A FRESH CHALLENGE IN INSURANCE MANAGEMENT

After a complicated interest-rate hike phase, new promising horizons are opening-up for insurance management, although there are other challenges to be met.

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In the space of just a few months, years of unrealised capital gains were wiped-out among insurance institution bond portfolios. The context ensuing from a difficult year in 2022 has obliged insurers and their asset managers to overhaul their allocations. The good news however is that the new interest rate context provides greater leeway, with yield dilution among euro funds held in life-insurance contracts coming to an end, since interest rates have rallied.

Some of our insurance institution clients have often called on us to advise them in reviewing their investment policies and asset allocations. This involves a multicriteria analysis integrating the new hierarchy in asset classes and our five-year outlook on asset prices, volatility, and capital cost impact. The fixed-income asset class, since yield has been restored, now assumes a prominent role in this new investment paradigm. Even within the various segments of fixed-income portfolios, flows can be redirected towards higher-rated securities, including sovereign bonds which have been neglected over recent years due to their lack of yield. This enhances the quality and liquidity of portfolios or provides the opportunity to reinvest in shorter-dated maturities in order to improve the liquidation profile of portfolios.

Active investment management makes sense once again

Since last year, active investment management has returned centre-stage with the aim of optimising asset allocation and the actuarial wealth of portfolios, while also improving their climate trajectory or ESG targets. More active investment management has led to arbitrage between asset classes and among equities and between debt issuers, or between different maturities for ALM purposes. These types of adjustments were impossible during the preceding period, as they would have accelerated the yield dilution we were seeking to curb. With euro funds finally benefitting from yield enhancement, we seek opportunities to accelerate this trend, without awaiting scheduled portfolio renewal. This also responds to a key need among life-insurers, keen to limit redemptions. This is an especially important point as they are facing competition from the Livret A regulated savings account at 3%, when euro funds delivered 2% on average in 2022.

Typically, our current investment programmes offer potential gross yields of between 3.5 and 4%, in response to this need. As we are cautious on equities, monetary markets have also become tactically attractive again, providing a temporary interest-bearing support.

Targeting climate issues

The strong focus on ESG is another key dimension for our insurance institution clients. The aim is to manage portfolio ESG quality and reduce carbon emissions, while also capitalising on investment opportunities offered through the funding of major transitions. We support these clients at several levels, from defining an ESG-climate methodology adapted to their ESG strategies, to carrying-out simulations to measure the gap between the current state of their portfolios and their objectives. Regarding the actual investments, we manage portfolios based on insurers' non-financial targets and engagements, including membership of the Net Zero Asset Owner Alliance and compliance with Article 8 of the SFDR. Another objective also emerges, involving taking biodiversity issues into consideration, which is a theme we integrate into the three pillars of our ESG policy (exclusions, integration, and engagement). We draw on data provided by Iceberg Datalab, which we include in our IT systems to calculate the biodiversity footprint of portfolios.

A relationship based on trust for tailor-made solutions

In insurance management, we intervene directly on our clients' balance sheets, which therefore requires a partnership structure to understand all of the issues at stake, notably the regulatory and prudential requirements. Our assignment, beyond portfolio management, includes upstream intervention (strategic or tactical allocation advice, assets/liabilities assessments, portfolio accounting projections) as much as downstream involvement, with our digital platform which provides our clients with an aggregated overview of their assets, along with order processing services and fund selection.

These specific needs have led Ostrum AM to dedicate a team of insurance management specialists to our clients, who speak their language and are experts in their insurance business. It is vital to be able to offer them a tailor-made service across the entire investment value chain, within a new increasingly complexed financial, non-financial and regulatory paradigm.