

European Insurance Industry 2020

Meeting Insurers' Evolving Needs

OVERVIEW & METHODOLOGY

This annual report provides a detailed analysis of how European insurers use third-party asset managers to navigate growing investment, operational, and regulatory challenges. It provides detailed insight into the key market trends via three thematic report chapters, which are supplemented by dedicated country-specific chapters that focus on the six major European insurance markets: the UK, France, Germany, Italy, Belgium, and the Netherlands.

The report includes an unparalleled breadth and variety of data. It details historical assets under management (AUM) and asset allocations, forecasted growth of AUM, and precise estimates of insurance assets addressable to external asset managers. The research covers the following key themes: the changes to asset allocations and outsourcing rates for fixed-income and illiquid strategies; the growth of strategic partnerships; fee pressure and discounting across different markets and asset classes; the growing focus on environmental, social, and governance (ESG) and climate-related risks; opportunities presented by consolidators of closed-book insurance portfolios; the growth of the unit-linked market, and trends in fund selection for unit-linked platforms.

USE THIS REPORT TO

- Understand the nuances of how outsourcing opportunity varies across asset class, insurer size, and location
- Review the changes that insurers anticipate to outsourcing fixed-income and alternative asset classes in next 12-24 months
- Analyze the precise variation of fees across markets and asset classes, and gain insight into how managers are expanding their offerings to relieve further downward fee pressure
- Learn how the strategic partnership demands of insurers differ in relation to their size, location, and business type

QUESTIONS ANSWERED

- How are European insurers addressing the various challenges that they face?
- How is asset managers' engagement with their insurance clients evolving?
- How do fees for insurance mandates differ by market and mandate type?
- Do European insurers plan to increase their outsourcing of core fixed-income strategies?
- Which general account markets offer the most opportunities for asset managers?
- What opportunities exist for managers in the European unit-linked industry?
- What support do European insurers want from external managers in relation to responsible investing?

PRODUCT DETAILS

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- 1. Key Market Data:** Explore a comprehensive overview of the general account and unit-linked insurance markets in Europe, which includes historical and projected AUM, five-year compound annual growth rates (CAGRs), and amount of assets that are potentially addressable for external asset managers. Additionally, analyze and compare side-by-side the general account asset allocation and AUM for 23 European countries.
- 2. Opportunities for Asset Managers:** Analyze detailed breakdowns of the opportunities that exist for European asset managers within the traditional fixed-income, private investment, and unit-linked markets.
 - a. General Account: Traditional Fixed Income:** Includes an analysis of expectations for demand and outsourcing activity, as well as the percentage of insurers currently outsourcing allocations by fixed-income strategy.
 - b. General Account: Private Investments:** Features an overview of asset demand expectations, current and planned changes to outsourcing levels, and insurer views on the reduction of capital charges for long-term equity investments.
 - c. Unit-Linked:** Review the proportion of unit-linked active mutual funds, passives (ETFs and index funds), and semi-passive ETFs (e.g., smart beta) in select European countries, and insurers' expected changes to their use of these different fund types in the next 12-24 months.
- 3. Navigating the Environment:**
 - a. Manager Selection: General Account:** Gain insight into the perspectives of European general account insurers on the most important factors in selecting asset managers and plans to reduce the number of managers with which they work.
 - b. Manager Selection: Unit-Linked:** Examine the importance of different factors in unit-linked fund selection, and the number of funds and asset managers being used by unit-linked insurers currently and in the next 12 to 24 months.
 - c. Fee Pressure:** Explore insurers' sentiments on the amount of fee pressure that they feel from managers, the frequency of management discounts by asset class, the ways in which fee pressure is changing, and the reasons that asset managers discount insurers' fees.
 - d. Responsible Investment:** Understand current and future requirements for responsible investment reporting and the ESG guidance currently required by insurers.

How is insurers' engagement with external asset managers evolving?

Cerulli's insurer survey found that one-quarter of European general account insurer respondents plan to reduce the number of external asset managers they work with over the next 12 to 24 months. However, this number is much higher in France, where almost 40% of respondents are considering reducing the number of managers they work with. These results are in line with the findings of last year's survey, which showed that many French and German insurers were considering reducing the number of external managers they worked with.

The way European insurers engage with asset managers continues to evolve. Driven by the need to improve operational efficiencies and profits, insurers are increasingly consolidating their relationships with external asset managers. Managers also increasingly prefer partnership-type engagements as a result of fee pressure and growing consolidation across the industry. Cerulli believes that the key criteria that define a partnership are the depth of service provided and the proportion of assets managed on behalf of the client, rather than an assets under management threshold of €0.5 billion (US\$0.6 billion) or €1 billion. Strategic partnerships are much more than simply outsourced mandates. Managers aiming to secure strategic partnerships with insurers should be willing to accept fee cuts: the managers Cerulli spoke to said that strategic partnerships can involve fee discounts of 20% or more.

Exhibit 1.07

Insurers: Expected Changes to the Number of External Managers Used for General Account Business by Country, 2020

Source: Cerulli Associates

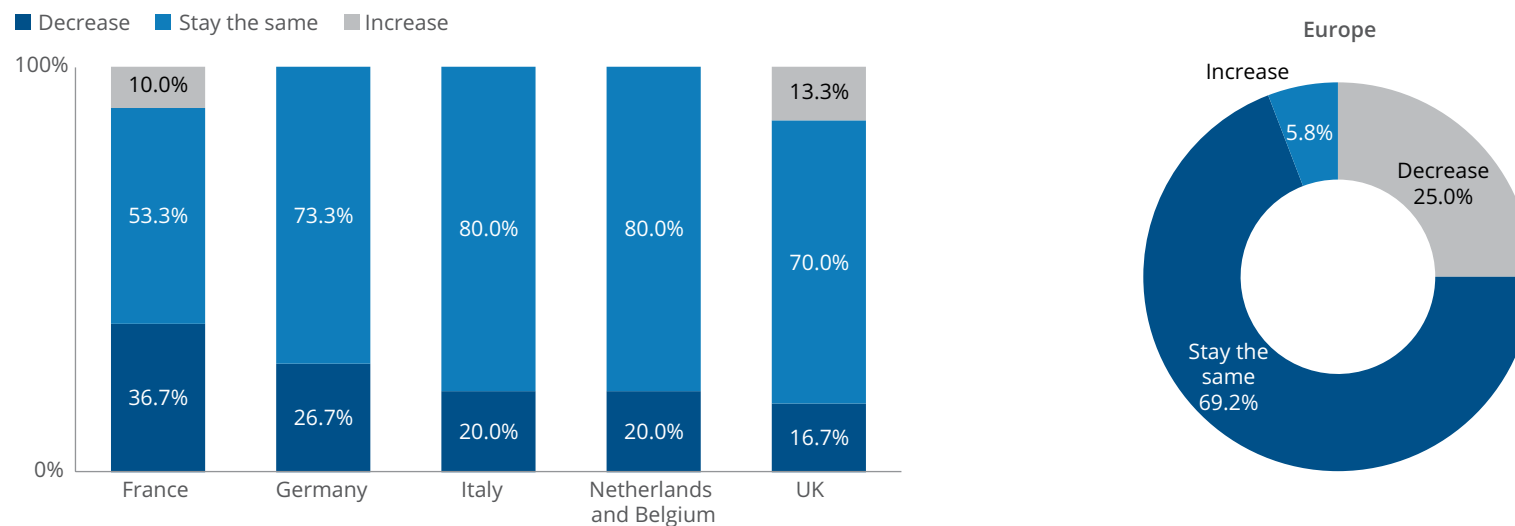


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