INSURANCE INVESTMENT EXCHANGE AWARDS 2019

Shining the spotlight on excellence in insurance investment

CONTENTS

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EDITOR'S LETTER

Insurance investment skill and excellence are critically important in today's challenging environment. We are delighted to shine the spotlight on the vital work carried out within insurance investment teams, as they manage complex portfolios worth billions of pounds.

The Insurance Investment Exchange Awards are the premier event feting the insurance investment universe, and an important reminder of just how important investments are to the insurance industry today. We thank the judges for diligently sifting through all the entries. We had a strong field of candidates across the board and to be shortlisted was a notable achievement in itself.

A special congratulations to all the winners – you can wear your badges with pride. The excellence on display this year shows the community is rising to the challenges insurers face today as uncertainty becomes the unchanging backdrop.

We wish you the best of success on the investment front and look forward to honouring new achievements in 2020.

Bob Swarup, co-founder, Insurance Investment Exchange

JUDGES & PARTNERS

We would like to thank all our judges for giving their valuable time and sharing their experience to pick some truly worthy winners

The judges for the 2019 Insurance Investment Exchange Awards were:

Paul Abberley, CIO, Charles Stanley

Euan MacLaren, CEO, Mulberry Green Capital

Stephen Riley, ex managing director, CNA Re and Swiss Re

Daniel Schrupp, principal, Camdor Global Advisors

Barry Smith, ex CEO, Ageas

Bob Swarup, co-founder, Insurance Investment Exchange

Michael Tripp, head of financial services, Mazars

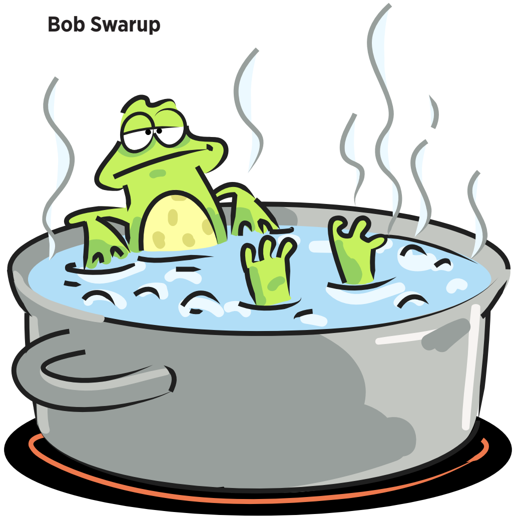
David Worsfold, contributing editor, Insurance Investment Exchange

A special thanks to all of our partners for 2019 for their thought-provoking input, their engaging content and their invaluable support to us and the wider insurance community in 2019.

Of boiled frogs and the end of the cycle

Much effort has been spent on forecasting what might catalyse the end of the cycle. Insurers would be prudent to worry less and plan more for future downturns – they inevitably come along when least expected.

Bob Swarup



'The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails'
William Arthur Ward, author

There is a fable based on a series of old Victorian experiments. Take a frog, place it in boiling water and it jumps out. Place it, however, in cold water, gently heat the water and the frog remains oblivious. A couple of hours later, the frog is dead – boiled to death in complete surprise.

It has been used in countless analogies for business leadership, for climate change, for political change and the like.

It is also wrong.

Here's the truth. Put the frog in boiling water. It dies – fast. Put the frog in cold water. It stays there. Raise the temperature slowly. For a long time, it does not move. But eventually, it reaches a point at which the water has crossed its pain threshold – the critical thermal maximum. The frog now gets increasingly agitated and thrashes about, looking for a way out. If it can, the frog jumps out as fast as it can.

The truth is a far more apt analogy.

Repeat the exercise. Take a thousand frogs, and let them all slowly enjoy the warming waters, oblivious to the dangers. When it becomes too painful and the unorganised thrashing begins, it is now en masse. A thousand frogs now look for the exit, their agitation amplified by their peers.

And when they all try to jump out? Well, it all depends on the pot but it almost certainly isn't large enough for everyone, and at the risk of mixing metaphors, we haven't even broached the philosophical question of what are they jumping into.

An event to end the cycle

One of the key debates of recent years has been whether we can transition to economic normality, and whether markets would acquiesce.

The consensus was yes, especially as the Fed tightened, the US economy performed and any market volatility seemed transient.

More recently, worries have returned to centre stage. People now fret about trade wars, the spectre of a no-deal Brexit, slowing growth and so on. It is not surprising then that central banks have suddenly found a renewed love of dovishness.

For insurers, this is a reiteration of a now decade-long punishing low-yield environment. But this is now tempered with a worry as to whether we are reaching the end of the cycle.

CIOs are looking for discrete events or risks to hang their investing worries on and to clearly signify a change. But to approach the future thus is to miss the point.

Be prepared

There are many competing catalysts and to pick one is an exercise in folly. Will it be a new Trump tweet, a new front in the trade war, the wrong signals from the next Fed meeting and so on?

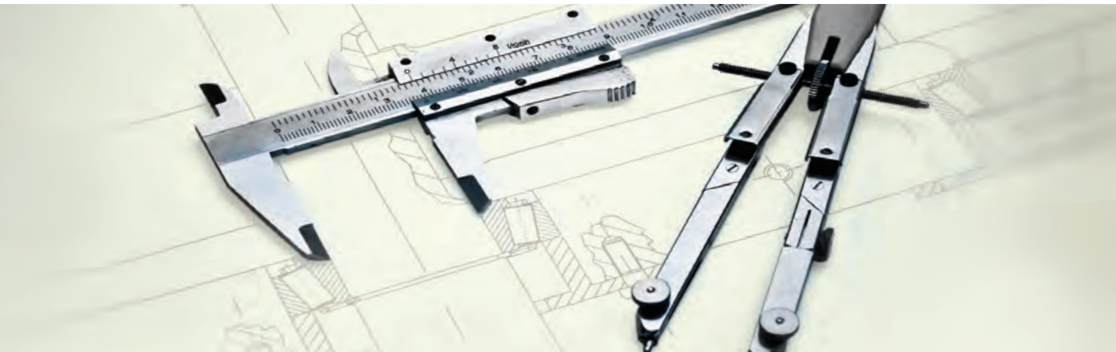
A downturn does not send a town crier in advance. Disbelief is more common, especially as the catalysing event is typically innocuous and often missed.

As the system becomes more complex and leveraged, its capacity to deal with shocks, even minor ones, rapidly declines. Like a spinning top, its equilibrium soon rests on a fine point. Social, political and fiscal pressures all serve to restrict the freedom of movement further till finally the economy topples over inelegantly.

Investors are reacting to conflicting signals and in doing so, are little more than boiling frogs. The temperature has been rising steadily. Today's uncertainty and fallback to sentiment tell us the thrashing is beginning but whether we have reached our critical thermal maximum and are tipping into the downturn is an open question.

Pinpointing that moment is pointless. The most important concept for long-term investors today to grasp is the maturity of the economic and financial cycle, and the importance of conditions.

The prudent thing is to prepare the portfolio for future downturns and not to forecast when. When it arrives, it will be innocuous, it will be missed and the pot may suddenly be too small. ■



Mike Pratten

Outstanding Contribution

Mike Pratten has enjoyed a long, glittering and hugely influential career. He has been responsible for a wide range of initiatives that have changed the industry and stood the test of time.

From his early days as a founder member of the Global Policy Unit when he was with Prudential where he helped develop quantitative and risk modelling approaches that are now widely used throughout the insurance industry. From his time working with Equitas, his pioneering work with the US Treasury to being at the vanguard of seeking regulatory authorisation for the in-house investment teams at the Coal pension funds and Canopius, Mike has been an innovator.

Among his biggest achievements was transitioning c.US$10bn in the space of a few days at Equitas (with the Mercury transition team as it was then). This was ground-breaking work not only in transition management but also in the development of the in-house management model of an outsourced investment management for insurers in the UK.

He followed this up by working with PwC and InQA Limited to develop the stochastic Asset Liability Model that is now widely used by the insurance and pension fund industry.

WHAT WINNING THE AWARD MEANS

"I would regard my biggest achievement as the research and investment teams that I have worked with and helped to develop that remain in senior management positions throughout the insurance investment industry."

He has also spent time in investment management at Wellington, developing asset management solutions for insurers, pension funds and sovereign wealth funds. He moved back client side as CIO for the Coal Pension funds and Canopius. These periods also carried the hallmarks of innovation with the development of absolute return, diversified alpha, all weather beta and customised investment solutions for insurers. ■

Adam Ruddle

Rising Star

Adam is a Fellow of the Institute and Faculty of Actuaries and a Chartered Enterprise Risk Actuary. He is the new Senior Investment Manager in the LV= Investment team.

Adam has spent his career at Liverpool Victoria since joining as a graduate in a wide range of roles including With-Profits product oversight, Equity Release pricing and reporting, Capital Management, ALM, Life Reporting and Investment Solutions.

Since joining the Investment team, Adam has redesigned and reimagined CIO reporting moving the reports from lengthy papers that required much resource to automated slide-decks with improved analysis, graphics and commentary in a dashboard style.

These reports have received strong positive feedback from various governance committees including the Investment Committee and With-Profits Committees whilst using robotics and automation to reduce the resource required delivering these reports thus increasing the bandwidth of a relatively small team to add real value.

Adam has also taken responsibility for the Strategic Asset Allocation reviews and has developed a framework to ensure that the best strategies and approaches can be

consistently used and implemented across other funds (allowing for different liability profiles and other constraints).

The SAA strategies are believed to optimise returns by about 100bps per year. Adam has received praise from executive and non-executive directors on the quality of his papers which, over the period, have covered a range of investment matters such as deep-dives into certain asset classes, SAA reviews and illustrating complex investment solutions. ■

JUDGE'S COMMENT

'Adam has redesigned and reimagined CIO reporting. Reports are no longer lengthy papers that required much resource and are now automated slide-decks with improved analysis, graphics and commentary in a dashboard style. His internal papers have been praised for their deep-dive insights into a wide range of asset classes and investment issues. A behind the scenes star.'

Phoenix Group

Best Life/Annuity Insurer

2018 was a transformational year for the Phoenix Group. The Group increased assets under management from £74bn to £226bn with the acquisition of Standard Life Assurance.

2018 also saw Phoenix enter the bulk purchase annuity market, completing three transactions with liabilities of £0.8bn.

During such a transformative 12 months, Phoenix was still able to exceed its 2018 corporate financial objectives, delivering £664m of cash generation in 2018 and £1.3bn over 2017-18 beating top end expectation of £1.2bn.

This delivery was supported by the execution of management actions and capital synergies which delivered over £1bn of Solvency II excess surplus producing a solvency ratio of 167% with low level of sensitivity to market risks on an absolute basis.

The impact of these actions is evident in Phoenix's full year results, a success that culminated in Phoenix Group entering the FTSE 100 in March 2019. ■

JUDGE'S COMMENT

'The group has gone from strength to strength, and coped admirably with a vastly greater portfolio. In particular, the strides made in developing their alternative credit capabilities and depth are to be commended.'

Pool Re

Best Non-Life Insurer

Pool Re is an unusual outlier in the industry, given its specific area of expertise – namely the underwriting of terrorism risk – and its quasi-sovereign facets as a result. What makes the firm stand out is how it has taken those facets and used them to create an investment strategy that reflects both its particular liabilities and needs.

Liquidity is important but at the same time, the other shackles are different and Pool Re has reflected this in its investment approach. Fixed income is less of a focus and the firm has looked into new strategies such as multi-factor approaches to enhance returns, while also reflecting its constraints. As the firm issues new securities and expands its coverage, the investment strategy is set to evolve further again. ■

JUDGE'S COMMENT

'The non-life sector is far more constrained when it comes to looking past core fixed income. It's great to see a firm examine its liabilities from first principles and build an innovative investment strategy in response.'

Foresters

Best Small Insurer

During 2018, the Foresters Friendly Society's investment team was completely overhauled following the appointment in October 2017 of a new CIO, with the mandate to lead the transformation of the Society's investment activities. To support this strategy, the Society invested in its internal resources and created a separate investment team.

It had been considering diversifying the sources of asset return, while keeping its risk profile within appetite.

To achieve that, the CIO

secured Board approval to re-broker the fixed income and equity mandates, in order to identify a provider of investment management services with solid credential in the insurance sector, robust performance track record and global capabilities across the wider investment universe.

This process was initiated and successfully delivered in 2018. ■

JUDGE'S COMMENT

'Top class. Investment is no after-thought. It's importance is understood and fully supported by the board. This has empowered them to be creative, adding significant value to the company.'

Conning

Best Technology Initiative

Conning's expert quantitative finance team works with industry and academic leaders to produce financial models that are among the most technologically advanced in the industry.

FIRM Portfolio Analyzer is a forward-looking stochastic simulation tool for the analysis of market risk. Using FIRM, insurers can project the full range of economic outcomes to enable them to properly assess and manage risks.

This is partnered with the GEMS Economic Scenario Generator which can credibly simulate realistic tail risk events due to the structure of the stochastic models employed. Its calibrations are capable of reproducing events such as those seen in 1929, 1987, 1998 and 2008, and more extreme scenarios.

The combination of these tools with firm's risk and investment analysis can model and evaluate efficient asset allocations. ■

JUDGE'S COMMENT

'Impressively powerful analytical tools that can take modelling to the next level. It is the combination of deep data with simulation tools that makes these tools stand out.'

Allianz Global Investors

What are your insurance portfolio alternatives in today's market?

Even in the current climate, Allianz Global Investors believes there are opportunities for shrewd insurers to optimise their portfolios

Investment decisions for insurers are only getting more difficult in the current market environment. Credit spreads have widened, though are still historically tight, the political situation in Europe remains complicated and trade conflicts with the US are putting a dampener on equity markets.

Meanwhile, insurance companies have limited solvency capital to take more risks in their portfolios. So what should an insurance CIO do with their portfolio?

Since many insurers have already taken significant action to reduce asset liability duration mismatches and address major cash flow gaps in their liability term structure, many insurers now have their largest Solvency Capital Requirement (SCR) capital charges for credit spread risks. The challenge many insurers are facing now is whether the SCR risk capital they are using is being invested in the right mix of capital market risks. Despite some modest spread widening in the credit markets over the past 12 months, many insurers may still feel they have too much of their risk capital budget invested in duration and credit spread and not enough in other diversified risks such as alternative assets.

Weighing the options

We think continued investment discipline and increased use of targeted strategies to maximise return on solvency capital still leave a number of options available.

First, to free up SCR risk capital, we suggest reducing the duration of credit portfolios and use the current increase in both spread and yield in shorter corporate maturities to achieve positive yields.

Second, to ensure duration and cash-flow matching of the liabilities while maintaining as much yield as possible, focus on investing in local authority sovereign proxies which get the same zero credit spread SCR that sovereign issuers are given.

Third, insurers should continue to build up their allocations to private debt to take advantage of the credit diversity, spread pick-up, lower default loss potential and liability duration matching characteristics of infrastructure and project finance, as well as tailored small and medium enterprise (SME) credit provision and real estate loans. Finally, insurers should take the risk capital they set free from achieving a better asset liability management (ALM) match and reducing credit spread duration to buy risk capital efficient equity products.

Reliable infrastructure

By combining these components, insurance companies should be able to defend their current portfolio yield, while reallocating money into assets that have better medium-term perspectives for higher returns. Infrastructure and project finance provide a secure and longer duration base of higher-yielding assets whose performance is less correlated to cyclical economic swings.

Reducing credit duration limits the price sensitivity of the corporate portfolio to cycles and the risk capital hedge on the equity portfolio limits extreme down moves in equity markets, which limits SCR consumption and also stabilises the insurer's own funds value. All-together, the strategy helps companies minimise exposure to negative yielding securities while maintaining exposure to real assets that have the potential to deliver significant returns over time.

Capital efficient equity, particularly when combined with a sophisticated, dynamic call overwriting strategy to partially finance the hedging costs, allows insurance companies to access the higher current yield of equity markets and participate in the long-term price appreciation of real assets, while limiting exposure to the extreme downside events that occasionally happen in equity markets. This not only substantially reduces the risk capital consumption of equity investments, but also dramatically reduces their own funds volatility of unhedged equity investments.

‘INFRASTRUCTURE AND PROJECT FINANCE PROVIDE A SECURE AND LONGER DURATION BASE OF HIGHER-YIELDING ASSETS WHOSE PERFORMANCE IS LESS CORRELATED TO CYCLICAL ECONOMIC SWINGS’

Continued re-allocation into private debt securities, particularly infrastructure financing and real estate loans, is both relatively capital efficient compared to long-dated corporate issuers and gives investors a yield pick-up, while assets are well matched to life insurance liabilities.

Thames Tideway Tunnel Project
Allianz is invested in this project via the newly created company Bazalgette Tunnel Limited, trading as Tideway, as part of a consortium with other infrastructure investors, with a stake of 34%. The project is aimed at improving London's environment, appearance and public health. To learn more, visit: Thames Tideway Tunnel Project

Unique opportunities

AllianzGI has built a strong capability in this area which has been kindly recognised by the judging panel of Insurance Investment Exchange during 2019. We have concentrated sharing our ideas in private infrastructure (debt and equity) as well as the private corporate debt segment (investment grade and non-investment grade).

In addition we continue to roll out evolutions of our historic capabilities such as trade finance, impact investing and other key investment areas offering unique source of investment opportunities to clients.

While the investment environment is currently as difficult as it has ever been. We still believe that there are a number of opportunities for insurers to optimise their investment portfolios. Focusing on maximising the return on risk capital employed and continuing to diversify away from traditional bond markets into sovereign proxies, private debt and hedged equity strategies should all be key considerations. ■

The Phoenix Group

Best Insurer Investment Team

2018 was a year of exceptional effort and delivery for Phoenix as a whole and the newly re-named Phoenix Group Capital took centre-stage.

In January 2018, it was given the responsibility to directly source c£1bn illiquid assets for the group's shareholder annuity business and bulk purchase annuity business and secured £1.4bn of illiquid assets. This was a significant contributor to Phoenix's financial results, delivering over £130m of cash generation, around a quarter of the group's total management actions for 2018. This delivery was underpinned by the team deepening their relationships with Phoenix's strategic partner Standard Life Aberdeen.

The team's responsibilities include managing the market risk exposures at a group level. The acquisition of Standard Life created a significant equity exposure for shareholders. Traditional futures strategy was sub-optimal given the potentially large liquidity requirements in a rising market environment. The team developed and executed an efficient hedging solution to both reduce the shareholder's market risk exposure while at the same time controlling the liquidity exposure at group level within our risk appetite.

In 2018 the portfolio continued to be diversified by geography and sector in line with Phoenix's agreed investment strategy.

Developing talent has always been a key feature and during 2018, team members have developed their skills and knowledge through a combination of on the job training, attending conferences, liaising with rating agencies and market participants. This development led to these members sourcing 10 deals with a nominal value c.£0.4bn. One team member earned a Chairman's award in recognition of their development and contribution during the year. ■

JUDGE'S COMMENT

'However you look at it, 2018 was a transformational year for Phoenix and the investment team played a crucial role in the obvious success of that. They faced major challenges but met – and exceeded – just about every target they were set.'

Ernst & Young

Adviser of the Year

Over the last 12 months, EY's global network of insurance and investment professionals has provided guidance and insight on pivotal areas in the insurance industry.

This includes advising clients on the design and execution of their illiquid asset strategy, navigating emerging regulation and Brexit.

As the interest in environmental, social and governance (ESG) investment factors continued to increase, EY played a leading role in the Embankment Project for Inclusive Capitalism, which defines a framework for financial institutions to better reflect the long-term value it creates through human, physical, financial and intellectual capital deployment.

EY has supported several asset managers looking to design attractive investment funds from a Solvency II capital perspective, including testing infrastructure and other assets against the qualifying criteria. ■

JUDGE'S COMMENT

'Innovative SII friendly investment structures; broad reach as what you would expect from a large shop.'

'Excellent all-round proposition with specialist advice and support clearly focused on insurers' needs.'

Aviva Investors

Best Client Service

Aviva's investment in better tools to support its clients has paid off. This had several key themes: improving data transparency, data security, simplifying processes and making better investment decisions.

To deliver this, it built a cloud-based data solution as part of a wider data programme. It provides clean and ready to use data for clients, with clear ownership across defined domains within strict governance standards, all overseen by the Aviva Investors Data Office.

A new client portal provides a gateway for its clients, giving them access to personalised data, in a secure digital environment at their own convenience.

The Insurance Analytics Dashboard provides clients with up-to-date information on their assets, in an interactive dashboard tailored to their needs. ■

JUDGE'S COMMENT

'Transparent, secure and innovative. Aviva has taken reporting to a new level with its portal and Insurance Analytics Dashboard. These give excellent insight into portfolios and access to just the right mix of data and analytical tools. Top class.'

Bridging the matching adjustment gap

M&G Investments' pursuit of new sources of eligible assets has led to an innovative investment solution

The ability to receive capital relief via matching adjustment has been a significant benefit for insurers with long dated liabilities. However, finding eligible assets, particularly those with sufficiently long tenors to meet longer-dated liabilities, has been a significant challenge. We have seen demand for such assets far exceeding supply, and the intense competition for eligible assets consequently resulting in unattractively tight pricing.

We have been on a quest to develop attractive and, crucially, scalable solutions to this dilemma. To do so we have built innovative new investment capabilities designed to create new matching adjustment-eligible debt assets on the scale required by large life insurers in the UK and Europe.

A new approach

The investment opportunity has emerged – perhaps counter-intuitively – from securitised debt, a market from which insurance companies have almost entirely retracted following the financial crisis. The technology we use originates in the specialty finance sector, a fast-emerging asset class in Europe.

Specialty finance is a sector of investment products secured on consumer loans such as residential mortgages, personal loans, auto loans, student loans, credit card advances and small business loans, which were traditionally provided by high street banks. Today, pools of these consumer assets form the underlying exposures of specialty finance investments.

Insurance companies have historically accessed consumer credit exposure by investing in asset-backed securities, but the financial crisis and subsequent implementation of Solvency II, effective from January 2016, resulted in large-scale withdrawal of insurers from this market due to the punitive capital charges.

Yet consumer credit exposure is an attractive complement to typically corporate-heavy institutional portfolios. Historically, it has been one of the largest and best-performing portions of bank balance sheets, with low delinquency and default rates. In the Eurozone, household gross disposable income is trending steadily upward and has done since the 1990s despite the fluctuation in the Eurozone GDP growth rate.

In specialty finance transactions, an investment manager acquires a loan pool, either from a bank's balance sheet or from a non-bank lender and looks to finance this in various forms, including through the securitisation market.

In our case we acquired a pool of seasoned performing consumer mortgages purchased from a bank as part of its capital optimisation and non-core deleveraging. We then designed two matching adjustment-eligible tranches within the structure of the debt securitisation we undertook.

These tranches were large, at more than €100 million each, with a long weighted average life of close to ten years using a unique and innovative structure to ensure MA eligibility. Each tranche was tailored to the requirements of the insurance clients we were working in partnership with – two very large UK life insurers, both of whom have continued large demand for this type of product.

Stringent criteria

Of course, matching adjustment eligibility is stringent and insurers have to satisfy a long list of criteria to qualify.

Until now, prepayment risk has been the biggest barrier to developing eligible financing on consumer credit assets competitively and efficiently relative to other forms of financing, since these assets are inherently pre-payable and extreme scenarios can emerge where the underlying assets prepay very quickly.

At the same time, the matching adjustment financing has to maintain sufficient credit protection to guarantee the AAA rating in all required scenarios.

We resolved this by adjusting the securitisation specifically to fit the conditions which would make them matching-adjustment eligible as 'Type 1' assets under the Solvency II standard model framework. Through a unique pricing structure for the notes, we were able to ensure that par prepayments, which occur naturally in the securitisation structure in extreme prepayment stresses, include sufficient compensation to ensure make-whole.

'STRUCTURING LARGE MATCHING ADJUSTMENT NOTES IN THIS WAY HAS NEVER BEEN DONE BEFORE IN THIS ASSET CLASS, MAKING THIS AWARD-WINNING INVESTMENT SOLUTION TO OUR KNOWLEDGE THE FIRST OF ITS KIND IN THE INDUSTRY'

We also obtained ratings for the two notes from two reputable agencies and publicly listed them, easing the access to these investments for all insurance companies.

Scalable solution

We believe structuring large matching adjustment notes in this way has never been done before in this asset class, making this award-winning investment solution to our knowledge the first of its kind in the industry.

We hope structuring pre-payable assets from consumer credit pools to be matching adjustment-eligible can contribute to an increase in supply of matching adjustment assets into the market and we hope it will continue in the future.

Given the size of the specialty finance market and the fact that this approach is scalable, we believe it offers the potential to continue generating valuable and in-demand products for life insurance companies in the UK and Europe. ■

AllianceBernstein

Best Fixed Income Asset Manager

AllianceBernstein puts its legacy of research, innovation and excellence at the heart of its fixed income proposition. This enables it to construct portfolios using an investment process that translates comprehensive top-down and bottom-up quantitative and fundamental research into macro portfolio themes.

These are implemented in client portfolios through country, yield curve, sector, security, and currency selection, all within a risk-controlled framework

AB provides clients with insight-driven clarity and conviction for a complex investment world. Each fixed-income portfolio is designed to solve clients' most complex and unique investment challenges, delivering a solution that advances their success. ■

JUDGE'S COMMENT

'Some of the best digital solutions in the market deliver real added-value to clients. The bringing together of such a diverse mix of data into a single user interface is impressive. This makes sure that the underlying assets are doing their job and can be managed dynamically'

Allianz Global Investors

Best Alternatives Asset Manager

Over the years, Allianz GI has built a strong Alternatives platform, managing over €70bn of assets. The Alternatives pillar comprises public markets/liquid alternatives strategies as well as Real Assets and Private Markets strategies.

Within liquid alternatives it offers various strategies, including equity long/short, merger arbitrage, options trading, commodities, volatility, global macro, and absolute return bonds.

Innovation and diversification have been key themes. The platform has expanded its reach both in terms of geography and investment focus over the past two years. ■

JUDGE'S COMMENT

'Great range of initiatives building on their deep experience of this area. Offering an innovative and well diversified range of strategies that address the CIO agenda.'
'No sitting on laurels here. A steady flow of new ideas, properly researched and professionally executed.'

M&G Investments

Most Innovative Solution from an Asset Manager

M&G has set up a dedicated specialty finance team to invest in exposures of pools of consumer assets on behalf of its clients. The investment process when acquiring these pools involves raising finance in various forms, including through the securitisation markets. One of M&G's recent acquisitions of performing Irish consumer mortgages included M&G designing two matching adjustment eligible tranches within the structure of the securitisation.

JUDGE'S COMMENT

'Very clever securitisation of consumer credit eligible for MA – a genuine first in the industry.'

These tranches were extremely attractive investment propositions for several European insurance clients as they were structured in large sizes (€100m and €150m) with a long weighted average life (c9.5 years) using a unique and innovative structure to ensure MA eligibility. Each tranche was also tailored to the requirements of the two insurance clients who we were working in partnership with to create these tranches. ■

Aviva Investors

Best Overall Asset Manager

Aviva Investors has completely refocused its business to become totally client-centric. This has been underpinned by an ambition to become the global leader in active outcome oriented solutions.

The Solutions function is focused on creating distinctive solutions that respond to the specific needs of global clients.

An early product of this was a fresh approach to alternatives. In 2018, it originated £6.3bn across infrastructure, real estate debt, private corporate debt and structured finance. A dedicated credit team works alongside analysts and investment specialists, with the tools and skills to rate non-standard issues. All prospective investment decisions are assessed by this independent credit function – essential under the current regulatory regime.

Another development has been the high profile given to ESG. ■

JUDGE'S COMMENT

An all around good shop with good capabilities in illiquid credit and some interesting private structured debt transactions'
'Genuinely innovative, developing offerings relevant to insurers. Taking a strong lead in sustainability which positions them well.'

The future of insurance

The insurance industry has evolved rapidly since the financial crisis. The next decade is shaping up to be every bit as transformative as firms grapple with a host of factors, most notably the unfolding regulatory framework, digital disruption and climate change

A decade ago, governments and regulators around the world began instigating wide-ranging reforms of financial services in an effort to ensure there would be no repeat of the events that came close to devouring the developed world's financial system.

However, whereas countries agreed a common international regulatory framework for banks, with the adoption of Basel III, the tightening of insurance regulations has been piecemeal. European insurers have seen the most sweeping changes following the introduction in 2016 of the European Union's Solvency II directive.

Shifting to capital-lite

In response, a number of companies have started splitting their activities into 'capital-lite' and 'capital intensive' units. While the new regulations have encouraged many to look to shrink the latter, firms have had to balance capital efficiency with the impact on short-term profitability and their distribution relationships.

The regulatory changes, when combined with low interest rates, have proved especially problematic for companies selling investment-linked products with guaranteed returns.

Whereas insurers were previously prepared to provide long-term guarantees, the shift to mark-to-market valuations has made it much more expensive for them to offer these products. And with capital having flooded into the industry there has been no shortage of buyers.

Reinsurance groups, private equity firms and specialist consolidation vehicles have all been eager to snap up insurance companies' unwanted lines of business.

Regulatory harmony

Looking ahead, ongoing changes in the regulatory environment seem assured. In Asia, for instance, several countries have implemented, or intend to implement, risk-based capital regimes similar to Solvency II. As in Europe, that looks set to drive changes in investment allocations and cause Asian insurers to change their product mix.

One challenge for the industry is that it is not always clear in which direction the regulations are heading. For example, in Europe, insurers are awaiting revisions to Solvency II next year. Perhaps not surprisingly, they are putting pressure on regulators to ease back, at least in terms of the capital treatment applied to certain types of investment.

In terms of developments at the global level, the International Association of Insurance Supervisors (IAIS), which represents regulators from more than 200 jurisdictions, was tasked by the G20 with designing a framework to control systemic risk. It developed the global Insurance Capital Standard (ICS), which aims to measure the riskiness of insurers operating in different regimes in a comparable way.

Such a set of rules ought to allow firms to operate more efficiently across borders, reducing costs and bringing benefits to consumers.

However, while US authorities are accepting of the idea of capital being risk-based, they are far less keen on converging the way in which liabilities are valued. The outcome could be a global framework which is implemented differently by insurers in the US, and insurers across Asia and Europe.

Digital disruption

The insurance landscape is being further revolutionised in a multitude of ways by the rapid pace of technological innovation. Increases in the volume of electronic data, the ubiquity of mobile interfaces, and the growing power of artificial intelligence (AI) are just some of the developments disrupting the industry.

Looking to the future, initiatives by insurers to build-up their savings businesses will also need to be technology-led. New technologies will lead to growth in insurance-on-demand or pay-as-you-go type models.

New technologies are simultaneously transforming insurers' investment activities and technology is providing insurers with an opportunity to manage their balance sheets with a level of precision previously unimaginable.

While insurers have long held the ability to compare prospective returns from different investments or to assess how well different assets match liabilities, it is now possible to add a new layer of complexity into the equation by understanding the precise impact on their balance sheet of capital charges and different accounting treatments.

'WITH THE INSURANCE INDUSTRY MORE EXPOSED THAN MOST TO THE DESTRUCTIVE POWER OF EXTREME WEATHER, ASSET OWNERS AND INSURERS ALSO HAVE A RESPONSIBILITY TO MAKE A DIFFERENCE'

Climate change upheaval

Climate change, which has been described as the greatest collective risk facing mankind, is providing a third source of upheaval for the industry.

Faced with significant potential losses on both the risks they have underwritten and the assets in which they invest, insurers have begun to modify their behaviour. In part this is being driven by insurers themselves and their stakeholders (including customers looking to build a sustainable future), but also by regulators. This trend looks set to accelerate.

With the insurance industry being more exposed than most to the destructive power of extreme weather, asset owners and insurers also have a responsibility to make a difference. By working together, and encouraging action from policymakers and supervisors, the industry can help to collectively manage this existential risk.

Amid much uncertainty, it seems insurers can be sure of one thing. Whether it is in adapting to the shifting regulatory environment, keeping ahead of the disruption caused by technological developments, or doing their part to help the world combat climate change, there is unlikely to be any let up in the pace at which they need to evolve. ■

INSURANCE INVESTMENT EXCHANGE

The Insurance Investment Exchange has gone from strength to strength in 2019, with our community growing strongly both within the UK and internationally, and our range of events multiplying from the intimate to the large.

Our quarterly half-day seminars have examined a wide range of issues, focusing clearly on the key challenges facing insurance investment teams and with the mix of thought-provoking presentations, panel debates and specialist breakout sessions resonating with the industry's needs.

This year, we also added in The Pulse, our quarterly afternoon companion event, focused on the practicalities of portfolio management, providing insightful market intelligence and deep-dive fresh perspectives to help insurance investment teams navigate key challenges today. Finally, we have our intimate roundtables with select attendees diving deep into new assets, debating solutions and pondering key strategic developments in far more detail.

Our overarching theme this year is All Change, reflecting the constant change we see around us in the macro environment, in policy and in asset classes, and the constant battle alongside to keep abreast and to make our portfolios yielding and resilient in these times.

Register your interest now for forthcoming events with events@insuranceinvestmentexchange.com

Key upcoming highlights include:

Tues 10 September
September Seminar: Enhancing returns on capital and mitigating risk
Half-day seminar
8.30am - 2pm
Skinners' Hall

Tues 10 September
The Pulse: Investing in the late cycle – Security vs yield in the alternative credit space
Roundtable
1.30pm - 4.30pm
Skinners' Hall

Tues 26 November
November Seminar: Ghosts of Christmas past, present and future – Reviewing 2019 and looking ahead to 2020
Half-day seminar
8.30am - 2pm
Skinners' Hall

Tues 26 November
The Pulse: Rethinking core fixed income in a zero yield high tail risk world
Roundtable
1.30pm - 4.30pm
Skinners' Hall

You can find reports of recent seminars and roundtables at www.insuranceinvestmentexchange.com