SOCIETE GENERALE

Look forward Think forward

Senior figures in the Asian insurance and asset management industries met in Macau in June for the fourth annual *Asian Insurance Forum 2013* – hosted by *Asia Risk* in association with Société Générale – to discuss the latest developments and prospects for the region

The Asian insurance industry has been pushing along on an upward trajectory, experiencing strong premium growth and increased market penetration – in particular throughout the less mature southeast Asian markets.

But, at the same time, there are headwinds for the sector. A prolonged low interest rate environment across Asia has made the search for yield a major target to attract investors, which has also presented additional risk management challenges. Alongside this has been the impact of regulation in the region, such as the far-reaching effects of the European Union's Solvency II increased capital requirements or local restrictions placed on individual markets, such as the tougher structured note environment in Taiwan.

To this end, the *Asian Insurance Forum 2013* afforded an opportunity for members of the insurance industry to meet with banking experts from Société Générale in order to forge new business opportunities in partnership, bringing together the investment capabilities of the institutional sector with the marketing and product expertise provided by Société Générale.

During the day's events, *Asia Risk* took the opportunity to report on two of the panel discussions. The first on maximising liquidity premiums in a fixed-income portfolio and the second on optimising distribution strategies in Asian jurisdictions.

Asset management firms and insurance companies look to loans as an asset class to bolster credit portfolios

Institutional investors throughout Asia are actively looking to invest in the loans markets in order to bolster long-term earnings and diversify their credit portfolios, while partnerships with banks will aid them in building up their expertise in the asset class.

Asset managers have been finding it difficult to diversify their assets both in terms of type and tenor. Additionally, some have found that retail investors react badly to extreme market volatility, which has befallen both the fixed income and equity markets in recent months. The long-term stability provided by loans is seen as one solution to calm retail investor jitters.

Welcome address: Yann Garnier, Société Générale

Eric Wu, regional head of credit, Asia (ex-Japan), at MetLife Hong Kong, speaking at the forum, says that investing in loans brings dual benefits.

"Loans bring duration and diversification benefits to our portfolios," he says. "We are probably one of the early starters in the private asset space, starting in the US in the early 1990s."

Hayden Briscoe, director, Asia Pacific fixed income at AllianceBernstein, also speaking at the forum, says that there has been a shift among asset managers to move into income strategies, but that loans offer a useful alternative to bonds.

"What we are seeing as a trend among asset managers is a move into income strategies, whether they are big regional blocs or global income strategies. Unfortunately for us today, most of those have been just in corporate bonds. Everybody has been chasing income but they tend to have very high correlation characteristics, be it a bank in Europe, the US or Asia," he says. "We also struggle to find assets that are in different tenors as well. So, with those problems, loans or less liquid securities are particularly interesting for our income services."

AllianceBernstein's Briscoe also thinks that the earnings stability provided by loans will reassure retail investors spooked by the violent swings seen in Asia's stock and bond markets recently.

Panel 1, from left: Alain Bokobza, Société Générale; Eric Viet, Société Générale; Rene Olij, Prudential; Eric Wu, MetLife; Hayden Briscoe, AllianceBernstein; and Pierre Trecourt, Société Générale

Panel 2, from left: Aaron Woolner, *Asia Risk*; Yann Garnier, Société Générale; Michael Leong, Etiqa Insurance & Takaful; Kevin Kwon, Prudential; Allan Huang, Shin Kong Life; and Ben Ng, Zurich

"The stability in terms of lower mark-to-market volatility would also be a very nice feature for retail investors in particular because, at the moment, retail investors tend to get very rattled by the extreme volatility that we've experienced recently. Even though they could be in a very nice income-generating strategy, they're rattled and they want to get out," he says.

However, buy-side firms have found it difficult to source suitable loan assets because both the market and the product format are dominated by banks.

"One of the biggest challenges we face, even as an experienced global player, is the ability to source assets. Traditionally, it's not surprising that most of the transactions have been dominated by banks. For years I would say the institutional market has not been developed well enough to be able to get involved in such projects," says MetLife's Wu.

"The other challenge is the format of the products. Banks are the dominant players. The product forms of the market are in bank loans, which means floating rates and prepayment call options, and none of these are attractive to us," adds Wu.

AllianceBernstein's Briscoe adds that an additional barrier to entry for investment firms is the current lack of expertise, although he believes this is changing.

"I'd say that sourcing talent is particularly difficult. We're actually in this transition phase. Looking at the structure of the deals – it's basically a bank business. All of the talent is in banks. Bankers aren't really sure how to get paid when they move to the buy side or to an insurance firm and, at the moment, asset managers and insurance firms are trying to attract talent from banks to come and work for us," says Briscoe.

"When that happens, asset managers and insurance firms will have much larger capabilities when it comes to loans, and then there will be a process of going directly to the corporates and maybe those large conglomerates – for instance, sponsors of large construction deals – and moving into term deals, fixed deals and a whole variety of structures," he adds.

In this respect, Eric Viet, head of financial institution advisory at Société Générale, also speaking at the forum, points to the success the bank has had in its partnerships with institutional investors in helping them gain expertise in the asset class.

"I think a partnership between a bank and an insurance firm is a good way to start and get the investor up the learning curve. We do help the investor by transferring the level of our understanding of credit, which will enable them to build up a team," says Viet.

"If I take our partnership with Amundi as an example, we started with one or two people looking at SME products, but today the team has grown very quickly. So, we will aid an asset manager who wants to be serious in the loans asset class ti build up a team quickly," he adds.

Bancassurance and multi-asset product models the future for Asia's insurers

Insurance firms around Asia are hoping that teaming up with banks and focusing on multi-asset equity products will enable them to tread the line between needing to offer products that both promise high returns and guarantee 100% of the initial investment.

Insurers across the region have endured a difficult few years since the 2008 crisis, either through new, tougher regulations or as a result of the prolonged period of low interest rates.

For instance, in Taiwan, the structured notes market ballooned to almost $30 billion prior to the crisis but, due to a lack of understanding of counterparty credit risks, investors were hit with heavy losses, especially in connection with Lehman Brothers-backed products. Tough new product approval processes were introduced in 2009 and the market has never really recovered.

Similarly, long-standing low interest rates in countries such as Japan has led to insurers placing more importance on higher-yielding, and thus riskier, equity products in order to meet their interest rate targets.

Speaking at the *Asian Insurance Forum*, Michael Leong, associate vice president, product strategy and investment solutions at Malaysian firm Etiqa Insurance & Takaful, says that customers are looking for high returns in the low interest rate environment, as well as guarantees after the losses suffered in the wake of the Lehman collapse. Dealing with both demands at the same time creates difficulties for insurance firms, according to Leong.

"If we had a choice, we would like to lower the guarantee because it would strengthen the balance sheet with lesser risks. Unfortunately, the confidence level of customers is a bit low and they want some certainty. Although we don't want to provide a high guarantee, that's currently one of the features that will sell," he says.

Leong says that the global financial crisis really put a dent in the structured product markets and his firm did not launch a single equity-linked product for three years after 2008.

"We didn't launch any equity products at all. We came back in 2011 and

Presentation: Klaus Baader, chief economist Asia Pacific for Société Générale; and Lei Lei Song, senior economist at the Asian Development Bank

Presentation: Anthony Bice, partner and head of the insurance practice, Asia Pacific at Oliver Wyman

what we did was add a feature where not only would we guarantee the 100% capital investment return but we would also guarantee a minimal return for the customer, gaining back the confidence of the customer. We have launched about five products so far since 2011. The yield must be higher than the current yield but, based on the current environment, it is quite a challenge to meet that requirement," says Leong.

Yann Garnier, head of sales, global markets, Asia Pacific at Société Générale, says that the past few years have seen the rise of multi-asset products for investors, which provide an efficient way to cater both for higher yield requirements and lowered risk.

"What is common across the region is that investors are looking for guarantees and simple products and the new trend we've seen in the last couple of years is the rise of multi-asset products. Why? Because it makes sense not to be focused on a single asset class when you see market cycles that are very short, and every year the best-performing asset is in a different class," says Garnier.

"That is where innovation makes a difference and that's where companies in Japan such as Daichi Life have been embracing this model, bringing cross-asset solutions to the market over the past couple of years. Simple products with guarantees that are less costly to manage," adds Garnier.

Kevin Kwon, director at Prudential Insurance, speaking at the forum, agrees that one solution to get around the higher costs from guaranteed products is the multi-asset product.

"Multi-asset is probably one of the most useful tools. One of the ways to resolve this problem [around guarantees] is to stay with a non-principle guaranteed product but with funds that have some controlling mechanism embedded," he says.

"We launched a new fund with Société Générale last year that has a call option and the majority of the premium gets invested into treasury [bonds], which are considered less risky assets. The X% of premium you'll get is used to purchase a call option on the underlying. Especially when the market cycle is getting shorter and shorter, that might be considered one of the solutions," he adds.

Allan Huang, product manager, product innovation desk with Taiwanese firm Shin Kong Life, also speaking at the *Asian Insurance Forum*, believes that partnerships with banks, both in terms of product offering and distribution channels, is the way forward for insurers in Asia.

"I have seen new life insurance companies [which] focus on bancassurance that have grown very fast, especially if they provide investment-linked products. I think bancassurance really is the future," he says.

Banks come with a ready-made retail network and a history of providing investment product innovation, and Société Générale's Garnier says that bancassurance is fundamentally changing the insurance industry.

"We cannot ignore the rise of bancassurance and the consequence of this rise is a major shift in the industry. It needs to be the golden triangle now – between the bank that pulls in the client, the insurance company that wants to sell the product and the product provider," he says.

"I think there is a lot of value in this conversation and investment banks have something to bring there. The reality is in our day-to-day we talk to retail networks on investment products. There is this value in working together," adds Garnier.

Besides the discussion panels, there were keynote addresses by Erez Morag, co-founder of Innov8, *Elevating performance through innovation and creativity*, and a presentation on *Economic divergence: Considering the global picture – Europe, US and Asia*, given jointly by Lei Lei Song, senior economist at the Asian Development Bank, and Klaus Baader, chief economist Asia Pacific for Société Générale.

Additionally, there were presentations from Anthony Bice, partner and head of the insurance practice, Asia Pacific, at Oliver Wyman, on key challenges for Asian insurance companies, and from Guy Stear, head of research, Asia, and Marc Saffron, head of cross-asset solutions, Asia Pacific, at Société Générale, entitled *Systematic strategies applied to cross-asset allocation*.

Finally, there was a series of workshops on topics such as longevity risk transfer, structured funding, over-the-counter derivatives clearing and equity hedging strategies, as well as one-on-one opportunities for the insurance firms to meet with Société Générale's specialists.

Asian Insurance Forum 2013

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