INSURANCE: THE FUTURE OF ASSET MANAGEMENT OUTSOURCING IN EUROPE

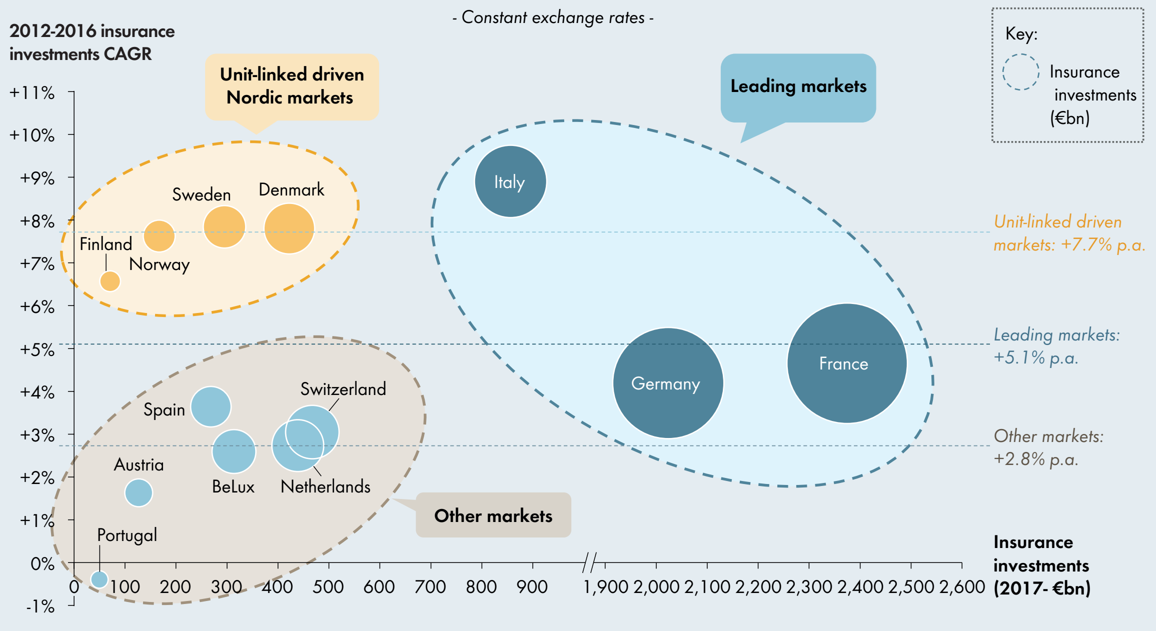
Asset managers are facing headwinds in their traditional markets. Pension outsourcing, long considered the main institutional opportunity for third-party asset managers across Europe, is drying up, stifled by a lack of inflows, a switch towards passive strategies, and the rationalisation of pension systems. At the same time, the introduction of MiFID II is scrambling fund distribution, challenging the concept of open architecture in vertically-integrated European markets and leading organisations to consider reducing their number of partners, favouring in-house funds at the expense of third-party managers.

In light of these trends, insurance investment outsourcing appears as the most attractive growth opportunity for asset managers in Europe, both in the institutional and distribution segments. Our latest research, an extensive analysis of the European insurance market based on over one hundred in-depth interviews with key decision makers, delves into the determinants of this market and highlights opportunities for asset managers.

THE BIG PICTURE

With over €8tn in assets under management, European insurance is a sizeable market, supported by asset growth of +5% p.a. However, not all countries have been created equal. Home to two thirds of investments, the top three countries – France, Italy and Germany – concentrate the greater part of the market. Unit-linked driven Nordic markets make for smaller but vibrant opportunities, while a third group of countries, proves, for discrete reasons, less attractive.

Three macro-segments stand out in the European insurance market



AN ATTRACTIVE OPPORTUNITY

The third-party insurance investment market has experienced dynamic growth since 2012, driven both by the overall increase in total assets and a surge in outsourcing rates, from 9% in 2012 to 12% in 2017. From ~€850m in 2017, it is expected to exceed the €1tn mark by 2020 as outsourcing rates continue to rise, driven by a conjunction of positive factors. They include the switch from balance sheet to unit-linked investments and the search for yield, which translates into greater asset allocation diversification and use of third-party managers.

Business profitability remains high for third-party managers due to the underlying asset class mix and format of outsourced investments. To top it off, the market has enjoyed relatively limited price pressure so far due to the low use of passive strategies, and greater latitude in fund distribution, insurance being outside the scope of MiFID II.

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The European insurance third-party opportunity
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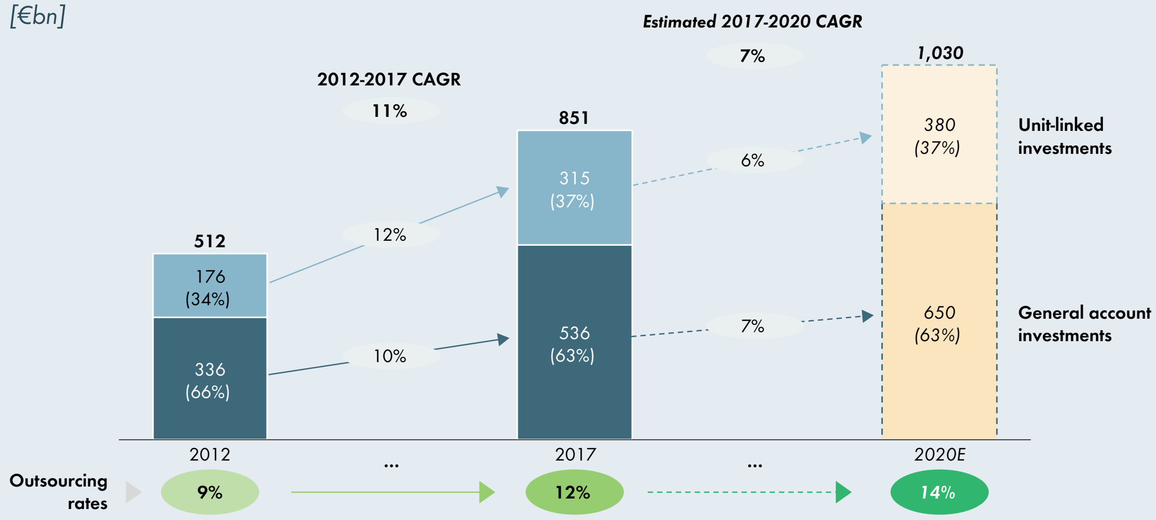

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NAME OF THE GAME

The insurance market covers two fundamentally different segments - the balance sheet, or general account, which has historically represented the largest part of investment assets (85% in 2017), and a smaller, albeit more dynamic unit-linked segment - which call for distinct abilities and skill-sets from asset managers.

- In the balance sheet outsourcing market, insurance companies seek first and foremost asset managers that speak their language and understand the intricacies of their business. Models best suited to successfully address this segment include local insurance specialists, able to adapt to domestic accounting and regulatory rules, and product-driven boutiques, which rely on the quality of their offering to drive inflows.
- In the unit-linked market, the key success factor lies less in the product than in the service model and the ability of the asset manager to establish itself as a long-term partner. While the traditional retail advisory model still represents two-thirds of the accessible opportunity for third-party managers, the opportunity is fast-shifting to insurer-driven open architecture. This leads to increased tailor-made solutions, such as model portfolios, and a rise in privileged partnerships.

Although Solvency II has sought to level the playing field across the continent by providing a common rulebook to all European insurance companies, country specifics remain pervasive. As such, while there is merit in the prevalent tendency to consider insurance clients as a separate distribution channel, a strong case can also be made for market-specific business development plans and adequate resource allocations.

We would be pleased to help you sharpen your strategy for the European insurance market and seize what promises to be tomorrow's most attractive opportunity for asset managers.

ABOUT INDEFI

INDEFI is a strategy consulting firm for the investment management business in Europe. We help our clients achieve sustainable competitive advantage by designing ambitious growth strategies. Our insights, based on our own field research, allow us to interpret long term trends at their earliest inflection point and provide our clients with an information advantage in their key markets.

*For further information on our new research **European insurance: the new "Great Game" in investment outsourcing** please contact Agnès Lossi at agnes.lossi@indefi.com*

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