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CREDIT

Insurers' triple trouble

Against the current economic, regulatory and market backdrop, insurers' asset portfolio composition strategies face increasing pressure. In this report, we explore alternative asset classes, investments in which could benefit insurers across Europe

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Executive summary

Insurers are looking at how to balance out their solvency capital requirement, return on capital and duration needs while limiting their exposure to increasingly volatile interest rate risk.

They are adding duration to their portfolios with mortgages, attracted by the low cost of capital and limited risk and slowly increasing their share in the primary and secondary mortgage markets across Europe.

Vast opportunities lie with infrastructure debt. Lucrative from the capital requirements perspective, this asset class offers insurers long duration, illiquidity premium and portfolio diversification while also having the benefit of adding sustainability factor to insurers' portfolios.

In search of yield, another alternative to re-risk insurers' asset portfolio is to invest in

unrated bonds and loans. This market provides hefty illiquidity premiums, above sub-investment grade exposure SCR treatment, limited value volatility and tailor-made instruments with great pricing transparency.

Albeit relatively recent, acquiring loan portfolios from banks is another option to consider. Different regulatory frameworks for banks and insurers provide for an opportunity for CRRII/CRDV/Solvency II arbitrage as some loans receive better treatment on their insurer's balance sheet than they did on one of the banks.

We expect insurers to continue shifting their portfolio from more traditional asset classes towards more illiquid and novel ones over the coming five to 10 years.

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