

LIFE INSURANCE IN FRANCE: EUROPE'S NEW FRONTIER FOR THIRD-PARTY ASSET MANAGERS

French life insurance is shaping up to be the biggest new outsourcing opportunity in the European asset management industry. This is the direct consequence of the Solvency II Directive and the persistence of ultra-low yields, which are bound not to correct upwards for the foreseeable future.

Life insurance has traditionally been the financial savings vehicle of choice in France with a total market exceeding €1.5 trillion or 38% of household savings. The last few years have shown a remarkably strong recovery in net new cash for life insurance, of which unit-linked assets currently take the lion's share.

On top of that, low yields force French insurance companies to be more innovative in their investments, explaining a major shift in outsourcing towards third-party asset management.

INDEFI's newly published research **Life Insurance: The New Alchemy** captures the trends at 45 insurance companies supporting our conclusions.

Life Insurance: The New Alchemy - Report Summary

The traditional life insurance model is no longer able to meet the needs of French savers. A combination of increased regulation and the current low yield environment is putting an end to the rationale of guaranteed products based on the proprietary assets of insurance companies.

As a result, a majority of insurers are shifting their commercial focus away from traditional guaranteed products to unit-linked, non-guaranteed products. We have witnessed this trend elsewhere in Europe but, given the size of the French savings industry and the prominence of traditional life insurance as the savings vehicle of choice, this trend is significantly more pronounced in the French market.

Figure 1 – Evolution of life insurance net inflows (sources: FFSA, INDEFI).



The "Italian scenario"

In 2015, for the first time in history, a majority of life insurance net inflows have found their way in unit-linked contracts. This trend has persisted in the first half of 2016, despite jittery market conditions, as a result of the commercial effectiveness of distribution networks, which are proactively focusing on delivering new solutions to retail investors.

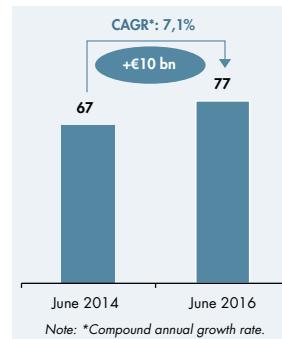
We anticipate that the annual growth rate for unit-linked investments will exceed €10 bn achieved through insurers' proactive commercial strategies.

Moreover, should interest rates remain sustainably low, the conversion potential from guaranteed products to funds is huge, up to €200 bn. This is not unlike the massive migration from bonds to funds phenomenon witnessed in Italy over the 2012-2015 period.

Outsourcing opportunity

The French life insurance segment has always been open to third-party products (outsourcing rate of 37%). Over the past two years, the market opportunity for third-party asset managers has gained €10 bn, driven by the increasing opening of proprietary networks to external products. This is a direct consequence of the search for yield in product areas where domestic managers affiliated to insurance companies lack product or are not able to offer a competitive expertise.

Figure 2 – Growth in open architecture assets (source: INDEFI).



While domestic competition is fierce, this segment is increasingly open to international asset managers. Recent trends (increased wholesaling on the back of the implementation of top-down commercial strategies, new offerings in the alternative and real asset space) and regulatory constraints are reshuffling competitiveness drivers and opening the way for new entrants to succeed in this market.

Conclusion

It is our conclusion that the rising tide of unit-linked assets combined with the gradually increasing rate of open architecture present the largest opportunity in Europe for international, third-party asset management today.

We would be happy to further explain this opportunity with you and your teams and discuss how INDEFI can help in positioning your Company for growth in this attractive yet demanding market segment.



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ABOUT INDEFI

INDEFI is a strategy advisor for the European investment management business. We help European and international investment managers in articulating their most impactful top line growth strategy in key European markets. We apply an information advantage acquired through our own field research with an ability to interpret long term trends at their earliest inflection point.

For further information on our new research **Life Insurance: The New Alchemy** please contact Clémence Droin at clemence.droin@indefi.eu.