

AllianzGI Insurance Snapshot: Exploring new ways to improve the long-term risk- return-sustainability ratio

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investors only**



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Market conditions, the changing nature of the life insurance business and client offerings, consolidation and sustainable investing: Edouard Jozan, Head of Allianz Insurance Asset Management (AIAM) at Allianz Global Investors (AllianzGI), provides an update on recent trends in the life insurance and asset management industries.

Life insurance in Europe is undergoing major changes. What is driving these changes?

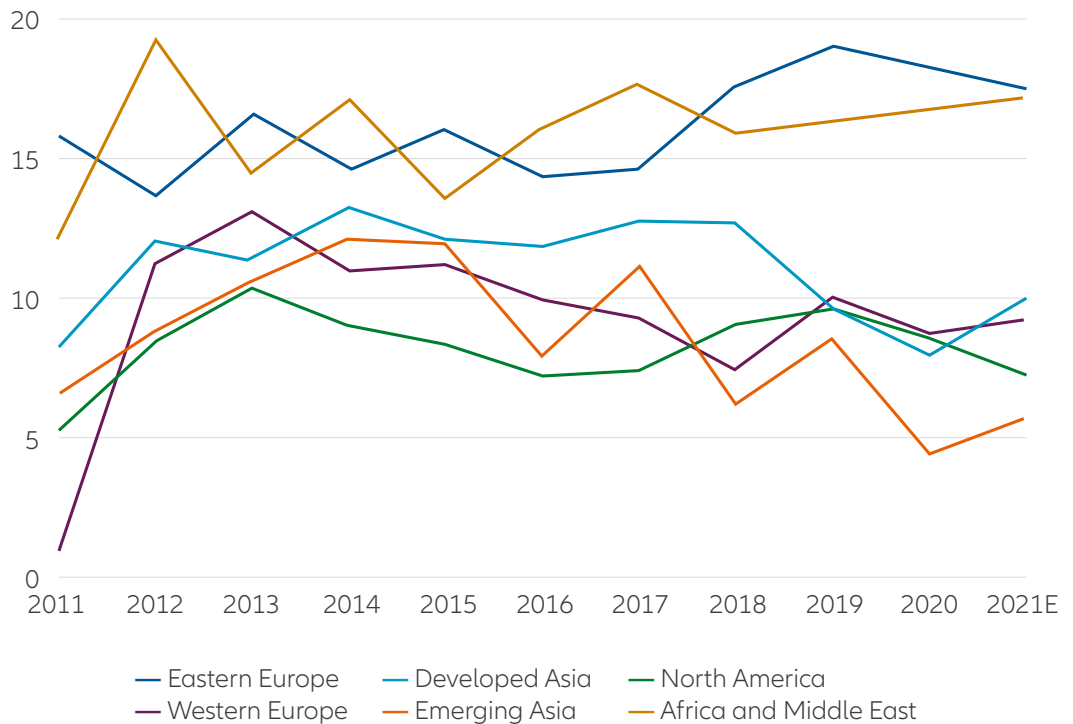
The combination of a low- and volatile-interest-rate environment and an even greater focus on environmental, social and governance issues is the driving force behind the changes in the life insurance industry. The culture of the traditional guaranteed euro fund – although still a pillar for savers – is shifting to reflect this new dynamic and customer offering, while prudential and accounting rules continue to adapt to these developments.

Against this background, we are seeing significant consolidation and reinsurance transactions. Life insurance providers – both traditional and new – are finding this to be a way to meet their customer obligations while securing their long-term financial strength

and profitability, at a time when organic growth is slowing, and the cost of guarantees for legacy products is becoming more expensive. Insurers' profits are feeling the pressure in the current environment, and they are looking for alternative sources of capital and more suitable long-term client solutions. Over the past two years, there has also been a shift in the size of transactions and how they are structured. As a result, beyond the conventional acquisition of one insurer by another, we are beginning to see new players from the world of reinsurance and private equity emerge, with strong financial capabilities and the ambition to play a major role in the transformation of the life insurance industry. The relationship between these new players and the more traditional insurers has to be mutually beneficial for all parties involved, especially for the clients who invest in them.

Economic profitability has slumped in several regions

Insurers' ROE by region in %



Source: MCKinsey, Global Insurance Report 2022

In the context of low interest rates and lower returns on euro funds, how is the relationship between insurers and asset managers and savers changing?

Proximity to clients remains fundamental, making the role of insurers and distribution networks all the more important, particularly when it comes to promoting better financial education and advice tailored to clients' profiles and objectives. In the United States, financial markets and investment products are culturally more visible in everyday news. Americans take an active role in their investment decisions, often working directly with asset managers. In France, the trend is growing, with the pay-as-you-go pension system as we know it complemented by special savings solutions.

In recent years, the client offering has expanded in response to both the financial environment and client expectations. Returns on euro funds are diminishing to the point where they no longer meet inflation

levels. This situation highlights the need not only to offer alternatives, but also for investors to access appropriate financial education and advice in order to better understand how financial products work. In response to the fall in returns on euro funds, the life insurance industry is turning to hybrid products. In some countries, a number of insurers now only offer unit-linked policies. End-clients either allocate their funds themselves or assign it to someone else, and it is in this context that the advisory role of the insurer and the asset managers is fundamental.

In addition to offering products that are appropriate to the risk profile and investment horizon of the investor client, the sustainability of investments has taken on an additional dimension in recent years. Regulation is also more stringent these days. Clients are looking to make meaningful investments by investing in the economic, social and ecological transformation of our society and businesses.

How is AllianzGI responding to the changes in the industry?

Faced with the rapid transformation of the life insurance industry, and clients' changing needs, AllianzGI is aligning itself in a transversal and global manner, bringing together its many years of experience as an insurance investor, a local focus on its investor clients, and global competencies,

combining all the elements of the value chain, from client relations and services to investment competencies, right through to information and reporting systems.

LOOKING FORWARD TO FUTURE DISCUSSIONS ON THIS CHANNEL!

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