

## Insurance roundtable



# Insurance Asset Management Europe



**Fixed income - Volatility - Brexit - Infrastructure - Regulation - ILS**

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The insurance space is certainly an interesting one at this present time. Brexit, Solvency II implementation and the IFRS 17 reporting standard are just a few of the issues to have hit the industry and forced insurance firms and asset managers to address systems of governance, review capital management structures and assess their stress testing and sensitivity analysis for material risks. In a low interest rate environment, it becomes absolutely crucial for insurance CIO and asset managers to manage investment portfolios effectively in order to gain the highest possible returns.

The latest Insurance Asset Management Europe roundtable provides expert views from a number of industry figures on fixed income and volatility, Brexit, Solvency II, infrastructure, regulation, the ILS market and offers a credible insight into what we can expect in the near future.

**Adam Cadle, Editor**

## PANEL



**▶ Christopher Price, Head of Insurance Solutions UK, AXA IM**  
Chris was appointed head of insurance Solutions UK in June 2016. He is responsible for

providing investment recommendations and developing customised solutions for UK insurance companies. He joined AXA IM from Deutsche Bank where he was director of insurance asset management and head of industry solutions in the UK. Prior to this, he spent five years as finance controller at Brit Insurance Holdings.



**▶ Peter Cornax, Senior Investment Strategist and Portfolio Manager - Global Credit, AB**

Peter is a senior investment strategist and portfolio manager of AB's global credit strategies, focusing on advising global insurers on strategic asset allocation and multi-sector/asset-class relative value. He has been a member of the global credit and insurance asset management team for the past 16 years. Over that time, his primary focus has been on managing fixed income portfolios for clients.



**▶ Deepak Seeburrun, Head of Insurance EMEA, HSBC Global Asset Management**

Deepak leads the insurance business development initiatives within HSBC Global Asset Management in the UK & EMEA. Deepak has over 19 years of insurance industry experience including insurance company board experience, insurance advisory roles within investment banking and asset management. He holds an MSc in mathematical finance from Christ Church College Oxford University.



**▶ Patrick Trew, Chief Risk Officer, CQS**

Patrick is chief risk officer, responsible for the firm's global risk management, including market, credit and operational risk and compliance functions. He is a member of the CQS Executive Committee and is also a director of CQS Investment Management Limited. Prior to joining CQS in 2003, Patrick was an executive director and co-head of collateralised lending risk management at Lehman Brothers.



**▶ Ian Coulman, Chief Investment Officer, Pool Re**

Ian is an experienced investment professional with international experience and strong leadership and management skills. He possesses extensive investment knowledge of all major asset classes and a wide variety of investment products in fixed income, equities and alternative asset classes. Ian is responsible for the development and implementation of investment strategy. He was previously managing director of Butterfield Asset Management.



**▶ Daniel Blamont, Head of Investment Strategy, Phoenix Group**

Daniel is head of investment strategy at Phoenix Group. Amongst other things, he is responsible for strategic asset allocation and derivative strategy for annuity funds. He has been at Phoenix since 2012 but prior to that he worked for over nine years in investment banking, starting in fixed income research at Deutsche Bank. From 2006 to 2012 he was in insurance and pension structuring at Deutsche Bank.



**▶ Achilles Sofroniou, Senior Portfolio Strategist, Sompocanopius**

Achilles is senior portfolio strategist and is responsible for monitoring economic and market developments and making both strategic and tactical asset allocation recommendations to the CIO and group investment committee. He joined Sompocanopius in February 2015. Previously, Achilles was at Coal Pension Ltd for four years where he was a senior investment strategist.



**▶ Gareth Sutcliffe, UK Lead, Investment Advisory, EY**

Gareth is the UK lead for EY's investment advisory team, which advises financial institutions and asset managers. Gareth has 15 years of experience across private equity, consultancy and insurance investment strategy and treasury. He also has a wealth of experience in a number of illiquid asset classes.



**▶ Michael Wade, Senior Adviser to the Cabinet Office (speaking in a personal capacity)**

Michael has enjoyed a long career within the London Market insurance industry culminating in his appointment in 2013 as the Crown Representative for Insurance at the Cabinet Office for a two year term to advise the UK government on insurance and reinsurance risks. Most recently, he has also been advising the former and current Chancellor of the Exchequer on the ILS markets.

## CHAIR



**▶ Hugh Savill, Director of Regulation, Association of British Insurers**

Hugh is director of regulation at the ABI, with accountability for relations between the insurance industry and the Bank of England on prudential regulation, for relations with the Financial Conduct Authority on conduct regulation, and also for taxation issues affecting insurers. He sits on the Executive Committee of the ABI, and reports through the Prudential, Finance and Tax Committee to the ABI Board.

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# A developing sphere

## ■ The Insurance Asset Management Europe panellists discuss the latest developments in the insurance space

**Chair:** What are the key challenges facing chief investment officers and asset managers at this moment in time?

**Sutcliffe:** I'm going to kick off with the obvious one, which is getting hold of some yield. Most insurance companies are concerned about this, around both rates and spread, and trying to do this within their risk appetites. Also potentially having to demonstrate credibility in new asset classes to boards, regulators and rating agencies is also a challenge.

**Blamont:** I would stress that from a UK perspective it is about spread rather than an outright yield. It is about a compression of spreads on corporate bonds and the impacts of QE. Yield as such is less of an issue because it has been hedged. All new business is priced based on existing yields.

**Sofroniou:** The credit market now has a massive spectrum of offerings and there are a lot of grey areas. It is important for asset owners to understand what you are getting. A lot of funds label themselves as absolute return, but if you look in depth at them, they are actually spread beta products. Understanding how the portfolio will behave under different economic regimes I think is key going forward especially in a world where political risk is driving a lot of the short term volatility.

**Coulman:** The challenge is yield. We are in an environment, at least from an economic point of view, where we are seeing, tentatively, growth start to improve.

Deflation is no longer the concern, it is more about inflation concerns now.

In the US, we are seeing rates start to pick up. We are starting to see some return to real yield, although I think it is still one of the major constraints. Probably the caveat to that is QE. In the likes of the UK, Europe and Japan, this will be ongoing probably for another 12 months or so. But rates are still very low and most insurers are still trying to find other asset classes and opportunities to get that extra bit of yield.

**Seeburrun:** I think it depends on the type of insurance companies you are working for. I take the point that spread and yield is interrelated when it comes to regulation and it is about what discount curve you are going to use, based on the yield you are going to get. Overall, it depends how we interpret it. Those who have short-dated liabilities have to make sure they survive in terms of yield. A lot of insurance companies in the Lloyd's of London market have duration of around one and a half years. When we look at the life companies, it is very important to look at the spread overall and how you are going to interpret it looking at asset classes under Solvency II. Matching adjustment is a big thing for a lot of the annuity writers.

It is very challenging for the CIO also, when they are talking to those actually selling the insurance out within his business. How are they going to fulfil the requirement when it comes to actually pricing a product, by making sure they are

linking with the CIO to see what kind of return will occur in the next 12 months. I see this as the biggest challenge for CIOs.

**Price:** It is interesting that you mentioned annuities. A lot of annuity writers are revisiting their matching adjustment portfolios. I think the matching adjustment rules were firmed up relatively close to Solvency II going live and a number of UK insurers were quite conservative with their original matching adjustment portfolios, simply because they could not afford not to get approval.

From my recent experience, a lot are now revisiting those portfolios to see if they can introduce some asset classes that will give them some yield or a spread pickup. Here you see the interaction with regulation to some extent, because there are asset classes which would give them the spread pick up. There is quite a lot of technical solutions work going on, looking at how you can perhaps structure those assets to fit those portfolios.

**Sutcliffe:** We are seeing plenty of that kind of activity. There are a lot of firms that have been cautious in their implementation of the matching adjustment versus looking to be more advantageous in their implementation going forward.

**Cornax:** Higher book yield maturities in portfolios have continued to erode book yield of general account portfolios. Portfolio durations have extended, driven by asset liability matching and minimum rate guarantees. Over the past twelve months the average quality of portfolios has declined from AA quality to single A while cash flow statements reveal higher portfolio turnover being employed, increasing exposure to credit spreads.

Going forward, as QE ends and we start moving towards a normalised rate



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environment, the ability to generate returns through turnover will become more challenging for a lot insurance portfolios.

## Fixed income and volatility

**Chair:** If I focus on the fixed income market for a while, we are on a cusp - are rates and yields going to rise or aren't they and there is a question of volatility? To what extent is volatility a concern?

**Price:** Volatility is quite a significant concern, not just in fixed income. To some extent recent volatility has been driven by political uncertainty. We had Brexit and Trump last year. Interestingly, I think the view is slightly different today. People are saying well perhaps Trump won't be quite as bad as people thought at the time, and I think markets have settled down to the view that we won't really know about the impact of Brexit for another two years. You get the feeling that the political background feels a little bit better than it did last year, which may have some implications on volatility this year.

Looking at rates, the US has turned the corner. The very good US job numbers recently suggest that Trump might be able to deliver new jobs to America without implementing isolationist policies which would be good for all of us. The Eurozone is seeing some re-emergence of some growth but I don't think we will see QE finish before the end of this year. Next year is the earliest that the foot will be taken off the QE pedal never mind rates.

Our view is that you are looking at 2018 for as much movement on rates in the Eurozone. There may be no movement on rates in the UK until the Brexit negotiations are completed, so it could be 2019 before

you see rate movements here. There is a de-linkage going on between the US, Eurozone and the UK. Sadly for Europe as a whole, we are still in a low interest rate environment for a little while yet.

**Sutcliffe:** I think there has been quite a lot of perceived volatility, but if you look at VIX this has hit all-time lows in the last couple of weeks and we have been in a benign default environment on the credit side for the last decade and a half or so, so life is probably less volatile than it feels.

There is a lot of political driven event risk, we have had central banks dictating a risk on/risk off market activity for some time and people worry about that. Everyone gets excited about Fed watching and ECB watching and this generates a perceived volatility, but I think also if you look at current account balance positions that we have across countries, we still have some countries with very large current account surpluses and others with very large current account deficits as we have done for quite a long time now. If those were to unwind, everyone believes that it would cause significant market movements not least here in the UK. That gives a feeling of fragility which people worry about and makes people feel that maybe markets are too high. Actual volatility however has not been that great.

**Coulman:** A number of factors are at play. The one that springs to mind is the amount of QE that has been going on and the amount of cash that is out there. This is certainly compressing fixed income markets in a major way, whether it is spreads or yields. There is therefore a false sense of security about where volatility

should be, because if you look at the geo-political risks like migration, threat of data fraud, cyber risk or terrorism risk, there are a number of major influences that would suggest volatility should be much higher than it is.

**Trew:** I would agree. In that context, preparedness within the portfolio is a critical point as volatility is unlikely to remain so low.

There are a number of aspects to mitigating portfolio risk including duration management and diversification. First, we must consider rate risk in credit portfolios. We look to bring down the rate duration of a portfolio using floating rate instruments or credit derivatives and secondly we, diversify through allocating to different asset pools. While that makes little difference right now to realised volatility given its suppressed levels, we believe that having differentiated asset pools within the credit market place and within that, thoughtful security selection within those allocations whether it be through loans, corporate debt, or convertibles - this can make a significant difference to that downside risk.

**Sofroniou:** It has been a global phenomenon in terms of Chinese and Japanese investors continuing to invest in Treasuries regardless of what the yields are. If you look at the price change, even the Treasury market is gapping when there is volatility. You didn't see this effect to this extent before.

We have tried to shift the conversation away from traditional measures of volatility but try to express our risk tolerance in terms of drawdown measures and how quickly the portfolio can recover. We have tried to embed this in the risk appetite that the boards have, and that means we still have an anchor to Treasuries and to short dated investment grade credit but it means that we need to be a bit more careful when we are investing in equities and asset classes that in the past have experienced longer times to recovery and large drawdowns. We have emphasised that the path of returns matters to our overall objectives.

## Brexit

**Chair:** On the theme of Brexit, what can be said on this front?

**Wade:** This process of Brexit is going to need to build on better relationships amongst the 27 other countries and of course in particular the Commission and the European Parliament. Until we can rebuild these relationships, it is difficult to predict the outcome.

I am very confident about it if the relationships can be embraced. It is about spirit, corporation and a shared sense of future. I am enthusiastic about the structures that the London Market Group are setting up to respond to the government, and there will be a coherent organised set of discussions between the London insurance market and the government.

**Blamont:** The good thing for UK focused insurance companies is that we operate within the UK and to some extent we can carry on as is. If anything, it might create more opportunities as mainland European insurers pull out of the UK market.

On the investment side, it can create uncertainty which is unwelcome however. From a regulatory perspective it would make sense to retain many of the Solvency II concepts (which could be seen as an evolution of the ICAS regime). At the same time it would be an opportunity to steer the regulation back towards a principles-based rather than a rules-based approach.

In particular the PRA feel that the Solvency II regulations have not given it enough discretion to interpret rules in a more proportional way.

**Price:** I'd agree with Michael in terms of building relationships but the difficulty is that we have got to come to an agreement with the EU as a whole, and the 27 remaining countries do not have the same priorities as each other. That is going to make things very difficult.

## Solvency II

**Savill:** What are the challenges that face investors acting for insurance companies as a result of the Solvency II environment?

**Blamont:** From a UK perspective,

Solvency II conceptually is not a big change from Solvency I. I think the biggest challenge is the amount of data reporting. For us it has been incremental, for asset managers it has been completely new. Some asset managers might pull out altogether of managing assets for life insurers as it is too complex. For the matching adjustment, some people might not bother offering those services and just focus on unit-linked.

**Price:** I was involved in the implementation of the ICA regime as well as Solvency II, and I think if you look at the larger asset managers they have a lot of expertise because they have hired that expertise from people who have worked in the insurance industry.

Most asset managers that are serious players in the industry have got that expertise.

**Blamont:** It is not a lack of expertise, it is a lack of resources to produce the vast amount of reporting and documentation tailor-made for each client.

**Price:** I think the insurance-focused asset managers have invested in resources and technology to do that.

**Seeburrun:** In terms of resources, the largest players do have the experts across the board in terms of trying to deliver what our insurance clients are asking for. Then there is another question of trying to find the assets the insurance companies are asking for. This doesn't happen overnight.

On the asset management side, it takes months to come up with a new product. At HSBC, we have a team dedicated solely to deliver the reporting requirement for insurance clients under Solvency II. We must also not confuse ourselves when we say reporting and calculation, however, as they are two different things altogether. Asset managers should not be doing Solvency II calculation, this should be done by the insurer, but of course we can give guidance as to how much capital an asset is likely to consume. This in itself requires a lot of expertise in-house, eg optimising a portfolio with a Solvency II constraint is something we like. You have to have the systems in place, you have to have the approval in place to actually work on the calculations. Only the big players can do this.

The other challenge is really around Matching Adjustment. Looking at infrastructure for example, to come up with an MA eligible infrastructure deal, that is really challenging given that most life insurance companies are looking for infrastructure debt.

**Chair:** The problem is, there is not enough of the asset around the place.

**Price:** Origination is the challenge, particularly in things like infrastructure.

**Sofroniou:** Solvency II theoretically makes very good sense as Solvency II is a mark-to-market framework. For us however, we actually adopt US GAAP accounting rules which is based on a book yield approach so there is this disconnect that has to be brought together. The other issue with Solvency II is that investors have been forced to invest in assets that exhibit high sharp ratios, i.e. asset classes that exhibit high return per unit of risk characteristics regardless of their "real world" liquidity. This has been partly due to the modelling assumptions so in our approach we are always mindful of modelling asset classes in a more realistic manner.

**Chair:** I think the question nowadays is what actually is a deep and liquid market?

**Price:** The one-year time horizon for Solvency II is also an issue for those insurers with longer tail business. If you are an annuity writer, why are you looking at this risk on a one-year time horizon? It doesn't make sense. It does constrain you to act in terms of asset class selection in ways which are not necessarily economically sensible.

**Cornax:** Solvency II is designed to be a market consistent framework that considers spread, duration and quality.

As a non-economic player, Central banks have had a significant influence on prices in the secondary markets, with their intervention distorting the framework and capital ratios for insurers. The unintended result is less balance sheet risk in the insurance sector as insurers have become distributors of risk to policy holders.

**Price:** One of the problems is not so much the asset managers, it's the implementation timeframes. If you are reviewing your matching adjustment

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portfolio, you have to make an application to have it re-authorised. The PRA has six months to do that, so it is not a quick change.

**Sutcliffe:** It obviously takes the insurers a while to get to the point that they can send something to the PRA, which is 'PRA worthy'. The window of opportunity is often not 18 months long. As an ongoing point, some insurers find that the run time of their internal models and then the interpretation of the results takes so long, that you then make a decision on what to do when your data is three or six months out of date.

**Blamont:** Even by developing tweaks or new models for new asset classes, you need to have a good view early on to see whether an opportunity makes sense, and it's only further down the line after PRA approval and internal model approvals that you know what you are going to get.

**Chair:** The PRA doesn't think in terms of asset classes, they think in terms of asset features. That is not a helpful start as they are already thinking of a completely different classification of these things in front of them. It would be very helpful to have certain features pre-approved, so you as a company know that if you move into that area, you can do it.

**Trew:** Solvency II takes a very broad brush approach to the asset backed market and securitisations in general. This is a source of frustration both to the insurance companies and the asset managers looking to deliver solutions to them. That part of the market was of course tainted by the 2008 crisis, but is equally a market that has evolved significantly from there. It is an area where we see value, and we would like to be able to offer that to insurers, but of course there are very punitive solvency capital ratios unless you apply a lot of financial engineering and structuring.

**Blamont:** That was my point earlier. If you are a large investment manager you can build the infrastructure. If you are a niche manager you are at a disadvantage and may focus on other clients.

**Sofroniou:** But the governance

falls on our own boards. Part of the rules for securitised assets is that they need to understand what they are investing in and that's where it gets time consuming for us as an investment team. The result of that is that we have ended up owning securitised assets within certain entities.

**Price:** The calibration is based on a long run of historic data and as you say the period since the financial crisis for these structured assets will give you quite different characteristics to what was there before. There is a review process scheduled next year for Solvency II so maybe we will see some changes.

## Infrastructure

**Chair:** Returning briefly to infrastructure, which perhaps attracts more attention than its weight deserves in insurance portfolios, it is clearly an attractive way of getting more yield. How easy is this process of education in the infrastructure field? Do you feel the PRA is properly educated on this subject?

**Seeburrun:** I think it is a big world out there. The PRA has a lot of experienced staff and I'm sure they are. They don't deal with one type of insurance company, they deal with a lot of them. We have to take into account internal models versus standard model. The more complex side is the liability part of insurance companies. Why would they want to invest in a given asset class? It is quite tricky for the PRA to write a few pages about how an insurance company should look at this asset when different insurers are engaged in different types of businesses.

**Blamont:** The PRA want to make sure that we have the right knowledge. It is not just about assessing a deal today, it is about

managing the asset through out its life. The burden of proof is quite high. The challenge is to demonstrate that we understand the asset class enough so that we can select the right asset manager and design the right mandate. Ultimately the asset manager will have a better understanding of the asset class from sourcing to pricing through risk management, which is precisely why we use them rather than manage the assets ourselves.

In terms of supply, the regulator has no influence over that. The asset management and insurance industries needs to show their interest and the value they can offer to the relevant government and policy bodies in the financing infrastructure.

**Price:** Hugh, I think you are right that there is more conversation about this than current allocations reflect. Given the apparent appetite for this asset class we believe however that we will see increased allocations in the future.

**Chair:** The trouble is, infrastructure is an ideal fit for our liabilities and it really ought to work, for a life company.

**Sutcliffe:** You get more private money in some sectors than others. You get a lot more private money into ports for instance, but ports because they can be quite competitive are much less likely to be investment grade and so that then doesn't fit quite so well within an annuity fund. The balance of public and private money in those sectors is one of the things that drives a lack of insurance participation.

**Blamont:** Infrastructure and equity release mortgages are the big asset classes that insurers are trying to get into, but it sets a precedent. If a certain approach is adopted then it will influence other private markets, so the industry needs to get it right. For life insurers, other popular private debt assets are commercial mortgage loans or private loans. For non-life, direct lending is surely quite an attractive thing to do given its short maturity profile.

**Sofroniou:** There are several challenges for us in investing in infrastructure. It is questionable if there is enough return being generated given the liquidity of the asset class and when





this return will materialise.

Secondly, there is a difference between the time horizon between the asset manager of infrastructure funds and the underlying assets. Asset managers historically have had a three to five year time horizon while underlying assets can have cashflows going out to 20 years or even more. This difference must be considered by investors.

**Chair:** Gareth, one of your duties is presenting increasingly diverse asset classes to insurers, when you do that, are you presenting that to them in terms of their risk appetite or does that come wrapped up with this is the type of thing the PRA are looking at at the moment.

**Sutcliffe:** Quite often it happens the other way round. Insurance companies have a twinkle in their eye to an asset class and they are interested to know how that might fit into a portfolio in the UK that's particularly matching adjustment driven. We have talked about infrastructure, we have mentioned commercial real estate debt and these are quite popular within matching adjustment portfolios, but as a lot of those firms have grabbed the lowest hanging fruit on the tree they are moving further out to find new things.

**Chair:** Some of you have mentioned the challenges of running international portfolios which incorporate many different investment systems.

How do you get round this and how do you run into every strategy with different approaches?

**Sofroniou:** You end up having different asset allocations for each area. It is about liaising with the actuaries about whether they understand what they need to do in terms of modelling the assets, which is a constant communication we have. It is about having a framework in place to answer questions that may come back from the regulator but also to ensure that we complete a resource intensive process on time.

## Regulation

**Chair:** One of the arguments that insurers put forward at which point our regulators and government tend to look on us more



favourably than others, is when we say we are the source of long term capital for the investment industry and infrastructure. Do you think that the current regulations risk throttling insurance as a source of capital?

**Price:** One of the things that regulation has caused insurers to miss out on as an opportunity, is an eight year bull market for equities. This goes back to the time horizon for Solvency II. If you have a 20 year promise from an insurer's point of view, economically if you have an equity portfolio you are statistically more likely to be able to meet that promise than if you have got a credit portfolio. The regulations completely ignore this. In terms of providing equity finance to the real economy insurers have not been doing this because to some extent Solvency II has got in the way.

**Sutcliffe:** You can also bring the matching adjustment into that as well, because there are so many asset classes which have to be restructured to go into it.

**Blamont:** On the annuity side, the concept of the matching adjustment improves the capital efficiency of long-term investing. But the matching adjustment requires good matching and a hold to maturity investment philosophy. So it makes sense to hold capital for the risk that this matching does not materialise because of downgrades and defaults. Back to the post-Brexit environment, this is where the UK has a chance to revert-back to a more principles-based regulatory regime.

**Chair:** Traditionally insurers and indeed pension funds were huge investors in equity. At the last count, insurers assets were down to 12 per cent equity. Is this a good thing?

**Price:** Probably not for the real

economy. This comes back to the point of the regulation making it very difficult for insurers to be able to afford the capital to invest in equity. There is scope in the insurance market however, and a lot of with-profits funds have reasonable proportions of equities in them.

## ILS

**Chair:** Looking at the insurance-linked securities market, what can the panel say on this?

**Wade:** It is about a \$72 billion market at the moment, mostly based in Bermuda and the Cayman islands. It is a means of transferring risk from reinsurers to the capital markets and to some extent because of its main geographical location, it has sometimes been regarded as not quite respectable.

At a purely London market level, I was watching the Bermudan markets grow as they have in the reinsurance markets over many years. Over the last five years, insurance-linked securities have gone from being a sort of temporary structure in the reinsurance markets to being something which is actually permanent and mainstream. It is not always perfect in matching liabilities, but it is a low cost way of transferring risk, it takes cost out of the chain, it's quite dynamic, it's quite bespoke and to some extent quite illiquid.

It is not in London yet, because you can't have protected cell structures as in Bermuda, the tax position of Bermuda and the Cayman islands is zero and the regulation is more flexible.

In 2014 I persuaded the government to start examining this as a question for London. The initiative was stated in the Budget in 2015 which made it credible. It has taken off from there and the conclusion of this process is that under the Bank of England and Financial Services Act 2016, you have provisions which relate to a structure called transformer vehicles, similar to a Class 3 Bermuda reinsurer with protected cells. For the first time under English law, you will be able to own a vehicle and create protected cells each independent of one another. It is now

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structurally legally possible to create an entity which manages protected cell structures. For these cells you need a tax agreement and under the Finance Act 2016 it has been agreed that these protected cells will be exempt from corporation tax. That puts London on track to be competitive with Bermuda and the Cayman Islands in respect of protected cell structures.

The third and all important leg is the regulatory framework. A consultation process concluded in February with a series of discussions with the industry as to the regulatory detail. The end result of this is satisfactory. I am confident that we will return to this as soon as the election is finished and this will be one of the high agenda points in the Treasury to get this through Parliament before the Summer recess. Assuming that happens, for 2018, you will have the beginnings of a London insurance-linked securities base. As an asset class it is very interesting because it becomes then a respectable location domicile for asset managers to put assets into, a transfer of reinsurance risk, but it could broaden it to government risks too including international development aid.

**Coulman:** It is a growing market and presents some great opportunities. We wouldn't really want to invest in it, but we would certainly see the opportunity of potentially complementing our reinsurance programme by issuing ILS relative to terrorism.

**Price:** Interestingly there are ILS products out there, that have index based longevity risk which non-life insurers could invest in quite happily just as life insurers can invest in cat ILS. Insurers are investors in this product depending on what the underlying risk is.

**Chair:** Wrapping up, can you give me some other major challenges facing our industry that have not yet been mentioned?

**Trew:** Fees are a challenge and are clearly relevant for both the person receiving them and the person paying



them. There are seismic shifts in fees. It is about partnership in seeking to find the right solution for a client, an alignment in fees that both satisfies the end client and incentivises the manager. It comes back to bespoke solutions; flexibility and sophistication in building fee models that align both parties. It is about working closely with clients, understanding their needs and the costs of delivering that solution.

**Sutcliffe:** For the life industry, the growth area appears to be bulk purchase annuities. Managing to get out of just BPA is important, and that could be an investment side product or more pure underwriting.

**Seeburrun:** No matter how good we are in building a solution, we are often hit against brick walls in terms of being able to deliver a complete product that is sellable. We come up with a lot of ideas on a daily basis and to be able to bring these ideas to a product is often challenging when it comes to getting it regulated internally and also approval process on the insurance side could take months.

Within the insurance companies you have the investment committees not just the CIO making the decisions. Nowadays it is not just the actuaries, you have people looking at regulation on a regular basis. So the combination of new ideas going into a product that is sellable is the real challenge.

**Blamont:** One challenge is to be a bit more nimble in responding to the changing environment in the context of existing mandates. There are implementation hurdles in terms of broadening the

investment mandate. Giving the asset manager enough freedom often means pulling away from index benchmarking. How do you reward the asset manager appropriately if you are not going to measure them against a benchmark?

**Cornax:** The traditional core of insurance balance sheets has shifted from government to credit markets globally. As credit

market valuations have compressed it has become necessary to support the core investing with more opportunistic asset classes. Opportunistic asset class allocations will require greater outsourcing by CIOs, and increase the importance of technology in managing assets. You have to be able to get scale to support the business. Implementing complete asset allocation strategies and custom alternative solutions across regions, sectors and asset classes has become an essential part of achieving an outcome that will meet insurers specific objectives.

**Price:** The question is, to what extent are we exposed to the big technology firms taking traditional insurers' market share, as their big data might allow them to bring different rating factors along with them to help compete from an underwriting point of view.

**Coulman:** To what extent is artificial intelligence potentially going to replace so many aspects within the insurance industry? One other aspect is the concern about liquidity within the markets.

I would raise the point that if we get another financial crisis, we don't have the investment banks as intermediaries in the same way we used to have prior to the global financial crisis given their own regulatory requirements. There is a lot of money flowing into a range of investment products, some of which are highly illiquid, which is fine while markets are stable and calm. But if there is a financial crisis and everyone wants liquidity, it is not going to be there, or is certainly going to be severely limited. That is a major concern.