, "and investors are pushing for lower fees — while also stepping up their service expectations. Furthermore, the need to offer new asset classes to a wider range of global investors is pushing up complexity and adding to compliance costs."

Against this backdrop, quick deployment of a rapidly evolving technology seems unlikely.

THE FUTURE

The future may be somewhat different, says Amjad, who sees a space for AI in allocation.

He says: "If we take the example of a matching adjustment portfolio, you may have 1,000 different bonds that can be in or out of the portfolio. The total search space is 2^1,000, which is more than there are atoms in the universe."

> "Overestimating AI's capabilities or treating it as a 'magical' black box or panacea poses its own set of risks

Computationally, he says, you cannot test every portfolio one at a time and pick the best one from a list, as that would take longer than the age of the universe. "So," he adds, "we rely on the optimisation techs inspired by metaheuristics, essentially examples of natural processes where optimisations get carried out, for example genetic algorithms are inspired by the process of evolution by natural selection."

THE HYPE GAME

There is, with every new technology, elements of hype and atmospheres that approach that of a gold rush. The US in 1895 had 1,900 automobile manufacturers, a number that was winnowed down by about 1950 to three—Ford, General Motors, and Chrysler.

AI is arguably in this stage, where new players enter the market with promises and predictions of revolutions and changing the world. AI in 2024 may be in the same space that cryptocurrency was two or three years ago.

Conning's head of insurance research Scott Hawkins says that the technology is at the peak of its 'hype cycle', a moment that reminds him of the late 1990s before the dotcom bust. But he remains sanguine about where the market will go.

He states: "The underlying tech is real, and it will be deployed and developed. It will change how businesses run in much the same way that mobile phone technology did. It might be five years or ten years from now, but this technology will impact us. And we're already seeing it there when it comes to underwriting, claims, and customer service."

Not engaging at this stage, says Lopez, will result in opportunities being missed by the industry. These opportunities, he said, lie in improved efficiency, enhanced decision-making, and resiliency.

He adds: "Insurers will find themselves lagging behind competitors who leverage AI for better risk assessment and investment performance. However, overestimating AI's capabilities or treating it as a 'magical' black box or panacea poses its own set of risks."

These risks, says Lopez, arise from relying too heavily on the technology with no clear sense of its capabilities or what the endgame is set to be.

All this, he adds, "[...] will lead to under delivering in what the technology can

ultimately provide, potential biases in data interpretation, and inadequate human oversight through lack of proper governance frameworks. Both underestimation and overestimation can lead to suboptimal investment decisions and financial losses. So, it is crucial for insurers to strike a balance, integrating AI thoughtfully while maintaining robust governance and road-mapping processes."

For Stockdale, there is a balancing act when it comes to AI between over-estimating its short-term impact while simultaneously underestimating where its effects lie over a longer horizon.

He says: "The danger lies in the short-term burn of money in an out-of-box LLM gold rush that does not deliver the transformational value expected without investing in the infrastructure and commitment to organisational change that will be required to deliver the potential that AI offers. However, tactical solutions and products that use AI with a clear purpose and placed thoughtfully to respond to specific business problems may be useful first steps for many businesses."

DEPLOYMENT

The key issue to consider for any insurer looking to bring AI into their investment decisions will be that of data. It is, with any similar project, the most serious consideration. The input of bad data guarantees an output of much worse, like ripples on a lake that grow ever larger the further from the thrown stone. *From Mystery to Mastery*, a report from Deloitte in 2017, listed the three most-important things to consider when implementing an AI project: data first and foremost, then starting small, and a reluctance to be afraid of failure. And KPMG's global head of financial services Karim Haji, in *Frontiers in Finance*, wrote earlier this year that the cost of entry was data. It was, he wrote, one of the 'non-negotiables' just to be able to compete in the market.

WTW associate director Arlen Galicia Carreon tells *Insurance Asset Management*: "The key thing is quality of data. That's one of the key things when you start with AI. In terms of ML models, if the data is not good, then the output is going to be biased by those errors you have. The strategy is not going to be correct. You can have a talented data science team. But if they don't understand the business or the risks, that can cause more problems rather than solutions. The algorithm can cause some bias. That can impact profit and expose companies to regulatory and reputational risks."

AI is, by any measure, a nascent market and one that, in developing rapidly, is already attracting the attention of lawmakers and regulators around the world. That is one issue that will become more and more apparent in the coming years.

"Regulation is already an issue," says Hawkins. "Insurance in the US is regulated at the state level, and some of them are already putting forward regulations around analysis. Congress and the SEC are also looking broadly at AI. And then, from there, you have the EU, the UK, and elsewhere so there's all these things coming in in different forms and at different levels. Insurers are going to have to be aware of everything that's going on."

When it comes to allocations, says Lopez, AI's future in this sphere will involve enhanced predictive analytics, integration of remote sensing and earth observation data, globally available hyperlocal insights, and real-time decision-making.

The ultimate result will be that whatever comes will only be as good as those people who develop and utilise it, along with the quality of the underlying training data. This means that the added value will come from the smart combination of both AI models and human processes, and that vital to any success will be ensuring that the respective AI tasks are clearly defined and that humans always have full control of the decision-making.

> The key thing is quality of data. That's one of the key things when you start with AI

Around the globe

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

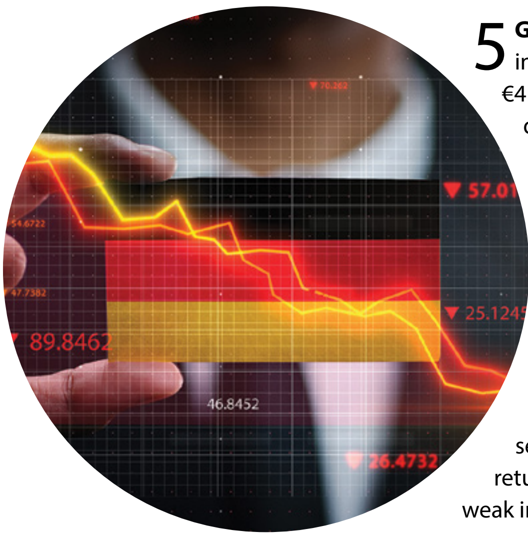
1 **Spanish insurer**, VIDACAIXA, and MEDVIDA Partners have completed the transfer of a run-off portfolio of almost 30,000 policies. The policies form part of the insurance business of the former Sa Nostra Vida, a company acquired by VIDACAIXA in November 2022. MEDVIDA Partners, which manages nearly €3.5bn in assets and has reported a solvency ratio of 235% at the end of 2023, has reaffirmed its investment appetite to continue making acquisitions of life insurance business in Spain.

2 Talanx Group has achieved its medium-term targets in asset management ahead of schedule in the 2023 reporting period and enhanced its sustainability activities. The carbon intensity of its liquid investment portfolio reduced by 34% compared to 2019. Furthermore, sustainable investment volumes were over €11bn, with the target having been set at €8bn by 2025. The group will now no longer make any new investments in issuers who generate 25% or more of their revenues from oil production or transportation, or from fracking of shale gas and/or oil. In addition, Talanx achieved its 2025 target for reducing carbon emissions from its own operations in **Germany** (Scope 1 and 2) ahead of schedule.

3 **Zurich** has confirmed its "outstanding" financial strength in its latest Financial Condition Report 2023, despite its SST ratio falling. The insurer said the group SST ratio was 234% as per 1 January 2024, compared to 267% in the previous year. "The reduction reflects the accrual of the 2023 dividend and the planned share buyback of up to CHF 1.1bn, as well as the redemption of €500m of subordinated debt and the acquisition of three brokerage entities and the flood program servicing arm from Farmers Exchanges," it said.

4 Japan's life insurers plan to halve net purchases of Japanese government bonds in fiscal 2024, a **Nikkei** survey has revealed. Nikkei asked 10 major players about their investment strategies for the year. The eight players with comparable data from fiscal 2023 said they plan to increase their combined JGB holdings this fiscal year by 600bn yen ($3.86bn). They had planned a roughly 1.2bn yen increase last fiscal year.

> "The first quarter of the year was surprisingly positive for the investment market and many aspects of the global economy look better than anticipated at the turn of the year



5 **German** non-life insurers' net investment income decreased to €4bn in 2023 from €6bn in 2014 despite investments increasing by more than a third over the period, latest figures published by Fitch Ratings have revealed. Fitch said it expects investment returns to recover to at least €6bn from 2026, driven by the increase in yields since 2020. The German non-life insurance sector is experiencing a very low return on equity, driven by still weak investment returns.

6 **Finnish** pension insurer, Veritas, reported an investment return of 3.7% for the first quarter of 2024. Its interim results revealed that the return on fixed income investments was 1.8% (2%), equity investments 6.4% (2.4%), real estate 0.6% (1.1%) and other investments 2.4% (-0.6%). "The first quarter of the year was surprisingly positive for the investment market and many aspects of the global economy look better than anticipated at the turn of the year," Veritas CIO, Kari Vatanen, said. Equity markets have performed well in the United States, Europe and Japan, but the development in the Finnish equity market has been weak. Veritas' equity portfolio is globally diversified and the majority of it is invested in a cost-effective manner directly or through index funds.

VERITAS ELÄKEVAKUUTUS

7 The vast majority (96%) of institutional investors and wealth managers plan to increase their exposure to **Vietnam** over the next three years, with the majority favouring active strategies over index-tracking vehicles, new research from Dragon Capital has revealed. One in 20 (5%) said their fund will invest in Vietnam for the first time, and almost all (99%) professional equity investors interviewed said they agree that frontier markets can offer attractive diversification benefits compared to emerging and developed markets, with over half (51%) strongly agreeing.

8 **Swiss** insurer, Baloise, has successfully issued a 10-year senior bond with a coupon of 1.75% for a total size of CHF150m. The proceeds from the issuance of the bond will be used for general corporate purposes, and the bond will be listed on the SIX Swiss Exchange, settling on 7 June 2024. UBS and Deutsche Bank acted as joint lead managers, Bank J. Safra Sarasin as co-manager.

Photo by: Judith Linine / Shutterstock.com

"The general insurance industry in Malaysia is expected to grow by 8.3% in 2024

9 The **Malaysian** general insurance industry is set to grow at a compound annual growth rate (CAGR) of 7.8% from MYR22.6bn ($5bn) in 2024 to MYR30.5bn ($6.8bn) in 2028, in terms of direct written premiums, GlobalData has said. The firm's insurance database revealed that the general insurance industry in Malaysia is expected to grow by 8.3% in 2024, supported by motor and property insurance lines that are expected to account for 73% of the general insurance direct written premiums in 2024.

10 **Finnish** pension insurance company, Ilmarinen, returned 3.2% on its investments in the first quarter of 2024, its latest data has revealed. Ilmarinen stated that the positive return between January and March was driven by the strong performance of its listed equity investments. However, higher interest rates 'dampened' returns on fixed income investments. The pension insurance company's return in Q1 amounted to €1.9bn, bringing the total value of its investments up to €60.5bn. Since 1997, Ilmarinen's long-term average return was 5.8%, corresponding to an annual real return of 3.8%.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NET-ZERO CREDIT

NET-ZERO CREDIT: A HOLISTIC RISK MANAGEMENT SOLUTION FOR INSURERS?

How insurers can use credit to meet climate objectives without compromising on financial objectives

COUNTING DOWN TO ZERO

David Adams reports on attempts by insurers to pursue net-zero based investment strategies

In association with

LGIM

Net-zero credit: A holistic risk management solution for insurers?

Investment-grade credit has long been a mainstay for insurance companies' matching portfolios. We believe credit exposure can be used to seek attractive capital-adjusted returns and can help provide inherent sensitivity to interest rates to help match insurance liabilities. But can insurers also use credit to meet climate objectives without compromising on financial objectives?

Focus on climate-aware matching portfolios

2023 was the hottest year on record[1], with extreme weather events becoming far more frequent. We believe investors, including insurers, have a crucial role to play in driving the transition to a low-carbon economy and seeking to mitigate climate-related risks. We believe two ways insurance companies can seek to exercise this power while still remaining mindful of the need for matching assets is i) to consider a net-zero credit approach and ii) include a private credit sleeve.

Using company emissions data in credit selection

A key metric that net-zero credit portfolios use as an input into their investment decision-making process is data from companies showing their Weighted Average Carbon Intensity, known as WACI. WACI gives a current snapshot of how much carbon a company is emitting today.

It is worth noting that certain industries will usually have higher or lower carbon profiles depending on their business area. For instance, an energy provider is typically likely to emit far more carbon than a technology or media company. If an investor is solely focused on reducing WACI therefore, that's likely to drive significant sector skews, which in turn can materially affect the portfolio's profile.

We believe a sole focus on WACI can also potentially lead to some overly short-term behaviour, however. For instance, just reducing the carbon score of a portfolio based on today's considerations does not necessarily enable the largest potential impact on the climate transition. This is because we believe companies in low-emitting sectors using additional capital to reduce emissions further is likely to have a much less material impact than if companies in higher-emitting sectors decide to reduce emissions.

So, while WACI is important, we believe it is not the only data point investors should be considering.

Beyond WACI: harnessing Destination@risk

In our view, it is very important that investors aim to align with the climate transition by taking a forward-looking view, using focused credit analysis to seek to invest in the most appropriate names in each sector. This means giving capital to the companies that need it the most to reduce their carbon intensity and also have good strategies around environmental, social and governance (ESG) factors.

In our view, one way investors can seek to exercise this power is by applying LGIM's Destination@Risk framework. This framework can potentially enable investors to assess the climate-related risk and temperature alignment of individual companies and, by extension, make investment decisions that can both seek to reduce risk and improve the environmental impact of their portfolios.

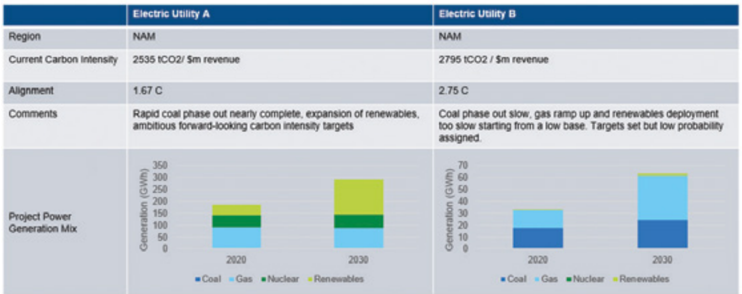
Furthermore, we believe taking a forward-looking view of temperature alignment gives investors more chance of uncovering a potential 'transition winner' that the markets have not yet priced in. By contrast, we believe many of the 'lower-WACI' companies are already likely to trade with an 'ESG premium' given their popularity in many existing climate-related investment strategies.

WRITTEN BY **JAMES HAYES,** HEAD OF INSURANCE CLIENT TEAM, LEGAL & GENERAL INVESTMENT MANAGEMENT

[1] Source: Climate.gov

Utility Company Comparison | alignment adds detail to carbon intensity analysis

Projecting Electricity Mix



Source: Destination@Risk and Bloomberg, December 2023.

Figure 1: Companies in same industry with similar WACI, but differing temperature alignments

Adding a private credit sleeve

We believe, extending a core public credit portfolio to include an investment-grade private credit sleeve can be another way to potentially make a significant contribution to achieving net-zero objectives.

A private credit sleeve can seek to do this in three ways:

1. Primary market – Private credit lending can offer the opportunity to provide new capital to finance climate transition investment (versus refinancing existing debt)
2. Sectors with climate impact – Greater access to sectors and names that can seek to make a significant contribution to achieving a net-zero society. For example, renewables (solar, offshore wind), the infrastructure that service these sectors (such as offshore transmission assets) and nature financings (e.g. lending to emerging market sovereigns, with insurance provided by a government agency (e.g. US government), to fund nature preservation in places like Belize and the Galapagos Islands)
3. Covenants – Use of contractual terms to incentivise a positive transition by the borrower e.g. lending to a Housing Association where the interest rate can step-up if specified targets on improvements in energy efficiency of its housing stock are not achieved, or default protections in nature-based financings if certain preservation targets are not met

Targeting both net-zero and financial objectives simultaneously

At LGIM, we believe that a net-zero approach to credit investing can further an insurer's climate objectives without compromising on financial objectives. The below table illustrates this by comparing yield and spread risk SCR (solvency capital requirements) for a traditional global investment-grade public credit strategy, one with a net-zero aligned objective and one with both a net-zero aligned objective and a private credit sleeve.

Illustrative modelling	Gross redemption yield	Spread risk SCR
LGIM Global Corporate Bond Strategy	5.1%	9.7%
L&G Net Zero Global Corporate Bond Strategy	5.1%	9.1%
L&G Net Zero Global Corporate Bond Strategy with 20% private credit sleeve	5.3%	9.5%

Source: LGIM. Gross redemption yield as at 31 March 2024, unhedged and gross of fees. Spread risk SCR based on Solvency II Standard Formula. Private credit sleeve based on model strategy including private corporate debt (60%); real estate debt (20%) and infra debt (20%) with 6.5 years average duration. All private credit investment grade according to internal ratings; external rating distribution assumed: 4% AA, 24% A; 12% BBB, 60% NR.

Counting down to zero

David Adams reports on attempts by insurers to pursue net-zero-based investment strategies

Climate change is the greatest crisis facing humanity today. As enablers of every type of business activity, and as major institutional investors, insurance companies have an important role to play in mitigating its effects on societies and economies worldwide.

Not that most will have much choice: they will be obliged to comply with evolving regulatory requirements in many markets, involving extensive disclosures of carbon and other greenhouse gas (GHG) emissions and other environmental impacts linked to business activities and investments. Action to align strategies with net-zero targets will also be demanded by growing numbers of their customers (many business customers will also be under compliance and commercial pressure to reduce environmental impacts), employees and shareholders; by external campaigners – and by the need to manage business risks created by the climate crisis.

For all these reasons, insurance companies are seeking to embed commitments to achieving net-zero GHG emissions into investment strategies. Today the argument that working towards net-zero can enhance investment returns may be in the ascendency, not least because of the risk mitigation a net-zero strategy can offer.

In the UK, the Association of British Insurers (ABI) has a Climate Change Roadmap, setting a target for the UK insurance and long-term savings sector to reach net-zero GHG emissions by 2050, with a 50 per cent cut before 2030. The ABI reports that 82 per cent of surveyed member firms now have a net-zero target. Similar developments are visible in mainland Europe: in Spain, 94 per cent of insurance companies now consider ESG criteria as part of investment strategies, according to research from the consultancy ICEA.

Many multinational insurance companies have made public commitments to work towards net-zero. For example, Legal & General aims to reach a net-zero asset portfolio by 2050, with measures taken to achieve this goal including continued evolution of its thermal coal exclusion criteria, and targeting the phasing out of investment-related coal and oil sands exposures by 2030.

Research from advisory firm bfinance shows that while in 2022 18 per cent of insurers surveyed were targeting a reduction in carbon emissions, with 48 per cent planning to do so; but in 2024 those figures (based on a slightly different set of respondents) had shifted to 60 per cent and 26 per cent.

"We're seeing an increase in carbon reduction objectives around investment portfolios," says Kathryn Saklatvala, head of investment content at bfinance. She suggests impetus within insurance companies often seems to come from work to align with towards Task Force on Climate-Related Financial Disclosures (TCFD) reporting guidelines. "They're … wanting to line up what is happening on the investment side with broader statements coming out of the business," she says.

Overcoming obstacles

But recent years have also seen some setbacks, exemplified by falling support for the UN-backed Net Zero Insurance Alliance (NZIA) during 2023. Insurance businesses and institutions withdrawing from the NZIA in 2023 included AXA, Allianz, Lloyd's of London, Munich Re, Swiss Re and Zurich. Despite these withdrawals these firms are still publicly committed to a 2050 net-zero deadline. Factors contributing to these withdrawals and strategic adjustments surely include the anti-ESG backlash seen in the US in recent years. But they may also be due in part to the fact that implementing decarbonisation and emission reductions in both investment and underwriting portfolios are extraordinarily complex tasks, presenting different challenges for every business.

Sarita Gosrani, director, ESG and responsible investment for bfinance, highlights problems created by a narrow focus on carbon emissions in targets, which can obscure other environmental impacts and have adverse effects on investment strategy and returns.

"Other investors in the UK pensions world have been talking about removing short term targets, because they're seeing a detriment in portfolio churn, or they're finding themselves having to justify why the portfolio looks a certain way," she says.

Saklatvala says bfinance is advising clients to use investment products "that are about forward-thinking, rather than based on short-term targets and exclusions".

Direct engagement with companies in which insurers are significant investors is also important, as a means of persuading them to change business processes to reduce emissions. Many insurers are engaging with every type of business in this way, including fossil fuel companies. Legal & General's Climate and Nature Report for 2023 shows it took part in 2,000 engagements linked to environmental topics with companies during 2023 and conducted in-depth engagement with 105 companies in "climate-critical sectors".

Environmental campaigners take a less positive view of such engagement. Ilana Winterstein is senior communications campaigner for the group Insure Our Future, members of which include Greenpeace and ClientEarth. She describes insurers' claims that they engage with fossil fuel companies to drive change as "an excuse to allow them to continue their short-sighted, business-as-usual approach".

"Insurers … need to immediately divest from any business that is not actively working towards net-zero," says Winterstein.

Positive signs

Yet the industry can point to some progress. For example, Allianz claims that by the end of 2022 it had reduced emissions associated with investments by 36 per cent compared to 2019. Legal & General is one of a number of insurers that calculates investment portfolio carbon emissions intensity per unit of investment, using weighted average carbon intensity (WACI). Its investment portfolio GHG emission intensity for 2023 was 56tCO2e/£m – a 30 per cent reduction compared to 2019.

In addition, despite the NZIA's struggles, the broader, UN-backed Net Zero Asset Owner Alliance, which includes some major insurance companies, has reported that its members, with a collective $9.5 trillion assets under management in 2022, saw a fall of 3.5 per cent in total absolute financed GHG emissions between 2021 and 2022.

Such headline findings can and should be interrogated: there are inconsistencies in measurement methodologies and reporting used by different companies; and market movements that affect asset allocations may alter the basis for calculating weighted emissions.

Still, efforts to facilitate further action by insurers all over the world continue: at the end of April 2024 the UN Environment Programme (UNEP) announced the creation of the Forum for Insurance Transition to Net Zero (FIT), a structured dialogue and multistakeholder forum to support the necessary acceleration and scaling up of voluntary climate action by the insurance industry and key stakeholders.

The work of the FIT will be less influential in encouraging insurers to work towards net-zero targets for business activities or investment strategies than are other factors, from regulation to risk management imperatives. Nonetheless, the need for such international initiatives is also clear, because progress towards these goals has been uneven across the world – it is generally fair to say insurers in Europe and some Far East markets, notably Japan, are making progress more quickly than others elsewhere – and because it is so important.

After all, while many in the industry will disagree with much of what Insure Our Future says, it is difficult to argue with this, from Ilana Winterstein:

"Due to their unique position and dual role as investors and underwriters, insurers have huge power to support a just transition and they must leverage their power to work towards a safe, healthy planet for all." There is a moral imperative here, but working towards net-zero is also good business sense, with these objectives likely to be aligned ever more closely with paths to strong investment returns and improved risk management.

Overall, LGIM's head of insurance client team, James Hayes, sees reasons to be optimistic. "There are positive signs that suggest progress has been made over the last few years," he says. "But there is a long way to go."

LGIM

> The pullback in broadly syndicated loans opened a door for private credit

Market commentary

Fixed income

Written by **Michael Griffiths**

The private credit space has been a happy hunting ground in recent years, with investors having poured around $200bn into private credit funds between January 2021 and the start of 2024.

Default rates look set to rise among global corporates, however, as expensive funding and dislocated markets impact vulnerable borrowers.

According to S&P Global Ratings credit analyst, William Edwards, such an increase would test the asset quality of private credit funds.

Edwards believes that increased investment has seen the size and market penetration of credit funds shift, with ticket sizes growing and the breadth of limited partners (LPs) investing into funds widening.

"The steep take-off in rates, which has more than doubled the yields of many private credit assets, has further propelled the growth of these funds," he said.

A recent study by Russell Investments surveyed 115 UK DB pension schemes, with respondents including scheme chief executives, chief investment officers (CIOs), trustees and pensions managers. These findings indicated a growing appetite among investors for exposure to private credit, with 16% of respondents suggesting they have plans to increase their allocations over the next six months, up from just 9% at the same time last year.

A KKR report into the global insurance market also recently indicated that private credit remains attractive to CIOs, with most choosing the asset class as their top choice for future allocations. The research, however, did reveal that private credit allocations, which jumped to 7.7% in 2021, have fallen back to their 2017 levels of around 5.3% as CIOs shift their portfolios to take advantage of higher yields in more liquid products.

This is consistent with further analysis by S&P Global Ratings into private credit funds. Research analyst at the credit rating agency, Evan Gunter, called public-to-private borrowing a "two-way street".

"The pullback in broadly syndicated loans opened a door for private credit, which hitherto had provided lending predominantly to lower and traditional middle markets," Gunter said.

"With more assets, more dry powder, and through cooperation in small club deals, private credit has become increasingly competitive with publicly traded debt – including broadly syndicated loans and speculative-grade bonds."

Gunter also said that the "ease, speed, and certainty of execution" for completing a deal seems to have been a major focus for many borrowers recently.

"This has helped to make private credit more attractive," he added. "However, pricing remains more attractive in the broadly syndicated market, and the rapid compression of spreads in January highlighted this.

"The unexpected resilience of the US economy, coupled with periodic glimpses of slowing inflation, has lifted investor sentiment from last year, and this appears to be tilting the balance of funding yet again."

Muzinich & Co. Public/Private credit roundtable

Chair: Erick, we saw a slight fall in sovereign risk-free yields at the end of 2023, and in 2024, many were predicting a start to the rate cutting cycle by the Federal Reserve. Yet here we are now, and there are even more talks about further rate hikes, from the Federal Reserve in particular, from many commentators. Can you talk us through where Muzinich & Co. think we are in the interest rate cycle, what you think Central Banks can and importantly will do over the rest of the year, and what this means for the outlook for both public and private credit?

Muller: When inflation falls from 10-11% to 3% you must act with interest rates. This is why I don't buy the idea that there will be a further hike. The 5.25% rate in the US and the 4% rate in Europe was the peak of rates, and when they last raised interest rates, it was on purpose in order to have this extra hike as a sort of insurance policy against the uncomfortable development in inflation and rise in commodity prices etc. If we look at the current level of interest rates, it is above what would have been needed already. So, 2024 is a year of rate cuts, not rate hikes.

In the US, vis-à-vis the beginning of the year, we are seeing the US exceptionalism which combines the supply side improvement, but also the very strong demand side, which is much stronger than expected given the fact that all this extra demand we've seen recently was coming from savings. We thought that after the pandemic, all the savings accumulated had been consumed, but this was not the case. A negative evolution of savings has been happening. The strength of the job market was also the big surprise. That is something new in the system, and this gives the Fed time, they don't need to hurry. We never thought that the Fed would cut in the first half of this year as it was much too soon, because what is important for central banks to act is to have less volatility in their modelling exercises. September will probably be the first rate cut. In Europe it is very different. Seventy per cent of corporates go through the banking system – it is floating borrowing. They need to cut rates. We don't have the demand side in Europe, we have negative retail sales. This has to change to really be optimistic for

Chair: Paul Whelan, partner, co-head of global fixed income manager research, Aon

Paul serves as a partner and is co-head of global fixed income investment manager research at Aon and is based in London. He is responsible for sourcing, evaluating, conducting due diligence, and monitoring fixed income funds on a global basis and assisting clients globally in effective implementation investment portfolios. Prior to Aon, Paul was a fund manager at UBS, Henderson Global Investors and Aviva Investors.

the eurozone, and for that we need lower rates. That is why the ECB is in more of a hurry than the Fed is to cut rates. Having said that, if we open the dialogue on divergence, between the two regions there is a limit to that. One school of thought of the governing council at the ECB says if the Fed does nothing it reinforces the case for the ECB to do more, because it has an impact on the modelling where if it is a higher interest rate in the US, this applies a negative impact on European growth. Another part of the ECB says it has to be careful with FX because we have been through a long period without FX volatility and a too large or persistent divergence may trigger a weakening of the Euro beyond reasonable limits. Another angle is that it is also very probable that r-star has increased but we have to be very careful. r-star is not observable it is a modellised concept. Depending on the type of model you use, r-star is between -0.5% real terms to 1.5%. It is therefore extremely dangerous to be too fixed by r-star. What is true is that you have pressure on interest rates coming from fiscal deficit financing and fiscal spending that is not being corrected. The second point is the investment you need with climate change. This is putting pressure on real interest rates and that is why we think the terminal rate for the ECB is not 2% in nominal terms it is around 2.5%. In the US it is about 3%-3.25%.

We see three phases. The first one is removing the insurance policy we've put in September

2023, the second one is when inflation is ok enough to have possibly two more cuts in Europe this year, and then we will have more cuts mid- 2025. This high for longer is a reality and we have to adjust to this. It has meant that floating rate instruments in your portfolio are still attractive. The floating rate instruments can be loans, CLOs and private debt with a different liquidity feature of course If we talk about appetite for duration, in 2024, we feel that the best camp for duration positioning is probably shorter than your benchmark. From our clients, we see the demand for duration vanishing. It was very visible end-2023, still very present in the beginning of 2024 and since March it has gone. Flows are coming back into this 2-5 year part of the yield curve with an increase of the credit beta in compensation for the duration reduction.

Chair: You mentioned the fiscal deterioration that many nations are having. How risk-free are the risk-free markets and where do you think the buyers are likely to come from over the next 2-3 years? Do you think that will make investors more cautious of moving out down the interest rate duration curve?

Muller: It is very clear to me that lending to governments is a risky business and that will not change tomorrow. If we look at how the fiscal trajectory has been managed over the past 10 years, it has been catastrophic everywhere. In Europe, you will see five countries with excessive deficit procedures in the second part of this year. In the UK, it is close to election and of course it will be very surprising if we have a fiscal discipline. Fortunately, rates are low. It is fiscal dominance that we are seeing in the UK. That is

Muzinich & Co

why central banks must cut rates. It is already 3% of GDP being spent in paying the debt. In two years' time it will be 5% or 7% depending on the countries in Europe.

Chair: If we turn our attention to the credit opportunities on the private and public sides, while fiscal positions have deteriorated, many corporate balance sheets especially for larger cap companies, are still looking reasonably healthy. How does this opportunity play out in the way you see the risks and rewards given spreads in public markets are towards the tighter end?

Bode: Let's take a step back to the origins of private debt and direct lending in Europe. In Europe, the market came into existence after the global financial crisis when companies figured out they couldn't rely on the banks. This is when from a regulatory perspective, through Basel 3 and 4, it was made much easier for players on the institutional side to be an alternative to the banking system. That had happened in the US many years earlier, so Europe followed this. It came together where interest rates were very low, so there was not only demand from the corporate side but from the investor perspective. Yields were not obtained in a 0% interest rate environment and investors wanted to create additional yield in their typically fixed income portfolios. A percentage of the fixed income was shifted into direct lending and private credit in various shapes and forms. The pitch from our perspective was the so-called illiquidity premium. At all times through our portfolios, we want to show that we can compensate for the illiquidity. This is not a fixed number; it differentiates by strategy but one would say there should be at least one and a half percentage for a straightforward strategy where you can show this illiquidity premium. This is how direct lending private credit started off in Europe. In more recent times, with the first-time interest rate increase, many investors thought should we stay with this private credit asset class or should we move more into floating rate instruments. We felt there was hesitation to continue increasing allocations in 2022/3, however we saw that during the beginning of the Ukraine crisis, banks were hesitant to conduct bank lending and that is the competition for us. There was a huge demand from corporates, but this has flattened out a bit. Nevertheless, we see our deals being driven by M&A activity, so private equity sponsors wanting to acquire businesses. The lower market segment has been very active here. In 2024, investors have come back to private credit due to the very interesting rate of returns. Private equity has suffered, and private credit has benefited from that. A typical question we have received from our investors over the last 12-18 months, is interest rates have increased, how healthy is your portfolio? It really depends whether you lent in the subordinated space where leverage levels are high, or have you been active on the senior secured level with very conservative leverage structures. For us, the answer is interest rate coverage have reduced a little bit, but it is of no concern. For our new deals, our leverage levels have decreased half a turn to a turn, so we can pass on the increased base rate to the counterparties in a way where we won't increase the risks in the deals we are conducting.

Erick Muller, Director of Market and Product Strategy, Muzinich & Co.

Erick joined Muzinich in 2015. His responsibilities cover macro and fixed income markets strategy and product management as well as client relationships across institutions, global distribution platforms and global private banks. Erick has an MBA in finance – marketing from the ESLSCA Business School and a degree in economics from the Universite Pantheon-Assas.

Chris Price, Director, Insurance Solutions, Muzinich & Co.

Chris joined Muzinich in 2023 following his previous roles as an adviser to asset management, private equity and fintech firms. Prior to that, he was head of insurance solutions UK at AXA IM, where he led the UK insurance strategy as well as provided asset allocation modelling and accounting, regulation and other expertise.

> “At all times through our portfolios, we want to show that we can compensate for the illiquidity

Kirsten Bode, Co-Head Private Debt – Pan Europe, Muzinich & Co.

Kirsten joined Muzinich in 2015 following six years as a managing director in the principal debt investing team at Macquarie, responsible for sourcing and executing transactions ranging from leveraged senior, unitranche and mezzanine debt to equity in the UK, Germany and Benelux. Kirsten graduated from ESB Reutlingen and Middlesex University London with a BA (Hons) in European business administration.

Andrew Douglas, Head of Institutional Sales, UK and Ireland, Muzinich & Co.

Andrew joined Muzinich in 2021 from AXA Investment Managers where he was director of the institutional business. Prior to that, Andrew worked for two other asset managers in similar positions after starting his career as a fixed income analyst. Andrew has a BA (Hons) in industrial economics and is an IMC and ESG CFA holder.

Chair: Looking at the asset owners, on the public IG credit portfolios that you invest in, what is the tolerance for active portfolios with high turnover or are you looking at buy and hold?

Malharkar: As one of UK's leading Retirement and Savings business, Phoenix has a significant allocation to credit across both Shareholder and Policyholder portfolios. With gilt yields rising, and credit looking expensive on a relative basis, we have allocated more to gilts in the recent past for our shareholder book. We will opportunistically look to deploy that back into credit when conditions become more favourable with wider spreads. We have opportunistically deployed into private credit as well during this period, but that is more on the Solvency II MA eligible debt front, depending on where we have appetite in terms of our liability buckets on a relative value basis. On the policy holder side, we have signed the Mansion House Compact last October and, we are keen to allocate to private markets for our DC Defaults - both debt and equity. We will be looking to start with a 5% allocation to private markets and this will be part of our multi asset portfolios.

Whitfield: Being a Lloyd's insurer, we are constrained with the amount of appetite we can take on for our Syndicate assets. Given the fact that we carry a relatively short duration portfolio of assets, we do benefit wherever we can to maximise our asset allocation across the IG space. In terms of our private allocation, we have had for some time an allocation to private credit through a senior secured credit fund. This has been a great diversifier for us and helped a lot through the period of rising rates being a floating rate exposure. We are also actively looking to increase our capacity to a broader asset base within the group overall.

Muller: By broader do you mean the equity side or on the fixed income side?

Whitfield: Both. We are currently running two searches on an EMD debt strategy that would complement our long term FAL capital, as well as looking at a more active equity strategy. Through one of our syndicates, we have a long tail PPO exposure and match it through an allocation to equities but are exploring a more active strategy to maximise long term returns.

Staunton: Focusing on the P&C side of Zurich UK, we have an allocation to private debt. We look across more traditional private debt and then also syndicated loans. On our life side, the

ramp up of private debt has been challenging for the investment grade side of things. The spread compression above publics has been a challenge to then get the ramp up that you want at the right price. We are quite stable on the P&C side and not looking to allocate any more.

Kansagra: We are mostly US dollar denominated investors, because in the Lloyd's market two thirds of the premiums are US dollars. Over the past two years or more, we have started to introduce allocations to private assets in the Lloyd's Central Fund which we manage and have opened up these options to the Lloyd's market via the Lloyd's Investment Platform. The capital layer or the Funds at Lloyd's has investment restrictions driven by the rules that we have, but we have been creating solutions which are not only compatible with the rules, but which also gives Lloyd's market access to private markets. We have already launched a USD US direct lending private debt fund investing in the lower to mid-market sponsor backed loans, usually not in the syndicated part of the market. The other solution we have launched and invested as a seed investor in an ESG focused article 9 private equity fund, which is open to the Lloyd's market as well.

Huang: Our approach to asset allocations follows both top-down bottom-up perspectives. We have five balance sheets across different regions, with investment strategies tailored to the business strategy and capital efficiency of each entity balance sheet. There are three main pillars - on our IG public credit side, they tend to be multi-currency multi-sector portfolios driven by key characteristics of the liability profile. We mostly have our IG credit denominated in USD but we also have exposures to the Canadian and sterling credit markets. The second pillar is more in structured credit in our Bermuda/ US balance sheet. This currently benefits from the higher for longer narrative theme. The third pillar is more on the private credit side, and that is quite a widely diversified portfolio across IG rated private placements, as well as large cap and middle market loans and small exposures on the commercial mortgage loan side as well.

> We have started to introduce allocations to private assets in the Lloyd's Central Fund

Chair: And do Aspen invest in the public sub-IG space?

Huang: We have very small exposures to high-yield bonds and leveraged loans.

Bray: On the public side, we wanted to increase our EMD allocation but with spreads tight at the moment, we have shelved that. We were also interested in adding a strategic allocation to CLOs and high yield, but it all looks quite expensive now. An area of greater focus has been on private markets, and this has been our first tiptoe into it. Historically Hiscox has been very conservative, very liquid, very short dated, with low duration liabilities and so on. We are starting with private debt, looking at the highest quality, senior secured side with a mixture of dollars, pounds and euros whilst setting up a fund structure so that all the different entities can invest - more secondaries in dollars, and

Angel Kansagra, Head of ALM and investment solutions, Lloyd's

Angel heads the asset liability management and investment solutions team at Lloyd's. He is responsible for investment strategy, asset allocation and investment risk. He also leads the design and implementation of public asset investment solutions on the Lloyd's Investment Platform to provide customised solutions to insurers and capital providers in the Lloyd's market. Angel is a qualified actuary.

Kedi Huang, Chief Investment Officer UK, Aspen

Kedi is currently a UK chief investment officer with principal responsibilities of overseeing UK investment activities, and leading group investment initiatives to ensure UK entities would benefit from these. Prior to this, he was an investment banker at Nomura, and has also worked at LGIM.

more primaries in pounds and euros. We may look beyond direct lending to corporates but maybe also at other areas like real estate lending or asset backed.

Chair: So, looking at your private market allocation, the capital sourced for that is in short dated IG, or gilts for example?

Bray: It is coming from short-dated IG. We have also changed the benchmarks to have a bit more government weight, and also to try and bring our duration a bit closer to liability duration.

Muller: You mentioned secondaries. Why specifically are you interested?

Bray: Price and transparency. It is also better capital efficiency to buy shorter dated loans. Having this diversification is beneficial.

Muller: From what the panel has said, it believes credit spreads are very tight and that this is a problem for increasing your allocations to credit. I would like to say that if we look at spreads over time, so let's say 10 years, I'm not so sure that the spreads are as tight as people are saying, and this doesn't mean the asset class isn't attractive. There are a lot of things you can do in tight spreads with active management of course, with picking the right region, the right type of credit. Secondly, if you expect the spreads to widen by 100-150bps in high yield before investing you may be disappointed. I think right now it is more interesting to look at the level of yield rather than the level of spread and how that matches your liability. Being obsessed by the spreads might make you miss the opportunity of interesting at the proper level of yield. I understand the constraints of high yield from a capital perspective versus IG however. We are seeing more and more demand from clients to enter the high yield space, removing the tension about the entry point. Clients want solutions where you can manage through derivatives exposure and overlay portfolios to reduce the risk of buying too expensive, because you can hedge and be short.

Chair: Looking at the asset owners, on the public IG credit portfolios that you invest in, what is that tolerance for active portfolios as long as you get that look through or are you looking at buy and hold?

Malharkar: For us on the annuities side our approach is very much buy and hold. However, it

Alastair Whitfield, Investments and Treasury management, IQUW

Alastair joined IQUW in 2023 to lead the build-out of the company's investment & treasury management function. With over 20 years of experience on both the buyside and sellside, Alastair also oversees group assets in excess of $1.5bn and is responsible for optimising the overall strategic asset allocation and setting the investment strategy of the company.

is 'buy and hold' and not 'buy and forget' so we are actively optimising the portfolio for capital as well as spreads.

Huang: Our portfolio management style is active and selective at a granular level. We incorporate SAA into the customised benchmark for each account to reflect our strategic views, and overlay with tactical allocations via actively positioning across sectors, duration and credit risk weightings versus the benchmark within the risk appetite. .

Price: On the private market side, there are some theoretical benefits which include access to less price volatile assets, the investors are closer to work out process if things do go wrong and obviously you get diversification. But how do people quantify those benefits, if at all?

Chair: That's a good question. There are many private credit managers out there who have only invested in a zero or negative interest rate cycle and that's how their businesses were setup. It is only recently that they are in that non zero cycle so it is a combination of those different dynamics. At Aon, we see private credit as a great area to support the just transition as well as societal impacts. So, you have a Rubiks cube approach of assessment within that.

Malharkar: Yes, we do pay attention to performance durability across cycles and ability to influence ESG and that plays into the conversation. We invest across a range of private credit sectors including infra, real estate, corporate private placement, structured credit across different managers and we look at both the illiquidity pick up as well as the complexity premiums involved in structuring.

Chair: Lizzie, you mentioned the challenge of deploying into private markets and finding the opportunities. Now that you are looking to invest with that more sustainable lens, does that add another 'wrinkle' into the difficulty of originating and sourcing those assets?

Staunton: It does, but I think private credit also has a real role to play in that ESG journey. It might increase the complexity of trying to find the right deal to meet Zurich's ambitions, but

Chris Bray, Investment Analyst, Hiscox

Chris has been an analyst in Hiscox Group's investment team since 2019, having previously worked in financial consulting and equity fund management. He focuses on quantitative analytics relating to the group's investments, including asset-liability matching, strategic asset allocation and risk modelling. On the responsible investment side he develops and maintains the group's internal ESG investment dashboard, researches new fund investments and monitors ongoing policy/regulatory developments.

> I think private credit also has a real role to play in that ESG journey

equally those ESG assets have a crucial part to play in meeting those ambitions. At the same time, they may also have even further spread compressions because everyone wants to have those ESG and social bonds in their portfolios.

Muller: How do you frame your ESG constraints?

Staunton: So, the Zurich Group ambition for us is putting £5bn into impact investment with a target to avoid 5 million metric tonnes of CO2e emissions and to benefit 5 million people from a positive contribution to their lives and livelihood; this will be achieved through both the public and private space across the whole Group by the end of the 2024. This is a specific Zurich target.

Douglas: So that is the 'E' and the 'S' then for the impact investments. It is around how many lives have been affected and around job creation. This goes back to Reena's point and the Mansion House Compact. All these elements are very aligned. Impact can mean climate and biodiversity, but it can also mean education, job creation, etc.

Price: When you are making ESG investments, do those investments have to compete directly

with non-ESG investments, on price, spread and other factors or do you take a different view?

Malharkar: We look at ESG on a deal-by-deal basis for every borrower/issuer. Our shareholder mandates are set up as non-discretionary mandates where we approve investments, and we approve any changes to the private credit investments. ESG criteria are very much part of the decision-making process. We have a clear exclusions policy, look at impact, think about climate (given our NZ objectives) and social as part of that decision, and have invested in hospitals, universities, social housing etc. We also actively look at transition finance opportunities to ensure we do not exclude investments which may currently not adhere to our ESG standards but may be on a path to achieving them.

Price: Carrying on this theme of ESG, it is clear you can have more impact in global terms in emerging markets than you can have in developed markets. Obviously from an insurance point of view, however, there is some reluctance to invest in the emerging market side. Do people see this as something that is likely to change?

Huang: From my perspective, if you were to build an emerging market mandate for an insurance investment portfolio from scratch, overlaid with the key constraints of IG rated and short to medium term duration, it may be challenging to build a diversified portfolio whilst adding attractive risk-adjusted yield on a relative value basis versus DM market, in the heighted geopolitical risk environment.

Bray: We have made some changes over time where we have excluded China from the hard currency debt mandate and that is arguably for return reasons but also from a tail risk related to Taiwan. It's interesting to see that even the manager we work with has some of its own internal screens and exclusions for some countries e.g. Saudi Arabia on a human rights basis.

Malharkar: From our perspective we have looked to lend to EM's directly through DFI's. The challenge then comes back to making it Solvency II and MA eligible. So, we can maybe achieve this through a guarantee or a wrap.

Price: Erick, going back to the macro material you started with, it seems to me there is a tug of war going on between some governments and their own central banks. This is in two senses. Firstly, governments want interest rates to be low because they have debt to service but central banks don't want rates to be too low because they want some dry powder for the next crisis. Also, you see central banks increasing rates to bring inflation under control while governments are being fiscally incontinent. Do you see this tug of war ever going away?

Muller: No. The problem will continue to exist as long as you don't have a change in the fiscal trajectory in the public finances. The point is, is that it has taken so much effort to gain independence from central banks, and the UK is one case, that you don't want to throw that out the window. I am however very happy to see that we have been through five years of crisis, whilst not putting euro existence into question, not putting central banks independence into question, and not putting the authority of an external body like the OBR into question. At least the institutional framework is stable and that is the good news from the past five years. Otherwise it would have shocked everything.

Lizzie Staunton, Head of Investments, Zurich UK

Lizzie is Zurich UK's head of investments and responsible for setting and implementing the investment strategy and day-to-day management of both the life and P&C balance sheets. Lizzie has been with Zurich for five years and previously worked at Deloitte and Prudential UK. She is a fully qualified actuary.

Reena Malharkar, Senior manager-strategic partnerships & research, Phoenix Group

Reena has over 20 years' experience in asset management and insurance. She was head of portfolio management at Legal & General Assurance before joining the Phoenix Group in 2020. She is now a senior member of the strategic partnerships & research team in Phoenix Asset Management, responsible for strategic relationships and supports the execution of the policyholder and shareholder investment strategy across public and private assets.

A securer environment

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

The **RATHBONE GROUP 1987 PENSION SCHEME** and the **LAURENCE KEEN RETIREMENT BENEFITS SCHEME** has completed a £100m buy-in deal with Canada Life, insuring the defined benefit (DB) pension liabilities for around 480 members. Whilst the deal will remove the investment and longevity risk of these members from the schemes, members will see no change in the amount of their benefits or the way in which they are paid as a result of the transaction. The transaction was instigated by a joint working group of the schemes' trustees and Rathbones Group Plc, with insurance broking support provided by Isio, legal advice provided by Burges Salmon, and investment and actuarial advice from Broadstone.

The NORGINE LIMITED RETIREMENT BENEFITS SCHEME has insured the benefits of its defined benefit pension scheme with Canada Life in a full buy-in transaction of £28m, following a competitive tender process run by Mercer. The transaction secures the benefits of 308 members, of which 152 are deferred members. The scheme received legal advice from Baker McKenzie, while Canada Life received legal advice from their in-house legal team.

*The **EPSON TELFORD LIMITED PENSION & LIFE ASSURANCE SCHEME** has completed a £50m full scheme buy-in with Pension Insurance Corporation (PIC), securing the benefits of 368 pensioners and 493 deferred members. The scheme received advice from Barnett Waddingham and Pinsent Masons, while PIC received legal advice from Herbert Smith Freehills. EY was the lead risk settlement adviser for the transaction.*

JUST GROUP has completed 400 bulk annuity transactions since it entered the defined benefit (DB) de-risking market in 2012. Since 2012, the business has accounted for around one in five of all de-risking transactions completed across the market, including the first transaction of over £250m in 2018, a deferred member proposition launched in 2020, and 80 transactions in 2023 with sales up 21% to a record £3.4bn. This also follows the launch of a new DB financial advice proposition by HUB Pension Consulting, part of Just Group, which aims to provide regulated advice to individual scheme members.

Buy-in and buyout volumes reached £28bn in the second half of 2023, marking a nearly 74% increase on the £16bn of transactions recorded in the same period in 2022, analysis from ***HYMANS ROBERTSON*** *has revealed. This included 226 transactions with an average size of around £217m, marking a 32% increase on the £21.2bn of transactions in the first half of 2023. In the second half of 2023, more than 60% of the bulk annuity market by value resulted from seven deals in excess of £1bn. This means that the total buy-in and buyout volumes for the year to 31 December 2023 was £49.1bn, an all-time high for both the number and the value of transactions.*

LUCITE INTERNATIONAL UK PENSION FUND has completed a £130m buy-in with **JUST GROUP**, securing the benefits of 438 uninsured members, including 156 pensioners and dependants and 282 deferred members. WTW acted as lead adviser to the joint working group for the transaction and acted as scheme actuary and investment adviser. Just Group received legal advice from its in-house team, while Squire Patton Boggs provided legal advice to the trustee.

The **ENERGIZER UK PENSION PLAN** has completed a £44m full buy-in deal with **JUST GROUP**, securing the benefits of all scheme members, including 409 pensioners and 358 deferred members. Buck, a Gallagher company, acted as the employee benefit consultant on the deal, while Hogan Lovells provided legal advice to the trustee, Zedra Governance Limited, and Just used its in-house legal support. The deal made use of Just's bulk quotation service, which monitors pricing against data received from the trustee or employee benefit consultant allowing quick execution when scheme funding levels align with a target price.

PENSION INSURANCE CORPORATION (PIC) has launched a streamlined service designed to support small pension schemes (with assets less than £100m) looking to complete buyout. The launch follows a rise in gilt yields over the past two years, which has resulted in around 800 small schemes being fully funded for buyout and an annual average of 200 various sized bulk annuity deals being conducted, with 250 deals completed in 2023. The new service, called Mosaic, offers price monitoring and standard processes and contracts to give schemes a "straightforward, efficient" way of securing member benefits. Mosaic also includes resources to help with all stages of the transaction and the post-buyout transition.

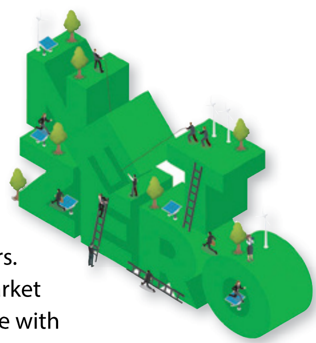
RGA LIFE REINSURANCE COMPANY OF CANADA (RGA CANADA), *a subsidiary of Reinsurance Group of America (RGA), and* ***THE MANUFACTURERS LIFE INSURANCE COMPANY (MANULIFE)***, *a subsidiary of Manulife Financial Corporation, have announced the completion of the largest universal life reinsurance transaction in the Canadian market to date. The coinsurance transaction will reinsure approximately CA$5.8bn (US$4.4bn) of reserves, accompanied by an equivalent asset transfer. This is the third large block reinsurance transaction between Manulife and RGA.*

LEGAL & GENERAL (L&G) has completed a £16m buy-in with the **JOHN GRAHAM (DROMORE) LIMITED PENSION AND LIFE ASSURANCE SCHEME**, securing the benefits of 172 retirees and deferred members. The sponsoring company, **JOHN GRAHAM CONSTRUCTION LIMITED**, is a construction services provider in the UK. L&G has an existing relationship with the parent company, GRAHAM, partnering with them on several construction projects in Glasgow, Belfast, and London. Isio served as the adviser to the trustees of the scheme, while legal advice on the transaction was provided to the trustees by Osborne Clarke.

LEGAL & GENERAL RETIREMENT AMERICA (LGRA) and **REINSURANCE GROUP OF AMERICA (RGA)** have completed a pension risk transfer (PRT) transaction with FirstEnergy, one of the nation's largest investor-owned electric utilities, for approximately $700m. The retiree lift-out was executed in December and covers approximately 2,000 retirees – representing about 8% of the company's total pension liability associated with its former generation subsidiaries. LGRA is lead administrator and will be fully responsible for the service and administration of all participants transferred as part of the transaction. Aon and K&L Gates advised FirstEnergy on this transaction.

A green world

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



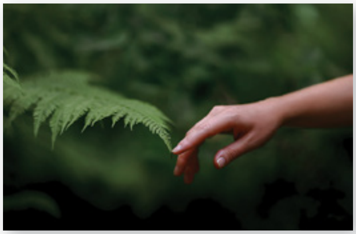
1 The United Nations Environment Programme (UNEP) has announced the creation of the Forum for Insurance Transition to Net Zero (FIT), a new UN-led and convened structured dialogue and multistakeholder forum to support the necessary acceleration and scaling up of voluntary climate action by the insurance industry and key stakeholders. Chaired by UNEP, the FIT will work with insurance market participants (insurers, reinsurers, brokers) and engage with insurance regulators and supervisors, net-zero standard-setters and initiatives, the scientific and academic community, civil society, and other key stakeholders to advance net-zero insurance thinking and practices globally.

2 Ninety-five per cent of **Mapfre**'s global investment portfolio is to be qualified in line with ESG criteria, the insurer has said in its Strategic Plan 2024-2026. The Plan will enable Mapfre to "more effectively adapt to changes in the environment and capitalise on opportunities arising in the new business cycle that lies ahead," it said.

The insurer said it plans to grow revenue by at least 6% on average over the next three years, exceeding €32bn in premiums by the end of the three-year period. It also plans to achieve an average ROE, under the new IFRS accounting criteria of between 10 and 11%, with 11% being the aspirational goal for the year 2026.

3 Sweden's **Folksamgruppen** has invested just over SEK 500m in the Norrsken Venture Capital Fund II. The fund invests early in company startups, with the aim of addressing climate issues around the globe while striving for strong financial returns. KPA Pension makes up the bulk of the investment, with SEK 316m, followed by Folksam Liv (SEK 105m), Folksam Employment Pension (SEK 82m), and the Consumer Cooperative's Pension Foundation (SEK 23m). The venture capital fund is Europe's largest in its field and is oversubscribed to €320m. It has invested in more than 30 startups with a focus on making a difference in areas such as climate, the energy transition, and health and education.

4 **Nippon Life** has invested 20bn yen in Nissay Foreign Equity Climate and Nature Transition Strategy Fund, managed by Nissay Asset Management Corporation. The fund, which aims to realise a sustainable society and increase the corporate value of investee companies, will not only invest in companies that face challenges in terms of responding to climate change and protecting natural capital, but will also promote their efforts that contribute to solving challenges through engagement. Specifically, the fund will invest in "companies that are willing to work on such topics but have difficulties in solving them due to strategic and operational challenges" and "companies that are expected to solve challenges and increase the corporate value through engagement".



5 **Sun Life** intends to issue in Canada $750m principal amount of series 2024-1 subordinated unsecured 5.12% fixed/floating debentures due 2036. The debentures will represent Sun Life's third offering of sustainability bonds in Canada. An amount equal to the net proceeds from the offering of the debentures will be used to finance or refinance, in whole or in part, green and social assets within the company's general account that meet the eligibility criteria set out under Sun Life's 2024 Sustainability Bond Framework. Sun Life completed its inaugural sustainability bond offering in 2019. As part of the company's focus on sustainable investing, Sun Life manages general account assets with material ESG factors embedded in its investment processes. In addition, Sun Life invests general account assets in ways that support a low-carbon and more inclusive society.

6 The market for Dutch green securitisations of residential mortgages and for green covered bonds more than tripled in size in 2023 compared to 2022, **DNB** figures have shown, reflecting investor demand for green investments. A total of €1.4bn was spent on securitisations of mortgages on energy-efficient homes, compared to €0.5bn in 2022. Two billion euros of green covered bonds were issued by two banks, compared with €0.5bn in 2022. Over half of such European securitisations have been issued by Dutch institutions since 2016.

7 Aon has launched an enhanced responsible investment solution, RI-360i, which provides institutional investors with better insights into their portfolios and enables them to make better decisions. The solution also includes effective risk management as well as alignment with goals and ambitions such as net-zero. Craig Campbell, senior responsible investment consultant at Aon, said: "Sustainability issues represent financial risks for investors. The ability to track and monitor these issues is key to preserving asset values and delivering ambitions. As investors navigate new forms of volatility, heightened regulatory and public scrutiny also bring reputational risks. In line with their values and ambitions, many asset owners have established specific responsible investment goals and priorities. With that, there is now a need for a clear and concise overview of investment portfolios and how they compare with where stakeholders want to get to. Aon's RI-360i enables investors to embed their values and goals into portfolios by providing better insights about the sustainability issues, including climate-risk that may exist with their investments."

8 R+V Versicherung has reduced its CO_2 footprint in investments by more than 20% in the past four years. In an update on its website, the insurer said its investment portfolio should be climate-neutral by 2050. Originally, the greenhouse gas intensity of stocks and corporate bonds was supposed to be reduced by 20% by 2025, compared to the base year 2019. This corresponds to a reduction of 32 tonnes to 128 tonnes of CO_2 per million euros invested. R+V's next interim goal is to reduce greenhouse gas emissions from stocks and corporate bonds by a further 20% by 2030. Compared to the base year 2019, this would mean a total reduction of 40%. In addition, the cooperative insurer has set itself the goal of reducing the carbon footprint of its directly held properties by 25% by 2030.

> Aon's RI-360i enables investors to embed their values and goals into portfolios

9 MAPFRE has announced €15m investment support for its biomethane fund from Spain's Official Credit Institute (ICO). The MAPFRE Energias Renovables II, FCR, was launched last year together with MAPFRE's partner IAM Carbonzero, as the first fund in Europe dedicated to investment in biomethane, a 100% green biofuel derived from agriculture sector waste. The ICO is investing through Axis, its venture capital subsidiary, and the latter's capital is sourced through the EU Next

Current ponderings on industry themes

CHRISTIAN COLOMBERA
Everest managing director, Australia, and head of Pacific region

On Everest launching Australian insurance operations

As we continue enhancing our global presence, we bring Everest's customer-first model and decades of underwriting discipline and financial strength to address the unique and growing needs of the Australian market. We have assembled a deeply experienced team with a keen understanding of local market dynamics and the challenges facing businesses demanding the capacity and expertise across a wide range of insurance needs that Everest will deliver.

On India's life insurance industry to surpass $216bn by 2028

As inflation persists above the 4% target, the relatively high-interest rate environment with a 6.5% key policy rate is anticipated to remain unchanged throughout 2024. This higher interest rate, combined with the positive economic outlook, will bolster the introduction of new products and drive demand for non-linked life insurance policies.

AARTI SHARMA
GlobalData insurance analyst

PETER ZAFFINO
AIG chairman and CEO

On AIG announcing sale of 20% ownership stake of Corebridge to Nippon Life

Nippon Life is well known in the financial services industry for its leadership in the Japanese insurance market and is globally recognised for its strong performance and corporate reputation. We are pleased to have Nippon Life become a strategic partner to Corebridge and believe that they will add meaningful value as an investor. I have significant respect for President Shimizu and admire his visionary leadership of Nippon Life, which is well known for its impressive capabilities and the high quality of services and benefits it provides to 15 million clients.

DANIEL LOEB
Third Point LLC founder and CEO

On Third Point launching Malibu Life Re

We are excited to form Malibu Life Re to provide attractive capital solutions in the life and annuity space in partnership with leading insurers. We expect that the nimble, multi-asset class investment strategy we have designed over almost thirty years can be leveraged to deliver favourable long-term risk-adjusted returns for Malibu Life Re's clients and partners.

On German insurers being less enthusiastic about private credit

I see the investment volume stagnating. Firms made these investments more boldly in the low-interest rate environment, but there are now other options that you can invest in with less know-how and much less risk. One can't forget that the issue of liquidity is still an issue for the industry and that these investments are by nature difficult to liquidate and that doesn't really fit with the business of an insurer. I see this staying more of an addition in the asset allocation, but I don't see big growth.

JULIA WIENS
BaFin, insurance supervision lead

DARREN RICHARDS
OAC CEO

On actuarial consultancy, OAC, launching asset projection tool for investment managers working with insurers

This tool has the capability of stress-testing assets under market risk scenarios to understand how strategic investment decisions impact insurers' solvency. Post Solvency II, we have seen growing Board-level focus on solvency requirements hence the importance of stress-testing assets and strategic investment decisions against market risks. Yet we are seeing a fundamental gap in the process, which Summertime aims to solve, whereby investment managers are unable to transpose their work against solvency measures. The ability to calculate the solvency impact of any proposed strategies will enable investment managers to provide a far superior service to insurers' boards.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