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PRESS RELEASE

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Release**

PRESSURE AND CHANGE IN THE EUROPEAN INSURANCE SECTOR

Standard Life Investments has undertaken one of the most comprehensive surveys of its type to date to understand and assess the longer-term impact of the low-return environment on European insurers.

The survey shows that European insurers feel they are unlikely to be able to generate sufficient future returns to meet guaranteed rates for all their policyholders, and that regulatory modernisation and change may make it more challenging for traditional business models to strengthen income streams and make necessary strategic asset allocation changes.

56 interviews were carried out with senior insurance investment executives representing over €2.4trn, or around 30%, of pan-European insurance assets under management.

The survey identified five key themes:

- Increasingly, European insurers may no longer be able to generate sufficient future returns to meet guaranteed rates to policyholders.
 - The expected future annual return (based on existing investment strategies) of 2.4% is below the 2.7% respondents need to meet future policyholder requirements (based on current guarantee levels).
- In response, many European insurers are considering undertaking significant strategic (SAA) and tactical asset allocation (TAA) changes to improve yield.
 - Risk appetite appears to be rising. Half of insurers expect to reduce sovereign fixed income exposure, while over 60% expect to increase allocations to real estate and/or alternatives.
 - However, the survey highlights a 'north/south' divide on asset allocation, with Southern European countries having more confidence in existing investment strategies due in part to higher domestic yields on their sovereign fixed income.
- Insurers' investment freedom is affected by Solvency II.
 - 73% of insurers indicated that the forthcoming EU Directive is affecting the way they design investment portfolios as the taking of asset risk now requires appropriate risk-capital and a fuller understanding of the risks being taken.

- Outsourcing asset management activity is increasingly attractive, but there are concerns about fund management capacity and the number of asset managers able to meet complex insurer requirements.
 - 44% of European insurers are looking to outsource management of one or more asset classes.
- Insurer business models and profitability are under pressure from a structural shift away from guaranteed savings to unit-linked structures.
 - 43% of insurers stated they were unable to price new guaranteed investment products at competitive rates.

When the survey was conducted over the summer, European insurers felt they had further work to do before they would be completely ready for Solvency II. As evidenced by the many internal model approvals that have been announced recently, very good progress has been made in the interim.

Stephen Acheson, Executive Director, Standard Life Investments said:

“European insurers’ business strategies and traditional business models are being fundamentally challenged due to the combination of the long-term low return environment, Solvency II and the ongoing need to deliver on promised guarantees.

“The survey highlighted a clear theme of insurers looking to outsource to the external asset management industry. However, it also highlights a belief among insurers that the number of credible outsourcing partners is declining.

“It is important to remember that Solvency II was conceived and developed in a very different economic environment. Since our survey completed, fundamental questions about the design and performance of the Solvency II balance sheet in the current low interest rate environment have begun to be raised.

“For example, in the UK the PRA has recently pointed out that, as a consequence of low interest rates, the risk margin is leading to higher capital requirements and volatility. So the Solvency II development and implementation issues that the European industry has been working on over recent years will certainly not end on 1 January 2016.”

Standard Life Investments has 69 insurance clients investing balance sheet assets in over 20 countries, representing an AUM of £137bn (30/06/15).

A full copy of the report can be found [here](#).

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For further information please contact:

Yvonne Soulsby, Press Manager, Standard Life Investments, +44 (0)131 245 3610

To access our virtual press office, access the link below:

http://www.standardlifeinvestments.com/press_office/index.html

Notes to Editors:

1. The survey was carried out by NMG Consulting during the third quarter of 2015. The survey specifically targeted Chief Investment Officers and Chief Risk Officers across Europe to provide an in-depth perspective not previously captured with the industry. Interviews were carried out face to face. The survey targeted a mix of markets and business models.
2. The survey focuses on European insurers defined as institutional investors managing balance sheet assets which back guaranteed savings, guaranteed income and other life and general insurance policies. Interviews took place with 56 different European insurers covering €2.4 trillion in assets or more than 30% of total insurer balance sheets across Europe.
3. The breakdown of the sample by job title, size of assets, region and business model is as follows:
 - a. Sample by region – UK & Ireland – 13, Germany – 15, Northern Europe – 16, Southern Europe – 12
 - b. Sample by segment – large life – 15, medium life – 16, small life – 15, general insurance – 10
 - c. Sample by role – CIO – 33, portfolio manager – 9, CRO – 10 and ALM – 4
 - d. Sample by firm type – life insurer – 23, composite – 21, general insurance – 9, other – 3 (other includes annuity and health insurers)
4. The regions covered by the survey are United Kingdom and Ireland, Germany, Northern Europe (Finland, Sweden, Netherlands, Belgium, Liechtenstein, Switzerland), and Southern Europe (Italy, France, Spain, Portugal)
5. All information, opinions and estimates are those of Standard Life Investments and its affiliates, and constitute our best judgement as of the date indicated and may be superseded by subsequent market events or other reasons.
6. With assets under management of £250.6bn (30/09/15), Standard Life Investments is one of Europe's leading investment houses.
7. Standard Life Investments was launched as an investment management company in 1998. It is a wholly owned subsidiary of Standard Life Investments (Holdings) Limited, which in turn is a wholly owned subsidiary of Standard Life plc.
8. Headquartered in Edinburgh, Standard Life Investments' maintains offices in a number of locations around the globe including Boston, Hong Kong, London, Beijing, Toronto, Sydney, Dublin, Paris and Seoul. In addition, we have close relationships with leading domestic players in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank in Japan.

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