Agnès Lossi : "We expect a lot of progress in terms of dynamic balance sheet management and capital steering including their volatility, which is probably the major challenge for institutions."

According to Agnès Lossi, Partner and Director at Indefi, market risk contribution to capital requirements is high. It represents almost 50 % of the capital needs.

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Next-Finance : What is the proportion of insurers in internal model versus standard model ? What explains this proportion in favor of the standard model ?

Agnès Lossi : Insurers using internal model are still rare and are part of international groups. The standard model is the norm for the large majority of them. Moving to an internal model requires heavy investments that few organizations are willing to carry on. Some of them may choose to have the ACPR (Autorité de Contrôle Prudentiel et de Résolution) validation for all or part of their balance sheet through the internal model in order to take advantage of diversification factors that the standard model would not take into account.

What is the impact of Solvency II on insurer allocations ?

Solvency II introduces a principle of economic asset/liability management. Market risk contribution to capital requirements is high. It represents almost 50 % of the capital needs according to the ACPR analysis carried out during the last pre-Solvency II financial year. It is thus easy to understand that the degree of sensitivity of investors to Solvency II in terms of their asset allocation is strongly dependent on the weight of the market SCR in the total SCR and the overall covering equity margin for each of them. For the French market, the introduction of the new Directive has essentially led to a reduction in the equity allocation in favor of bond diversification and, more recently, unlisted assets. The effects of a low rate environment should also be taken into account in the determinants of allocation changes regarding asset allocations.

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What about the proportion of bondholders in their portfolio? With an additional risk of rising rates, is there not a major risk for insurers?

Insurer assets are mostly invested in bonds (over 80 %). Their sensitivity to a rate rise should be examined in terms of liabilities. The apparent main risk for insurers is an environment of very low interest rates during a long time or a sharp rise in interest rates, encouraging some insured persons to buy back their contracts in order to invest in new investment vehicules. From our point of view, we note that the saving organizations in France have the ability to face this scenario. It is not necessary to use a public intervention "red flag", even if the provisions of the Sapin II law (article 21 bis) are common sense.

What about the uses of hedging strategies for insurer portfolios? Is this essentially via derivatives or directly in covered investment funds where the fund manager itself provides this hedge ?

Insurers are historically users of financial hedges. Most experts manage these hedges internally. Putting these hedges in a dedicated product can also be seen as an efficient accounting tool since the accounting impacts of each hedging move are contained in this product.

Debt funds, infrastructure debt or real estate are rather well treated in Solvency II. Do you see an increase in outstandings assets for these asset classes among insurers ?

The persistent low interest rates environment invites investors to change their allocation by increasing diversification assets: this trend is illustrated in particular by the increasing weight of unlisted investments, whether in bond portfolios or in real assets. Investment in unlisted assets are made with the objective to have new sources of return. The latter also benefit from preferential regulatory treatment under Solvency II, which fuels this dynamic growth. Insurers are long-term investors and therefore could carry a portion of illiquidity.

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Concerning Solvency II, what are the challenges still facing insurance companies ?

Considerable efforts have been made in the preparatory phase for the implementation of the Directive. Everything has not been fixed since January 1, 2016. For example, if we take the transparency issue, it is a field that has moved forward rapidly but is far from complete, especially for the data quality and their analysis. Regarding allocations, major moves are behind us and are now more determined by the interest rate environment. Developments are expected in the framework of relations between agencies and management delegates. Finally, we expect a lot of progress in terms of dynamic balance sheet management and capital steering including their volatility, which is probably the major challenge for institutions.

Paul Monthe , **RF** , 2 décembre