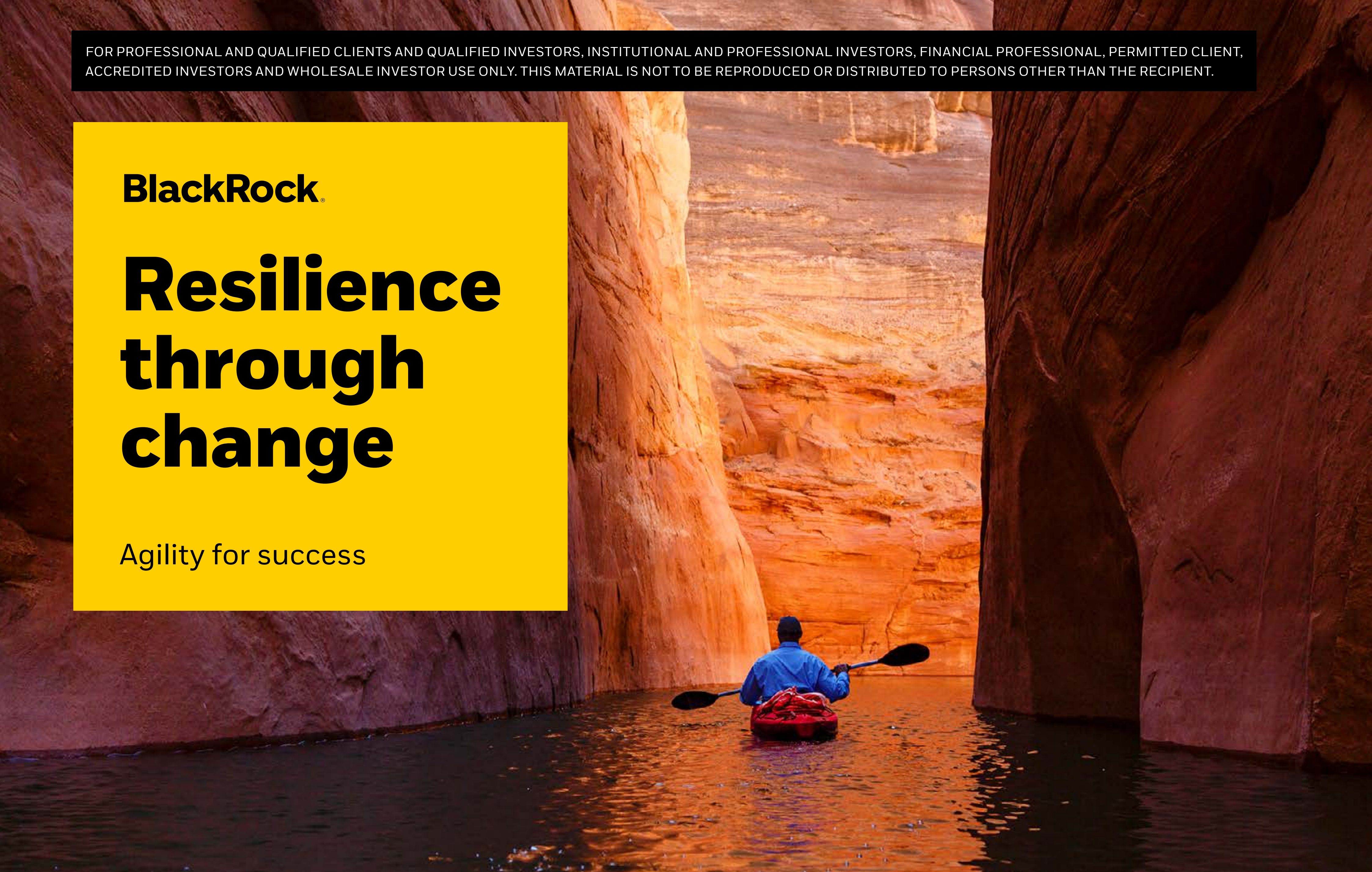


BlackRock.

Resilience through change

Agility for success

2024 Global Insurance Report

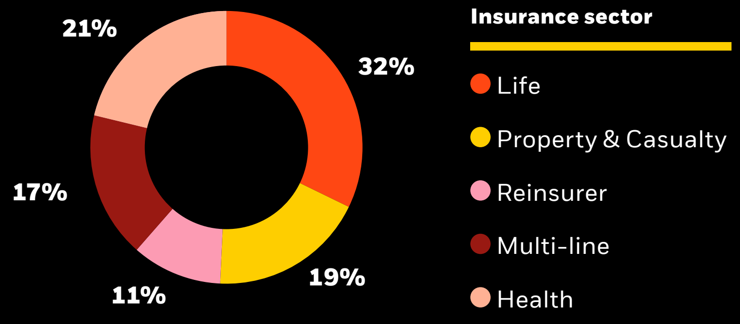
FSIGM1024E/M-3937337-1/44

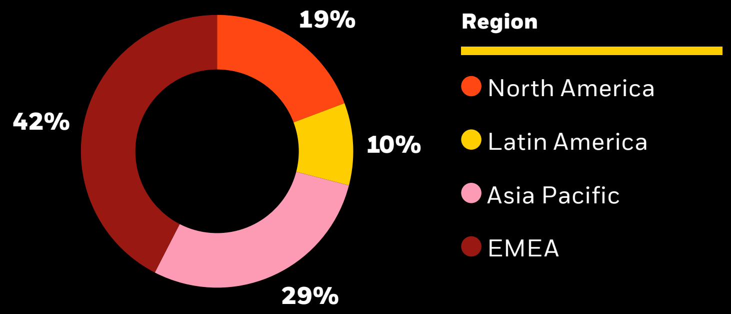
13th Annual report

410 Senior executives surveyed

32 Markets

US$27T Assets under management





Source: BlackRock Global Insurance Survey, June-September 2024.

Navigating this report

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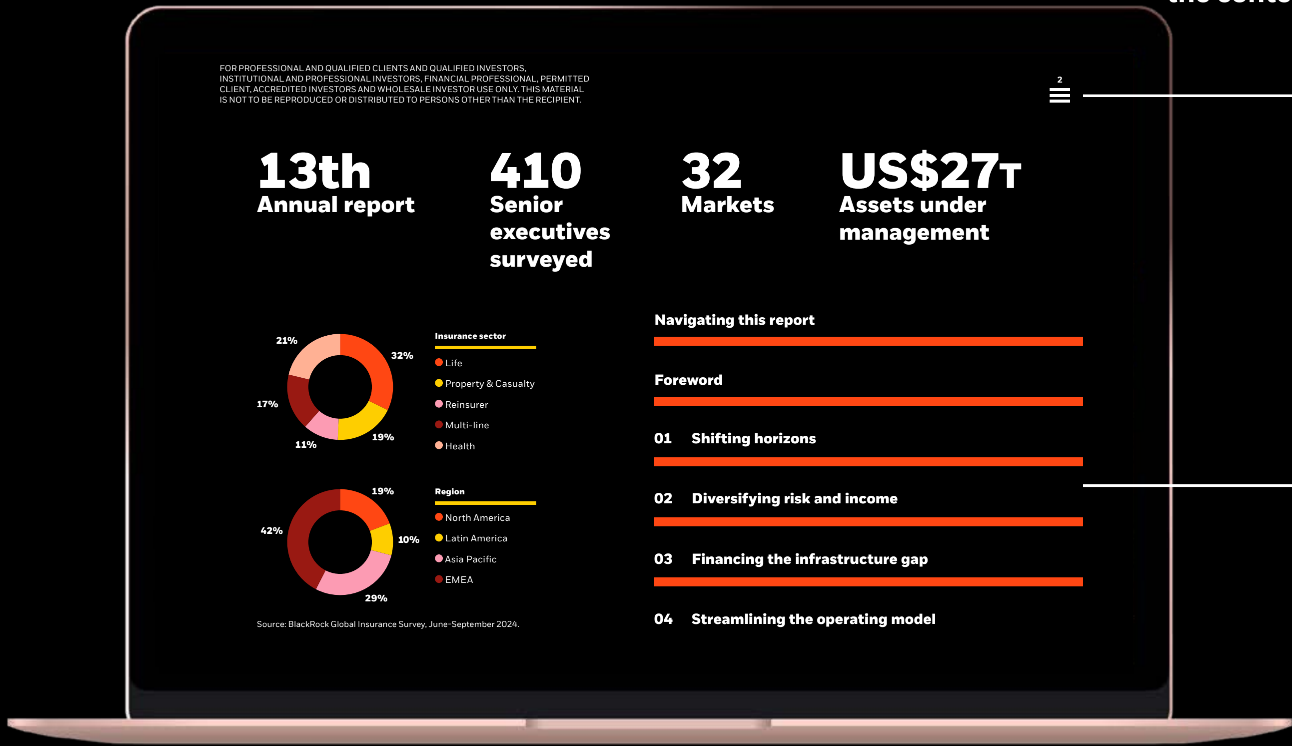

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Foreword

Mark Erickson
Global Head of the Financial Institutions Group, BlackRock

The 2024 investment landscape has been marked by significant macroeconomic and market volatility. Although global growth is slightly higher than last year's forecast,[1] it remains subdued compared with the pre-pandemic era. With many inflation indicators slowing,[2] central banks are cautiously approaching monetary policy normalization, while carefully monitoring the risk of persistent, structural inflation.

This rate environment is compounded by regulatory and political uncertainties. Global elections and escalating geopolitical tensions have impacted global trade, reshaping supply chains and influencing cross-border investments. Despite such challenges, the global economy shows signs of resilience. In this 13th edition of the Global Insurance Report, we examine how insurers are responding and differentiating themselves to gain a competitive advantage. We also queried clients about the opportunities and risks posed by the five structural mega forces previously introduced by the BlackRock Investment Institute,[3] namely demographic divergence, digital disruption and artificial intelligence (AI), geopolitical fragmentation and economic competition, the future of finance, and the transition to a low-carbon economy.

1. Shifting horizons

Regulatory developments (68%) and rising geopolitical tension & fragmentation (61%) were chosen as the top macro risks for insurers. With 2024 being the biggest election year in history, this underscores the uncertainty surrounding future policymaking in many countries across the globe.

Regarding market outlook, there is no global consensus. From the survey, 86% of respondents from EMEA and 87% from North America anticipate that central banks will engineer a soft landing. As inflation eases, they expect rates to fall leading to a gradual economic slowdown. But in other regions, insurers disagree. In Asia Pacific, 76% of respondents do not anticipate any landing and instead expect rates and inflation to remain high and the economy to stay resilient. In Latin America, opinions were mixed, with a higher percentage (18%) expecting a hard landing relative to other regions.

2. Diversifying risk and income

Respondents identified interest rate risk (69%) and liquidity risk (52%) as their most serious market risks. With global interest rates higher than they were three years ago,[4] investment yields for portfolios have improved. Insurers are taking advantage of this environment by allocating to opportunities in both public and private markets.

Public fixed income continues to play a fundamental role in insurers' investment portfolios, given its potential to provide stable and predictable income streams that match liability outflows in a capital-efficient manner. Additionally, insurers are continuing to increase their private market exposure, with 91% of those surveyed expecting to increase allocations over the next two years. Within private markets, insurers are increasingly focused on private debt. This theme goes beyond the simple fact of insurers buying more alternative products and links to the mega force of the future of finance. There is a shift from bank to non-bank lending driven by competition for bank funding (deposits) and increased bank regulation. This is generating new investment opportunities for insurers.

3. Financing the infrastructure gap

Insurers are positioned to play a key role in filling the global gaps that exist for both transition and infrastructure financing.

The low-carbon transition is an area of focus for insurers, with 99% of those we surveyed having set at least one type of transition objective within their investment portfolio. Insurers are also becoming a driving force behind transition finance initiatives, which in the past were chiefly the domain of industry and public bodies. Today, insurers are mobilizing insurance-sector capital and collaborating with asset managers to bring blended finance solutions to this funding gap.

A similar funding gap exists in infrastructure. Governments have traditionally built and maintained critical infrastructure, but with global public debt tripling since the 1970s,[5] it is unlikely they can fund it alone. At the same time, the maintenance and expansion of infrastructure is just one of many demands on companies' resources relative to their ability to fund. This financing gap is creating new opportunities for asset owners to invest in both traditional and digital infrastructure across a wide range of sectors.

For those insurers planning to expand their low-carbon transition investment strategy, clean energy infrastructure (60%) is the preferred thematic target area, along with transition technologies (also 60%).

In transition and infrastructure financing alike, partnerships with insurers will help build greater protection for vulnerable communities and drive impactful investments in vital facilities.

4. Streamlining the operating model

We are seeing increased convergence between the insurance and asset management industries. The overlap between these industries is growing with the expansion of global asset managers that are insurer owned, the proliferation of insurer-asset manager relationships and partnerships, and the acquisition of insurers by asset managers.

All of these industry participants need to be supported by technology. Our survey highlights a need for better integration, with the priorities being strategic asset allocation/tactical asset allocation (63%), asset-liability management (61%), and regulatory capital (51%).

Building upon the theme of private markets exposure, 55% of those surveyed said that increasing analytics coverage and support for private credit was a top priority, and 53% said that private-asset modelling in a multi-asset portfolio was an area where technology can add the most value.

According to 40% of survey respondents, having an investment partner who understands both their organization's insurance business and operating model is fundamental to the success of their strategic priorities. The need to future-proof the business model is a regular topic in our discussions with chief investment officers (CIOs). Their investment strategy must be flexible and agile to respond to a changing environment and needs to be supported by the appropriate technology-enabled operational, financial, and risk infrastructure.

Thank you to everyone who participated in the survey and to the senior leaders for sharing their expert opinions. We look forward to engaging with you further.

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1. www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024
2. World Economic Outlook (April 2024) - Inflation rate, average consumer prices (imf.org) https://www.imf.org/external/datamapper/PCPIPCH@WEO/WEOWORLD/VEN
3. https://www.blackrock.com/corporate/insights/blackrock-investment-institute/publications/mega-forces
4. Central Banks - current and historical interest rates (global-rates.com)
5. International Monetary Fund," Global Debt Is Returning to its Rising Trend," September 13, 2023.

01 | Shifting horizons

"A robust diversification strategy mitigates asset-price volatility, preserves financial stability and ensures consistent returns even in uncertain market conditions. Our SAA balances growth and risk, considering factors like interest rates and inflation expectations. In volatile markets we focus on defensive and resilient investments which typically experience lower volatility and stable demand and help cushion the portfolio against severe fluctuations. We have good liquidity to ensure flexibility, avoiding the need to sell long-term holdings at depressed prices."

Gianluca Banfi
Head of Finance, UnipolSai Assicurazioni & Unipol Gruppo

Mega forces: an investment opportunity

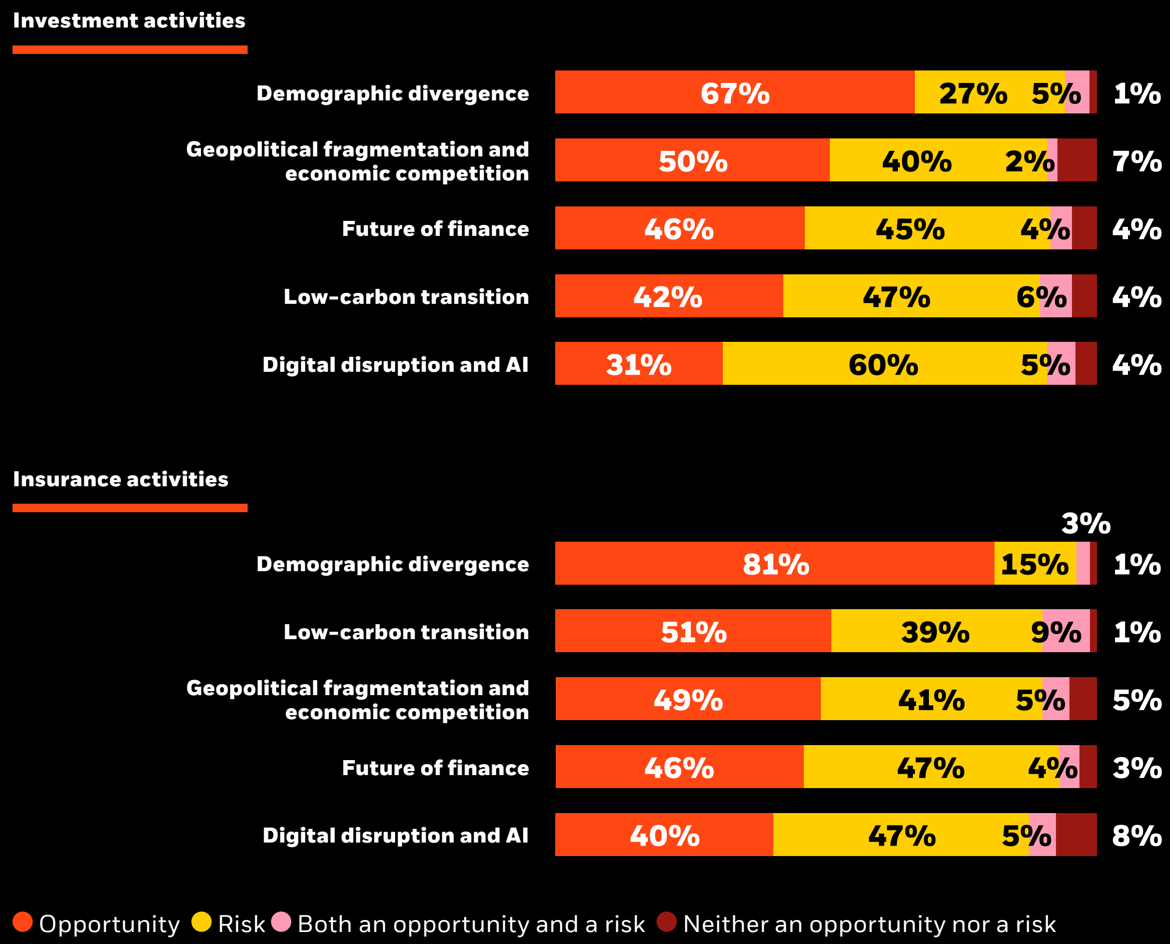
Mega forces are significant, structural changes that can affect investing both now and in the future. As key drivers of the new regime characterized by greater macroeconomic and market volatility, they can alter the long-term growth and inflation outlook, leading to substantial shifts in profitability across various economies and sectors. This dynamic creates significant opportunities and risks for investors.

When asked about the impact of these mega forces, insurers identified demographic divergence as the structural shift that can provide the most opportunities. This was consistent across their investment and insurance activities, as well as across all regions and insurance sectors.

> **“Demographic divergence, energy transition, and geopolitical fragmentation present risks but also great opportunities for insurers. Demand will grow for pension and life-protection products, along with insurance for damage caused by natural catastrophes, opening new market segments. Financing energy-transition projects offers capital-allocation opportunities, including public-private partnerships. However, rising longevity and healthcare costs pose significant challenges. Geopolitical fragmentation puts some paradigms of diversification benefits under discussion, and international insurance and investment business become more exposed to the risk of regulatory change.”**
>
> **Francesco Martorana,** Group Chief Investment Officer, Assicurazioni Generali

Global

Q.1 | Thinking about both your investment and insurance activities over the next 2 years, will these mega forces pose risks, provide opportunities, or both?



Source: BlackRock Global Insurance Survey, July-September 2024.

A world in transformation

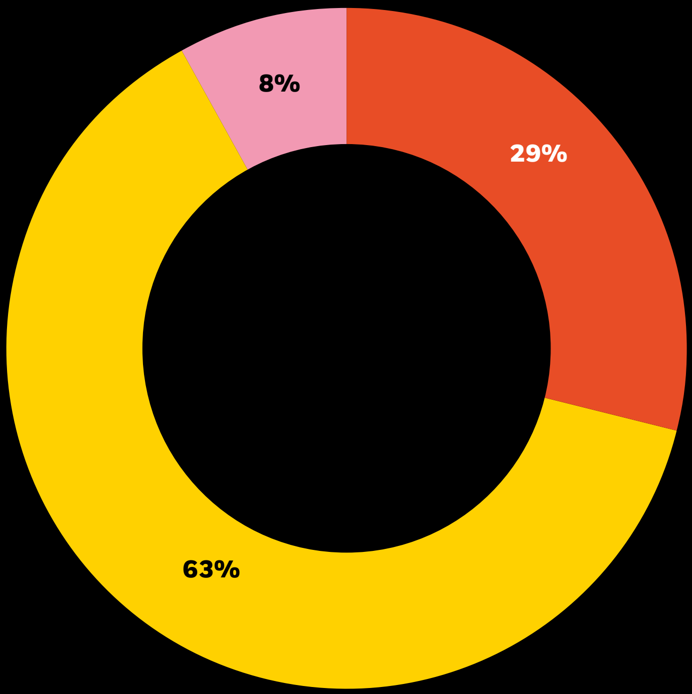
We continue to witness a world that has undergone profound changes since pre-pandemic times. Macro and market volatility persist, sparking recession fears, as evidenced by the global risk-off sentiment observed this summer. Concerns over higher inflation and interest rates, combined with weaker growth than in the pre-Covid era, have been further exacerbated by elevated public debt, labor-supply constraints from shrinking working-age populations, and heightened geopolitical tensions and fragmentation.

Before the pandemic, low inflation enabled central banks to cut interest rates and make asset purchases to stimulate the financial economy. In the current environment, central banks are cautiously normalizing policies and are likely to maintain higher interest rates for an extended period compared with pre-Covid levels. With each region approaching rates at its own pace, there is no global consensus on the market outlook. In this year's survey, 86% of respondents from EMEA and 87% from North America expect central banks to engineer a soft landing: As inflation eases, they expect rates to begin falling, leading to a gradual economic slowdown.

In Asia Pacific, 76% of respondents do not anticipate a soft landing, expecting rates and inflation to remain high and the economy to stay resilient. In Latin America, meanwhile, opinions are more mixed compared with other regions, with a higher percentage (18%) of respondents preparing for a hard landing.

> **"Many central banks are now cutting rates. But the paths they follow will differ across regions. Coupled with the reshaping geopolitical landscape, regional divergence will pose a challenge—and an opportunity—for those managing global balance sheets. "**
>
> **Alex Brazier,** Global Head of Investment & Portfolio Solutions, BlackRock

Q.2 | Within developed market economies, which is the most likely scenario over the next year?



- **No landing:** Core inflation stays high, rates stay/ move higher, and the economy stays resilient
- **Soft landing:** Inflation eases, rates begin to fall, and the economy gradually slows down
- **Hard landing:** Sharp fall in inflation, aggressive rate cuts, and the economy enters recession

Source: BlackRock Global Insurance Survey, July-September 2024.

The future of policymaking

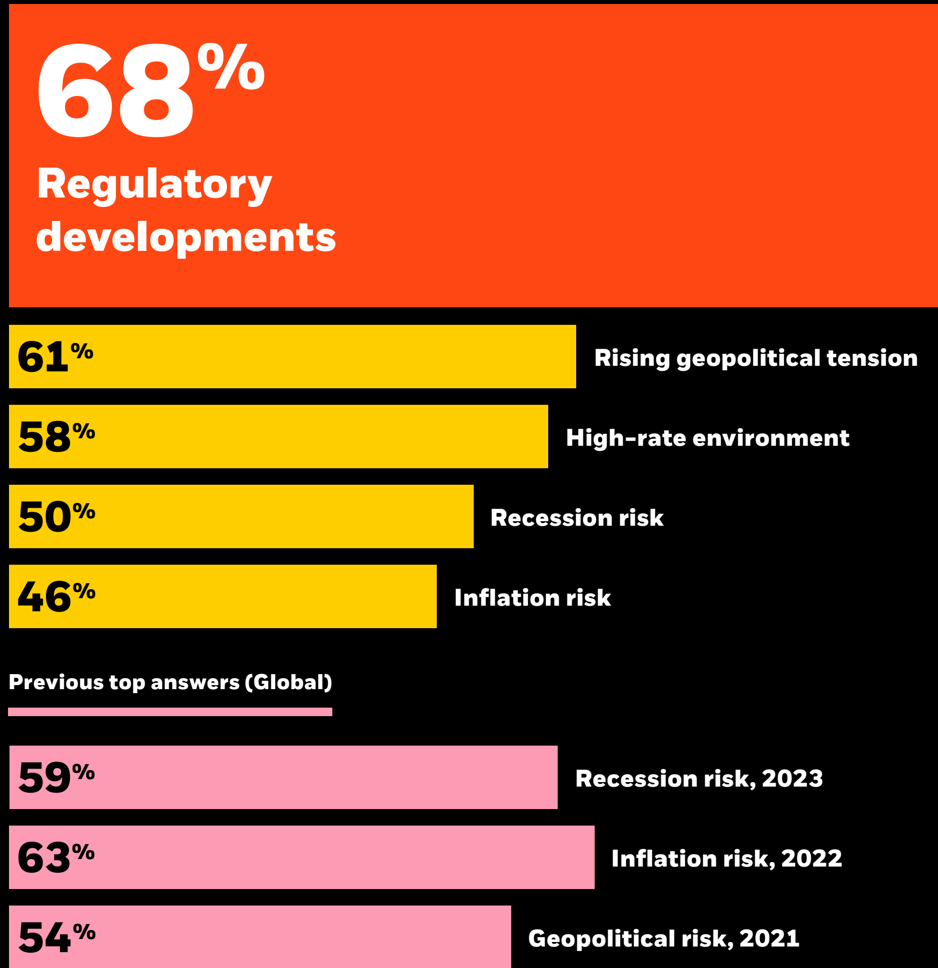
2024 is projected to be the biggest election year in history, with more people voting than ever before. Some 76 countries, representing more than half of the world's population, have headed to the polls, including the world's three largest democracies—the U.S., India, and Indonesia—as well as several geopolitical hotspots. Many of these elections have the potential to affect future policymaking.

In the face of political uncertainty and the continuing evolution of regulation, insurers chose regulatory developments (68%) and rising geopolitical tension and fragmentation (61%) as their top macro risks.

These results are similar to those from 2021, when geopolitical risk was also ranked as the top macro risk. However, they differ from 2022 and 2023, when inflation risk and recession risks were the primary concerns.

> **"Regulation is a critical topic for many Chief Investment Officers. In many markets, particularly those with established regimes, capital requirements are well understood throughout the investment value chain. As insurers strive to deliver both shareholder and policyholder value, however, we see an increased need for precision: transparency is paramount, particularly across private markets. Delivering these insights to insurers in a consistent and timely manner is critical, particularly as private exposures grow not only to form a material portion of overall allocations but also to play an increasingly important role in ALM."**
>
> **Henry Ashworth PhD,** Head of International, Insurance Solutions, BlackRock

Q.3 | Which of the following do you consider to be the most serious macro considerations to your firm's investment strategy over the next 2 years?



Source: BlackRock Global Insurance Survey, July-September 2024 (top five results are shown), June-July 2021, June-July 2022, June-July 2023.

> **"Geopolitical risk is structurally elevated, in our view. The world is facing the biggest election year in history. Cascading shocks over the last half decade have given way to fragmentation, heightened competition, and less cooperation between major nations. We're seeing the emergence and hardening of economic and geopolitical blocs in the world, with economic relationships rewiring along geopolitical lines."**
>
> **Thomas Donilon,** Chairman of the BlackRock Investment Institute

The future of policymaking can indirectly influence interest rates and the regulatory landscape. With uncertainty surrounding the direction, timing, and magnitude of numerous central banks' actions, insurers viewed interest rate risk (69%) as the most serious market risk for the next two years.

Additionally, given market volatility and diverse views on the global economy, liquidity risk (52%) and the risk of credit ratings migration and default (50%) were the next two greatest market concerns.

Q.4 | Which of the following do you consider to be the most serious market risks to your firm's investment strategy over the next 2 years?

Source: BlackRock Global Insurance Survey, July-September 2024 (top five results are shown).

Age of change: how mega forces are reshaping the insurance landscape

Vivek Paul
Head of Portfolio Research and UK Chief Investment Strategist for the BlackRock Investment Institute (BII)

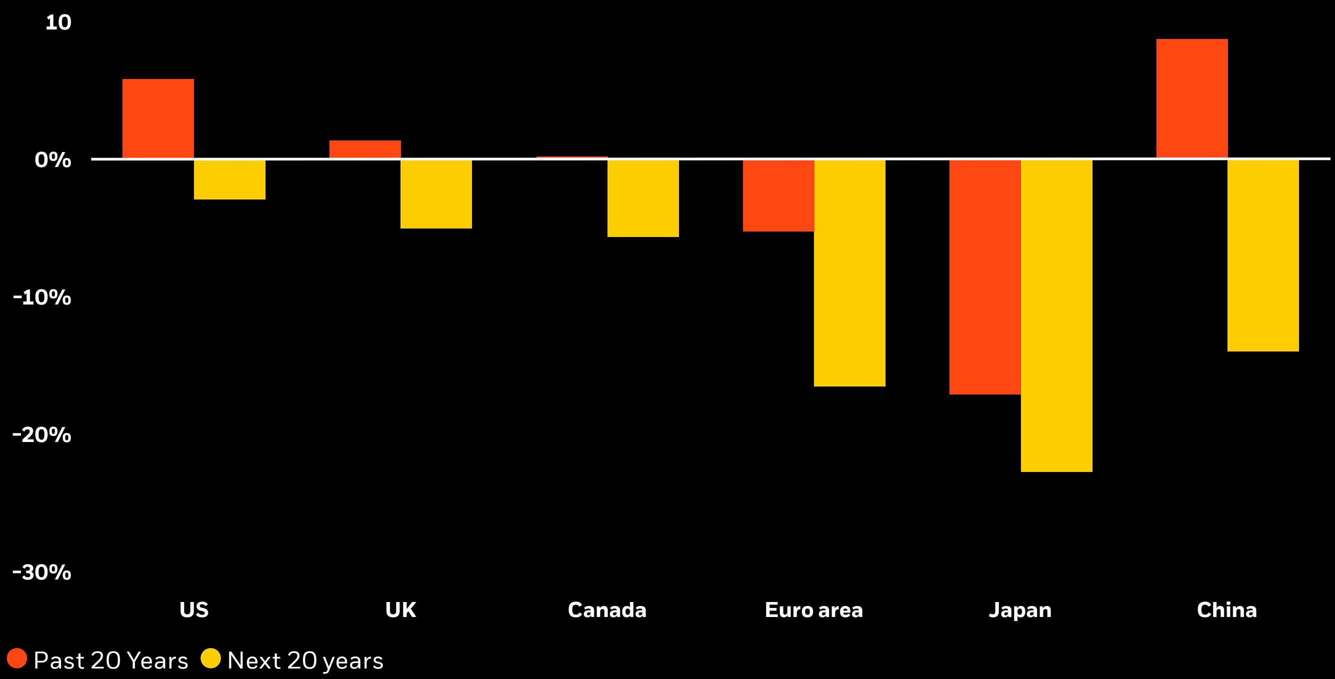
The new regime of greater macro and market volatility has taken hold, shaped by supply constraints. Shrinking workforces in many developed markets are one such limitation—with implications for the investment landscape and insurers. What's the expected result of these supply constraints? Higher inflation and interest rates—with weaker growth relative to the pre-pandemic era—and elevated public debt. Against this backdrop, structural shifts, or mega forces, including demographic divergence and the rise of artificial intelligence (AI), are driving waves of transformation.

Impact on economics

Demographic divergence, characterized by shifts in age, income, and geographic distribution, is impacting the global economy, as well as specific aspects of the insurance industry. Life expectancy

Shrinking workforces

Actual and estimated change in domestic working-age populations 2003-2024 (%)



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, United Nations, with data from Haver Analytics, March 2024. Notes: The chart shows the percentage change in the domestic working-age population, defined in economic literature as those aged 15-64. The domestic working-age population is calculated by subtracting the UN's migration projections from the UN's population projections that include migration, assuming that migration does not change the overall age structure. The next 20 years refers to 2024-2044 and previous 20 years to 2003-2023.

is rising and birth rates are falling worldwide . In many developed markets (DMs) and China, this means populations are aging and the working-age demographic (ages 15-64) is set to decline over the next 20 years. This poses an economic challenge: All else equal, a shrinking workforce means an economy cannot grow as fast. So, unless worker productivity rises more rapidly, average economic growth will slow.

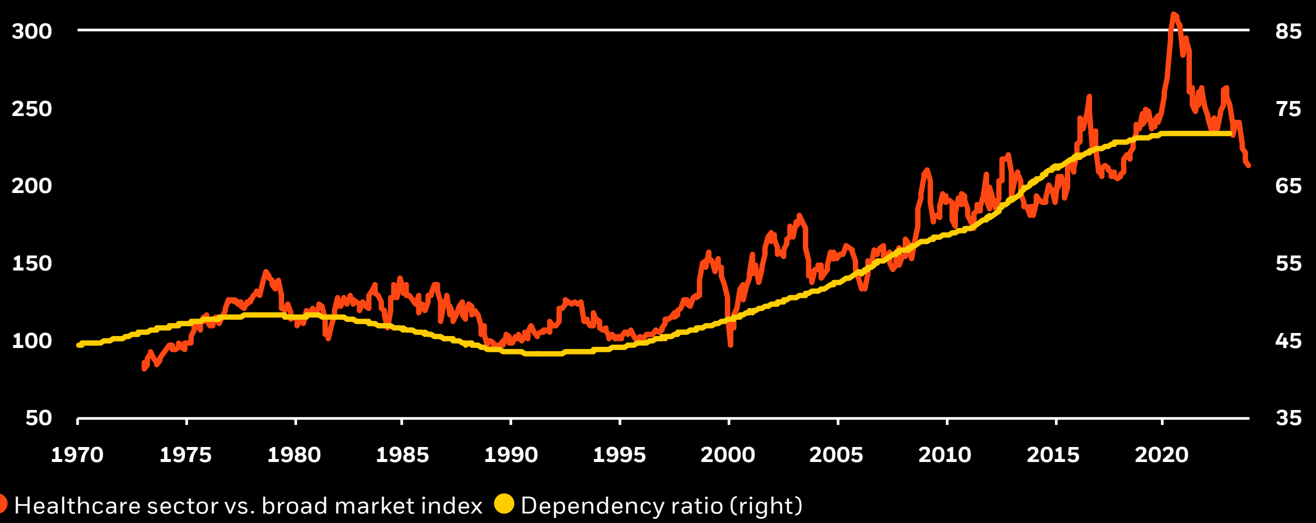
Aging could also be inflationary. Retirees stop producing but maintain spending while governments are likely to increase healthcare spending. This combination of reduced supply and steady demand could add to inflation pressures. As a result, central banks may need to keep interest rates above pre-pandemic levels.

In DM economies, the effects of aging populations could also increase government debt levels. Slower economic growth implies slower tax revenue growth; meanwhile, pension and healthcare spending costs rise at the same time as higher interest rates increase the cost of servicing that debt.

Rising fiscal debt could hinder the ability of central banks to raise policy rates to combat future inflation shocks. This dynamic may prompt investors to demand more term premium, or

Slow to price in aging

Japan healthcare outperformance vs. dependency ratio



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, United Nations, Reuters, with data from LSEG Datastream, March 2024. Notes: The orange line shows the ratio of the performance of Japan's healthcare equity sector vs. the overall market index, indexed to 1990. We use total market indices provided by Datastream.

compensation for the risk of holding long-dated government bonds—pushing yields up.

Impact on insurance

The aging population is a significant driver in the life and health insurance sectors. As life expectancy increases, there is a growing demand for products that cater to older adults, such as long-term care insurance and annuities. Insurers are also focusing on wellness programs and preventive care to manage the rising costs associated with chronic diseases prevalent among the elderly. Younger generations, who are perhaps more health-conscious and technologically proficient, are driving the adoption of digital health solutions and telemedicine, prompting insurers to innovate their service-delivery models.

In the property and casualty (P&C) sector, demographic shifts influence risk profiles and insurance needs. Urbanization and the migration of populations to cities increase the demand for renters' insurance and urban property coverage. Conversely, rural depopulation can lead to a decline in demand for certain types of property insurance. Moreover, the rise of remote work has altered the landscape of commercial property insurance, with businesses needing less office space and more coverage for home offices. The increasing frequency of natural disasters, exacerbated by climate change, also necessitates more comprehensive and flexible P&C insurance products.

The rise of pension risk transfer (PRT) deals is a notable trend driven by demographic changes. As companies seek to de-risk their balance sheets and manage the financial implications of an aging workforce, PRT deals have become increasingly popular. The PRT market has seen significant growth, with record-high transaction volumes in recent years. This trend is expected to continue as more companies look to mitigate pension-related risks and focus on their core business operations.

Impact on investments

These demographic changes present significant investment opportunities: as populations age, healthcare needs will rise, favoring the sector. Older individuals also tend to move less frequently, potentially shifting real estate demand. These shifts are often not fully priced by markets, even when predictable. For example, Japan's healthcare stocks have risen in line with its growing retired population over the past three decades, as measured by the dependency ratio. We see similar opportunities in healthcare within the U.S. and Europe, where markets have been slow to price in these demographic changes.

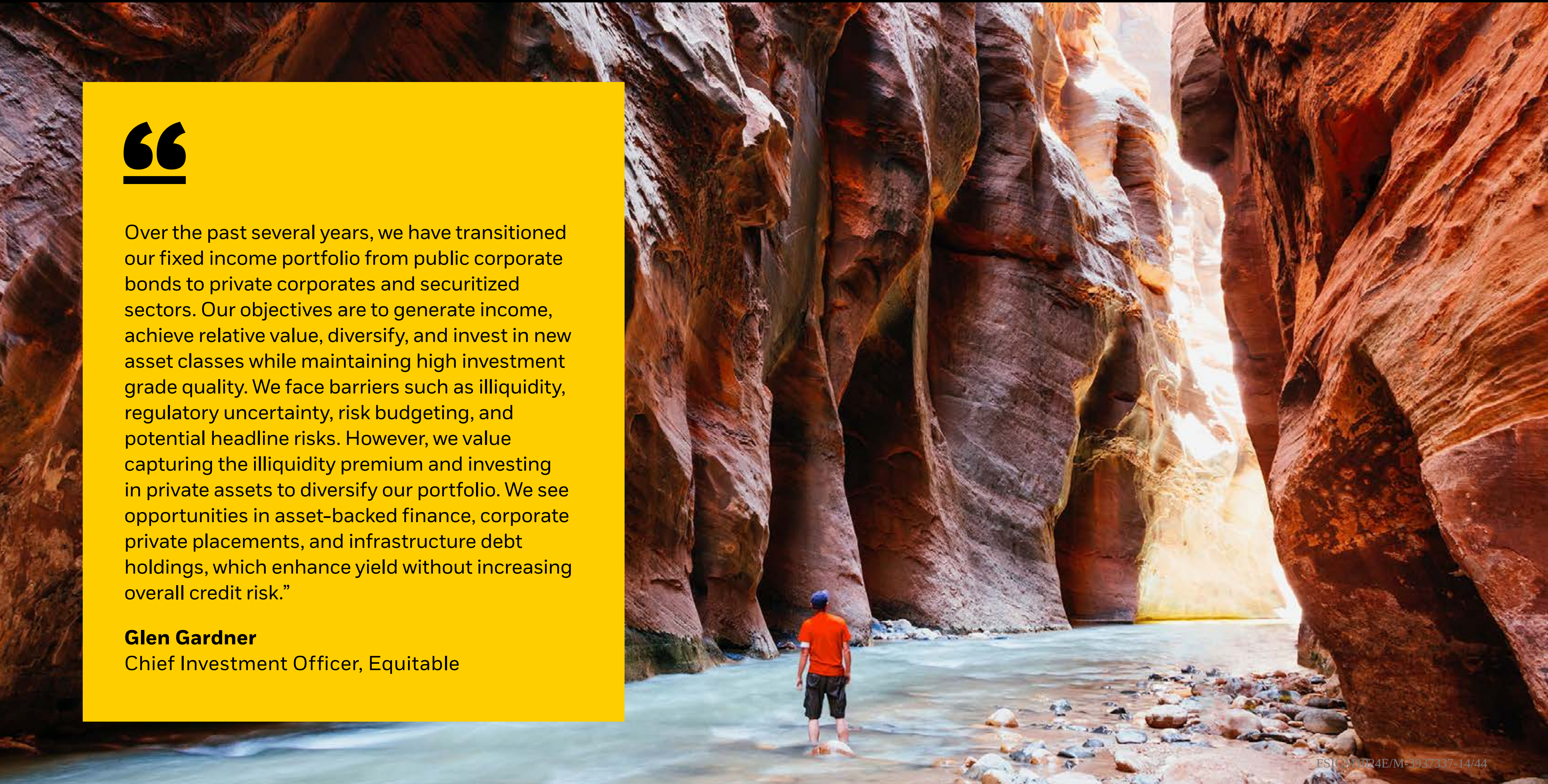
We also see opportunities in emerging markets (EMs), where the working-age population is mostly still growing. We look for countries that can best capitalize on their demographic advantage by improving workforce participation and investing in infrastructure. Higher returns could be on offer in EM countries with greater demand for investment, like India, Indonesia, Mexico, and Saudi Arabia. Those possibilities and attractive valuations relative to DM countries make us strategically overweight EM equities.

The net effect of all mega forces—not only demographic divergence—is also important to consider. Some EM countries, like India, may benefit from being at the confluence of multiple mega forces. Meanwhile, some DMs could benefit more from any potential long-run productivity gains from AI.

Demographic divergence is reshaping the insurance industry, compelling insurers to innovate and adapt to new consumer needs and risk landscapes. Each sector faces challenges and opportunities, highlighting the need for strategic risk management and forward-thinking solutions.

Against that backdrop, investment decisions carry more weight, as the range of possible returns from different portfolios is greater than in previous decades. As static asset allocations are unlikely to deliver as before, we believe a dynamic approach is needed. These changes necessitate strategic adaptations to meet evolving consumer needs and manage emerging risks.

02 | Diversifying risk and income



“Over the past several years, we have transitioned our fixed income portfolio from public corporate bonds to private corporates and securitized sectors. Our objectives are to generate income, achieve relative value, diversify, and invest in new asset classes while maintaining high investment grade quality. We face barriers such as illiquidity, regulatory uncertainty, risk budgeting, and potential headline risks. However, we value capturing the illiquidity premium and investing in private assets to diversify our portfolio. We see opportunities in asset-backed finance, corporate private placements, and infrastructure debt holdings, which enhance yield without increasing overall credit risk.”

Glen Gardner
Chief Investment Officer, Equitable

Insurers expect to maintain their level of investment risk

The majority (74%) of insurers we surveyed expect to maintain their current levels of investment risk.

All regions agreed, with Asia Pacific (68%), EMEA (76%), Latin America (75%), and North America (75%) all planning to maintain their risk levels. Similarly, the majority of insurance-sector respondents aligned—although varying by degree—with Life (59%), P&C (71%), Reinsurers (73%), Health (93%), and Multi-line insurers (80%) also expecting to maintain their risk profiles.

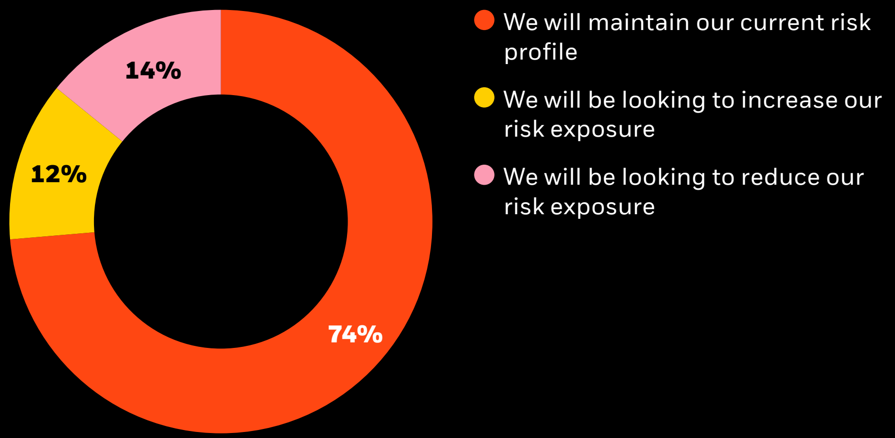
When asked for their rationale, the insurers explained that they felt they were already taking sufficient risk given market conditions and that they don't manage investment risk on a stand-alone basis. Instead, they take a holistic approach and also consider the underwriting risk from their insurance activities.

Their intention is to further diversify within their portfolio while maintaining a given risk level.

> **"Our appetite for investment risk is not expected to change fundamentally. We analyze market risks based on economic value and balance our portfolio accordingly, and we have enhanced our ability to respond dynamically to market conditions."**
>
> **Toshio Fujimura,** Senior Executive Officer, Sumitomo Life Insurance Company

Global

Q.5 | Over the next 2 years, how do you expect your firm's appetite for investment risk to change?

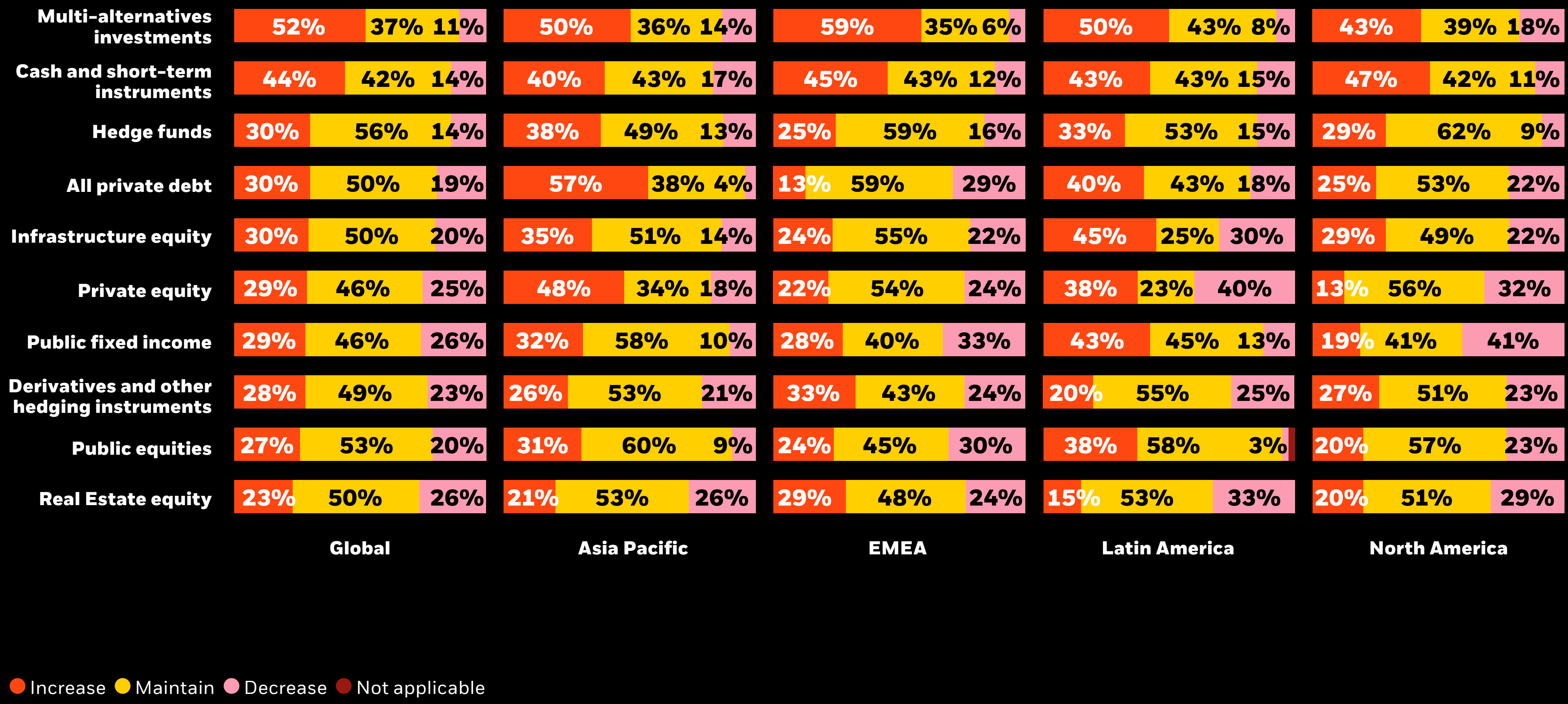


Q.6 | If planning to maintain your risk profile, this is because:

Source: BlackRock Global Insurance Survey, July-September 2024 (Q.6 top three results are shown).

Q.7 | In the next 2 years, how do you anticipate changing your allocations to each of the following asset classes?

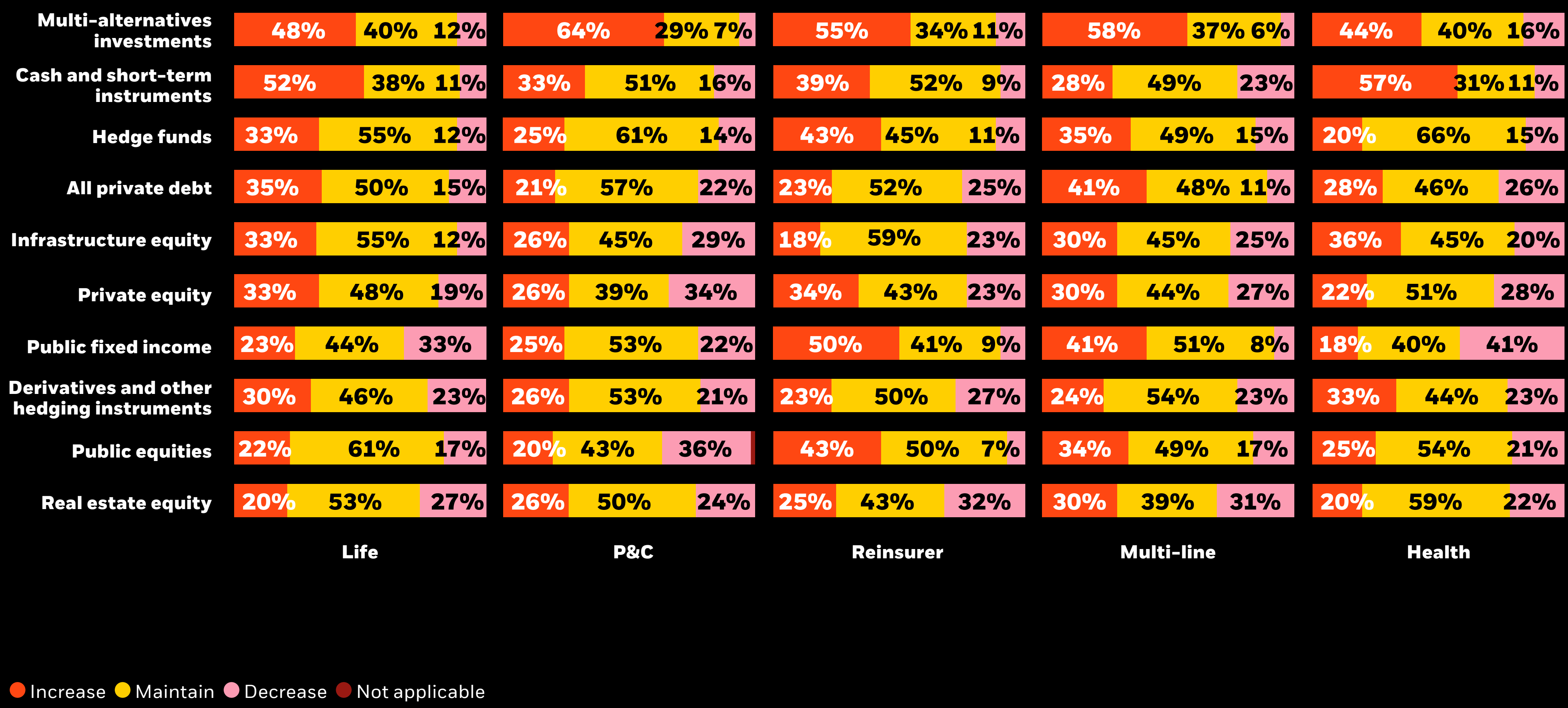
By region



Source: BlackRock Global Insurance Survey, July-September 2024.

Q.7 | In the next 2 years, how do you anticipate changing your allocations to each of the following asset classes?

By sector



Source: BlackRock Global Insurance Survey, July-September 2024.

> **"Public fixed income remains core to our investment strategy. The predictable cashflow can offset some of our operating costs and help maintain a liquidity buffer. The ability to build a high-quality and well-diversified portfolio with these assets safeguards our capital position."**
>
> **Mark Preston,** Vice President, Investment Management, Humana

A balancing act

In Q.7 we asked insurers how they anticipated changing their asset allocations over the next two years. We cut this data by region and by insurer type to better illustrate the commonalities and variances in responses.

The commonalities among all regions and insurer types were planned increases in multi-alternatives investments (52%) and planned decreases in real estate equity (26%).

When looked at by region, the biggest differences of opinion were in private equity and public fixed income. In private equity, 48% of Asia Pacific insurers planned to increase exposure compared with 22% in EMEA, 38% in Latin America, and only 13% in North America. In public fixed income, 43% of Latin American insurers planned to increase exposure compared with 32% in Asia Pacific, 28% in EMEA, and only 19% in North America.

By insurer type, the biggest differences of opinion were in cash & short-term instruments and public fixed income. Notably, 57% of Health insurers planned to increase cash & short-term instruments compared with 39% of Reinsurers, 33% of P&C, and 28% of Multi-line insurers. In public fixed income, 50% of Reinsurers planned to increase allocations compared with 41% of Multi-line insurers, 25% of P&C, and 18% of Health insurers.

> **"Multi-alternative solutions are rooted in an outcome-orientated investment approach that looks beyond asset-class labels to meet investors' specific risk, return, and liquidity requirements. Insurance organizations are increasingly turning to multi-alternative solutions to achieve a range of objectives—such as liability matching, yield enhancement, and capital appreciation. At BlackRock, we leverage extensive portfolio-construction capabilities and a broad investment platform to deliver risk-aware, capital-efficient solutions tailored to our insurance clients' unique needs."**
>
> **Vidy Vairavamurthy,** Chief Investment Officer, Alternative Portfolio Solutions, BlackRock

Fixed income is fundamental: public markets

In public markets, respondents do not expect significant reallocations to fixed income, but it remains fundamental to insurers' strategic asset allocation (SAA) for its ability to provide stable and predictable income that match liability outflows.

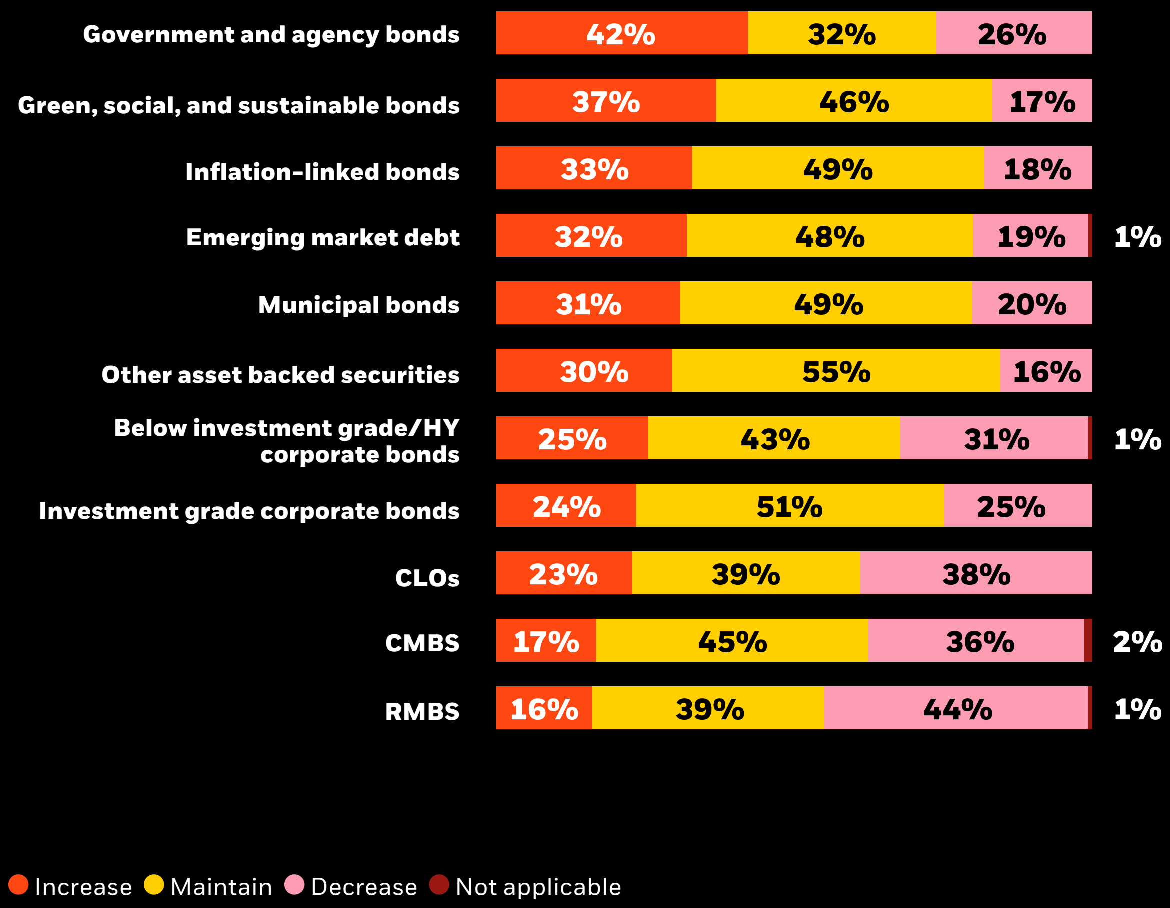
As in previous years, insurers are looking to increase allocations to government and agency bonds (42%), as well as green, social, and sustainable bonds (37%).

Inflation-linked bonds are also a priority, with 33% planning to increase exposure. Given the ongoing disruptions in global supply chains and the delayed effectiveness of central-bank actions, inflation remains a concern for insurers, with 46% identifying it as a major macro risk. These assets serve as a hedge against inflation, which can directly or indirectly impact insurance liabilities.

Insurers are cautious about securitized products and below-investment-grade debt. Of our respondents, 44% are planning to reduce their holdings in residential mortgage-backed securities (RMBS), 38% to collateralized loan obligations (CLOs), 36% to commercial mortgage-backed securities (CMBS), and 31% to below-investment-grade/high-yield bonds.

Global | Asia Pacific | EMEA | Latin America | North America

Q.8 | In the next 2 years, how do you anticipate changing your allocations to each of the following public fixed income asset classes?



Source: BlackRock Global Insurance Survey, July-September 2024.

Continued deployment into private markets

In a continued trend from previous years, insurers plan to increase allocations to private markets, with 91% planning to do so within the next two years.

This figure increases to 96% for Asia Pacific and 96% for North American insurers. Insurers cited diversification and lower volatility, the opportunity to invest in new asset classes, and the ability to increase income generation as top drivers for changing their exposure to private markets.

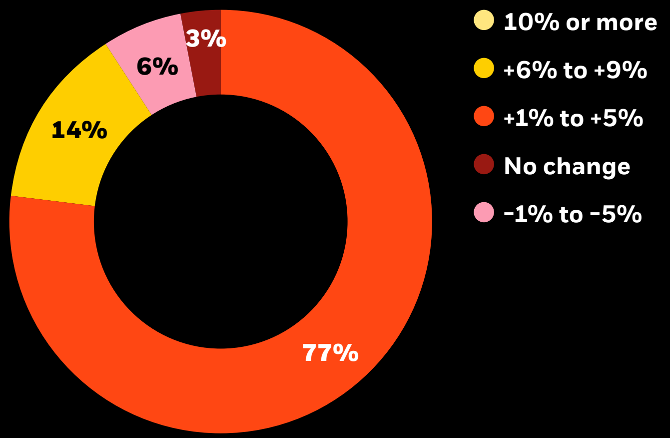
Among the insurers we surveyed, the diversification and lower volatility of private markets was cited as the main driver for choosing this asset class. Globally, 59% selected this reason. At a regional level, this was also the primary motivator, with 61% in Asia Pacific, 56% in EMEA, 68% in Latin America, and 61% in North America.

Insurers appreciate that private markets provide an opportunity to invest in new asset classes, with 48% of those we surveyed stating this rationale. Meeting portfolio climate targets was also a key driver, with 41% stating this reason.

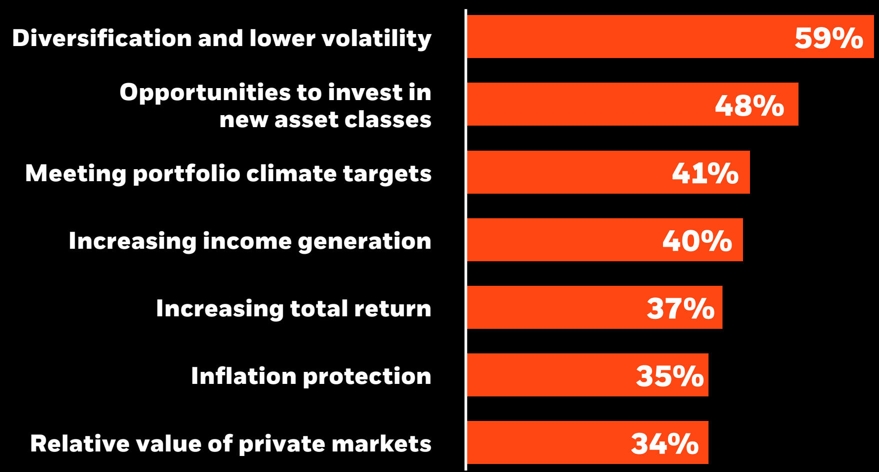
> **"Private assets provide access to opportunities not easily found in public markets, including various types and sizes of companies and targeted strategies especially impact investments, which enhance portfolio returns and diversification. They also help dampen portfolio volatility, particularly from non-fundamental, technical-driven fluctuations in public markets."**
>
> **Don Guo,** Group Chief Investment Officer, Prudential

Q.9 | Expected allocation changes to private markets

(as a percentage of total portfolio)



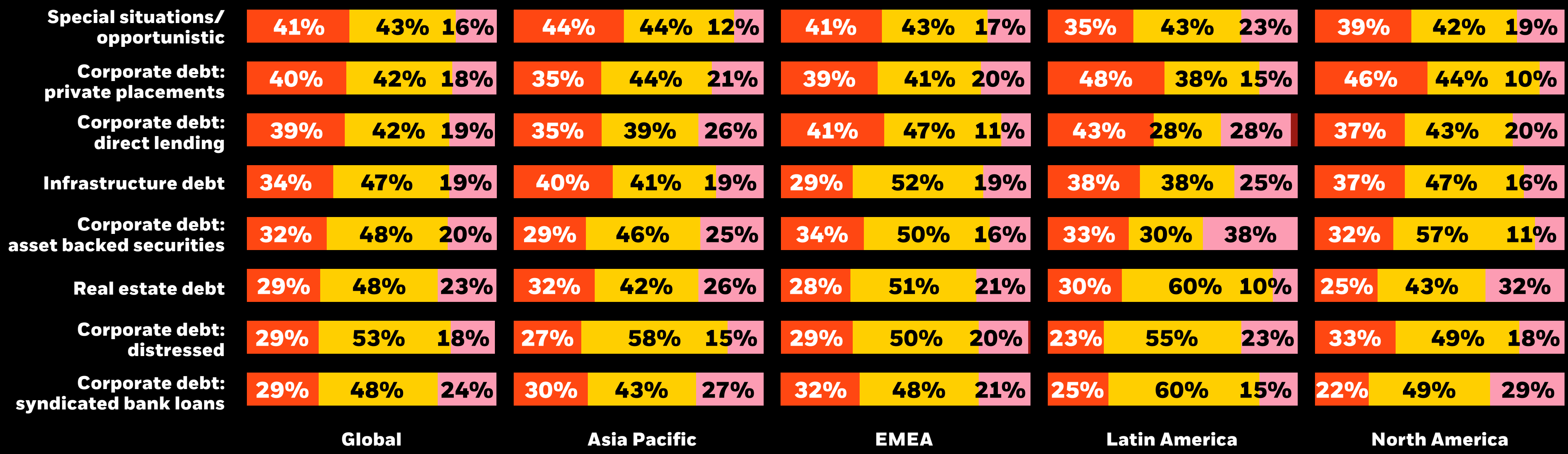
Q.10 | What are the main drivers for changing your exposure to private markets over the next 2 years?



Source: BlackRock Global Insurance Survey, July-September 2024.

Q.11 | In the next 2 years, how do you anticipate changing your allocations to each of the following private debt asset classes?

By region



Increase Maintain Decrease Not applicable

Source: BlackRock Global Insurance Survey, July-September 2024.

> **"Private debt currently presents a golden opportunity for portfolio managers who prioritize cashflow management. This asset class is resilient to certain market shocks and provides diversification through access to alternative sources of yield. In particular, we see opportunities in direct lending, which has proven to be resilient and inflation-protected, and provides a stream of rapid cashflow distributions. This helps mitigate the denominator effect and improves our matching with our liabilities."**
>
> **Gustavo Andrés Morales Neira,** Head of Investments, Global Seguros de Vida

Fixed income is fundamental: private debt

Insurers are continuing a multi-year shift from public fixed income to private debt. With 91% intending to increase allocations to private markets overall, 30% of this cohort plan to increase exposures to investments in private debt.

The term "private debt" has expanded to encompass a wide array of lending opportunities, from the broadly syndicated to the bilaterally negotiated. This expansion fits with insurers' objectives of (i) asset-liability matching, which aligns their long-term assets with their long-term liabilities; and (ii) increasing investment income through a private markets premium rather than other investment characteristics.

The insurers we surveyed are most likely to increase exposure to opportunistic private debt (41%), private placements (40%), direct lending (39%), and infrastructure debt (34%).

Under the "future of finance" mega force, we observe that traditional business models are being disrupted by regulatory shifts, the end of near-zero rates, and technological innovation. As a result, banks can no longer rely on deposits as cheap, reliable sources of funding. We believe, therefore, that banks will further reduce lending, prompting companies to turn to capital markets, private syndication, and relationships with other sources of non-deposit funding. This tectonic shift in the financial sector opens further opportunities for insurers and asset managers.

> **"In recent years, 'private debt' has grown beyond middle market lending to include any financing directly originated, structured, and held by the lender. We believe this expansion will continue, driven by changes in the bank lending ecosystem, public debt markets, and public equity markets, which are broadening private debt's addressable market. We expect private debt's growth (in both size and scope) to create new opportunities for partnership with insurance companies."**
>
> **Amanda Lynam,** Head of Macro Credit Research, BlackRock

Connecting public and private markets: The role of private fixed income within insurance portfolios

Dan Garzarella
Global Head of Active Fixed Income and Global Head of Structured Finance for the Financial Institutions Group

Generating capital-efficient yield is a key consideration for insurance CIOs. Insurers have looked to broaden their investment universe to include investment-grade private, less liquid, and structured investments to improve yield per unit of capital. These investments typically yield more than the comparable liquid fixed income with a similar rating and duration profile, and can also be structured to enable attractive risk vs. reward dynamics for insurance balance sheets. In this year's survey, 30% of respondents said that they plan to increase allocations to private debt investments. Within this broad asset class, 41% said they planned to increase allocations to special situations/ opportunistic credit; 40% plan increases to private placements; and 39% are looking to increase exposure to direct lending.

The "future of finance" mega force encapsulates the changes in financial architecture that are reshaping portfolio returns. As part of this megatrend, we see a continued reduction in bank lending because of competition for deposits and increased regulation. This could make non-bank lending terms relatively more attractive to borrowers and a more important source of financing for economic growth and job creation. This reinforces a long-term trend of companies diversifying their funding sources from traditional banks and suggests that private credit still has significant scope for growth.

We believe the total market for private debt will continue to grow, along with insurance-specific holdings of private debt. Thanks to the continued reduction in U.S. bank lending caused by competition for deposits and increased regulation, non-bank lending terms have become relatively more attractive and more important as a source of financing for economic growth. These structural headwinds are likely to continue to reduce U.S. banks' lending and holding capacities. Non-bank lending has also grown outside the U.S., particularly in Europe and Asia. At the same time, insurers are benefiting from strong demand for insurance products, particularly retirement solutions, and balance sheets that may be more supportive of the types of lending shifting from the traditional banking sector.

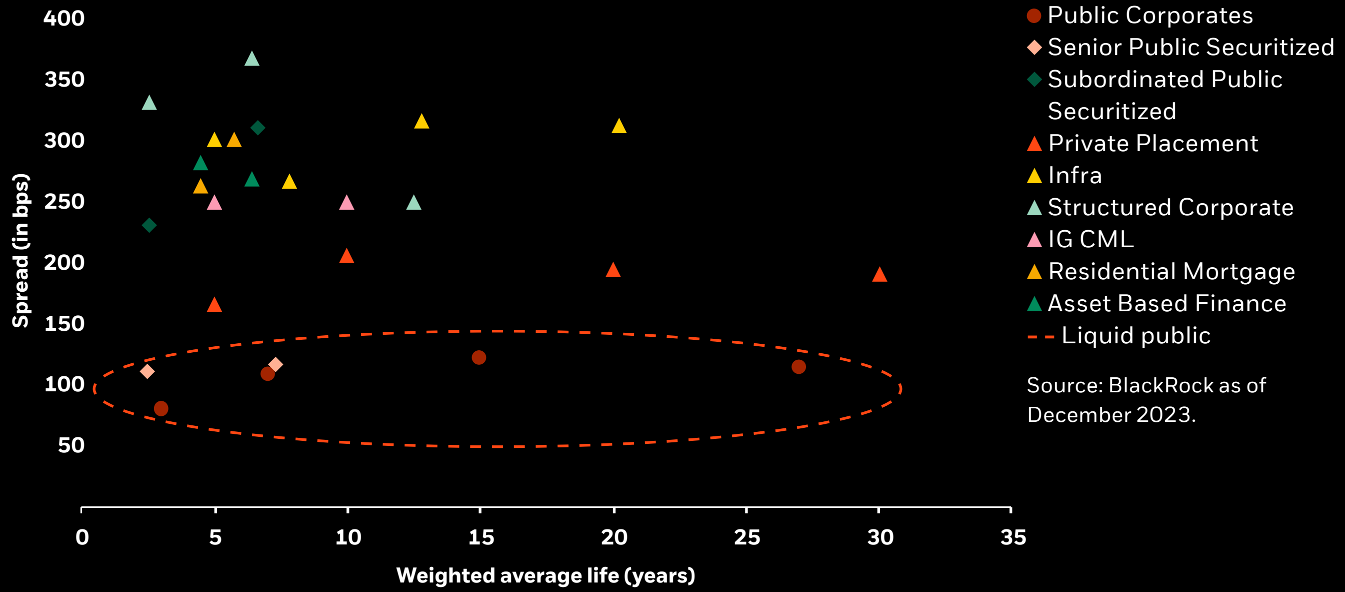
The expansion of private debt issuance across various loan, collateral, and borrower types, including consumer finance, hard assets, commercial finance, and contractual cashflows, presents a diverse opportunity set for insurers. Relative to their investment grade public-market equivalents, these loans can provide more selectivity in terms of credit, collateral, structure, and risk. This allows insurers to access investment opportunities within their risk tolerances, regulatory constraints, and capital considerations. These assets can also be sourced practically within existing corporate investment grade portfolio allocations or as stand-alone structured portfolios. Although the U.S. provides the deepest market in terms of private debt issuance, USD-denominated assets may not be suitable for all insurers given variations in regulatory and capital regimes. Currency risk will also be a consideration for insurers without USD liabilities.

Investment grade private debt can offer investors additional spread premia to account for the illiquidity and structural risk components of private transactions compared with their public equivalents. As shown in the chart on the right, the investment grade private debt market offers insurers the opportunity to tailor exposures to meet varying maturity, liquidity, and risk preferences. For example, longer-dated, less complex private placements offer only an incremental spread premium to public corporates, while shorter-dated, more complex structured assets may offer over 200 basis points of spread pickup over public corporates.

These transactions typically offer the opportunity for investors to negotiate collateral, covenants, and other creditor rights, tailoring and/or improving risk and return dynamics, and enhancing the potential for overall portfolio diversification. Studies suggest that recovery rates are generally higher in private cohorts of the investment grade credit market than in public corporate credit. This is evident in the private corporate market, which has the best available data, and suggests that private placements have fewer credit events than public bonds (as measured by the Moody's default rate). These results appear to be persistent over time and show that recovery rates in private markets are higher than for public bonds.

Since 2008, insurers have been shifting their portfolio allocation to include greater exposure to private debt. The low-yield environment and competitive pressures from new entrants with expertise in private markets

Public and Private Capital-Efficient Universe



Source: BlackRock as of December 2023.

are typically cited reasons for this portfolio shift. As a result, insurers have sought to generate additional yield within their portfolios by capturing illiquidity and complexity premiums for similar levels of credit risk and regulatory capital consumption as public market equivalents.

Despite the end of the low-yield environment, insurers have continued allocating to privately originated debt. The continued preference for this asset class may be driven by some beneficial characteristics such as enhanced creditor protection relative to public markets, comparable regulatory treatment relative to public debt, and a broader investment opportunity set to capture diversification benefits. Our survey results support this, with diversification and lower volatility (59%) and opportunities to invest in new asset classes (48%) named as primary motivators for increasing exposure to private markets more generally.

In addition, insurance allocations to private debt may also be driven by continued competitive pressures within the industry to use incremental portfolio yield from private debt to support competitive product pricing.

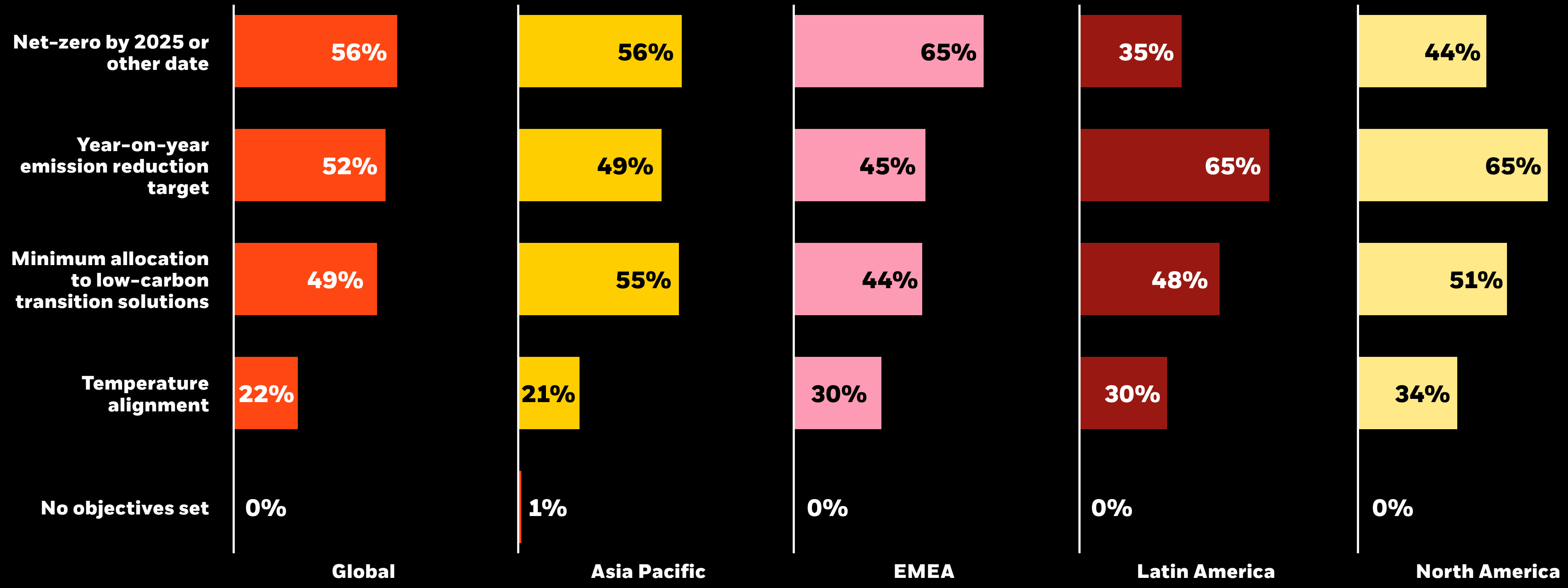
03 | Financing the infrastructure gap

> “We have observed significant investment flows toward transition finance and infrastructure in developed markets, but there is a noticeable deficit in emerging economies. Large institutional investors face challenges in finding viable opportunities in these markets. Through the Insurance Development Forum, we have identified infrastructure debt as a key segment that supports electricity generation and enhances the resilience of emerging markets by financing critical assets.”

Jean-Baptiste Tricot
Chief Investment Officer, AXA

Q.12 | Have you set any transition investing objectives on your portfolio?

By region



Source: BlackRock Global Insurance Survey, July-September 2024.

The low-carbon transition

The low-carbon transition remains a priority for insurers, with 99% of those surveyed setting some sort of transition objective within their investment portfolios. Setting a net-zero target date (56%) and committing to year-on-year emission reduction targets (49%) were the most popular transition objectives for insurance portfolios.

The insurers we surveyed were asked to describe their motivation for setting low-carbon transition objectives. They cited the management and/or mitigation of climate risks (57%), responding to stakeholder and/or beneficiary interest (53%), contributing towards real world impact (46%) and fulfilling regulatory requirements (44%) as their reasons.

Strengthening conviction

Investor confidence has also grown, with 66% of those surveyed stating that they have more conviction in investing in the low-carbon transition than they did a year ago.

This sentiment was consistent across all regions, with North America (74%), EMEA (66%), Asia Pacific (63%), and Latin America (58%) all in alignment on their conviction towards investing in the low-carbon transition.

> **"Our priority initiative themes for ESG investments are enhancement of wellbeing, development of local communities and society, and contribution to environmental protection, including climate change. We will sustain and strengthen our efforts to address these and believe that we can help to achieve a sustainable society while we improve our long-term investment results. We are most committed to investments and financing that create impact to change systems and promote the resolution of these global challenges."**
>
> **Takayuki Haruna,** Chief Investment Officer, Japan Post Insurance

Q.13 | What is your motivation for setting low-carbon transition objectives?

Q.14 | Has your conviction towards investing in the low-carbon transition changed in the past 12 months?

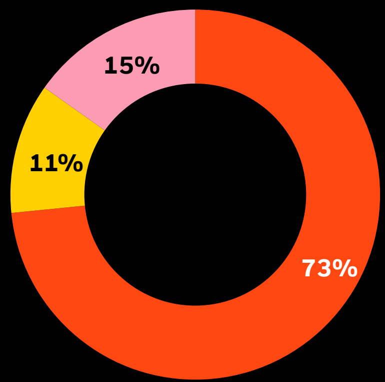
Global

Asia Pacific

EMEA

Latin America

North America



Yes - we have more conviction · Yes - we have less conviction · No

Source: BlackRock Global Insurance Survey, July-September 2024.

The infrastructure moment

Clean energy infrastructure such as wind and solar (60%) and transition technologies such as batteries and energy storage (60%) were selected as the top thematic areas that insurers are currently focused on.

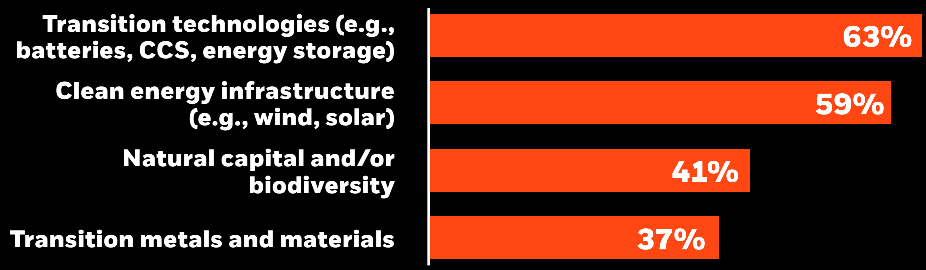
Societies are grappling with meeting infrastructure demands due to energy security pressures, the transition to a low-carbon economy, changing demographics and urbanization, realigning supply chains, and a digital revolution led by artificial intelligence (AI).

In many cases, the demands are immediate, but traditional funding sources such as national governments may be unable to meet the need alone. Meanwhile, corporations are seeking external partners to help finance and operate their infrastructure, allowing them to focus their attention and resources on core operations. This finance gap presents an opportunity for insurers to be at the center of a transformative period for essential infrastructure. We are witnessing this push for investments drive insurance industry initiatives, bringing together public and private institutions, to collaborate on building much-needed blended finance solutions.

Among insurers planning to increase allocations to transition-related investments, impact strategies (60%), emerging markets (57%), growth/buyout private equity exposure (57%) and infrastructure (54%) are the preferred investment approaches and exposures.

> **“The insurance industry is partnering with asset managers to invest in resilient infrastructure in emerging markets. Together, they are enhancing communities, and through active participation in design and structure these products align well with insurers’ investment objectives.”**
>
> **Jeetu Balchandani,** Global Head of Infrastructure Debt, BlackRock

Q.15 | If you are planning to expand your low-carbon transition strategy for your investments, which thematic areas do you plan to target?



Q.16 | Where do you expect to increase transition-related allocations? (Top four answers)

Source: BlackRock Global Insurance Survey, July-September 2024.

Navigating the Future of Infrastructure Debt in Emerging Markets

Matt Kaczmarek
Head of Private Debt Market Strategy and Sustainable Investing
Dipak Haria
Head of Infrastructure Debt EMEA

In an era marked by rapid technological advancements and evolving global dynamics, infrastructure investment stands at a pivotal juncture. The integration of blended finance solutions has emerged as a powerful tool to catalyze investment in infrastructure, particularly in emerging markets (EMs).

Blended finance, which combines public and private capital, is instrumental in addressing the significant funding gap in infrastructure projects. The funding gap, especially in EMs, refers to the shortfall between available financial resources and the amount needed for sustainable development and infrastructure investments. This gap is exacerbated by challenges in attracting private investment and accessing sustainable finance. Emerging markets, which account for a substantial portion of global emissions, require an estimated $2 trillion annually through 2030 to achieve decarbonization goals.[1] Blended finance solutions help de-risk investments, making them more attractive to institutional investors by mitigating factors such as political risk and lack of bankable projects.

> **“As insurers become increasingly familiar with the merits of infrastructure debt in their portfolios, we have seen a significant increase in the desire to expand into additional jurisdictions. Opportunities in the emerging and developing markets offer high quality assets, and thematic strategies are proving a helpful way for investors to meet their own climate finance commitments”**
>
> **Dana Baldwin,** Head of Infrastructure Debt Product Strategy, BlackRock

At BlackRock, we have been developing our blended finance capabilities by leveraging our extensive research platform and a team of over 600 sustainable and transition specialists. We have successfully mobilized institutional capital for climate infrastructure projects across Africa, Asia Pacific, and Latin America. Our analytical models and deep relationships with governments and development finance institutions enable us to source and convene investments that drive sustainable development.

The five mega forces discussed by the BlackRock Investment Institute[2] are reshaping the investment landscape and serve as strong tailwinds for infrastructure debt investing. Digital disruption in EMs drives demand for essential infrastructure such as broadband networks and mobile connectivity, which

Source: [1] International Monetary Fund Global Financial Stability Report, as of April 2023 [2] Mega Forces: An investment opportunity | BlackRock Investment Institute

Investment demand

$1-1.5T

Invested annually in Emerging Market infrastructure[4], of which:

$400-600B
in energy & renewables

$300-500B
in transportation

$100-200B each in water/ sanitation and digital

$3T

Countries need double the amount of investment from $1-1.5T **up to $3T annually** to finance economic growth ambitions, build resilient communities, and address climate change and natural disasters

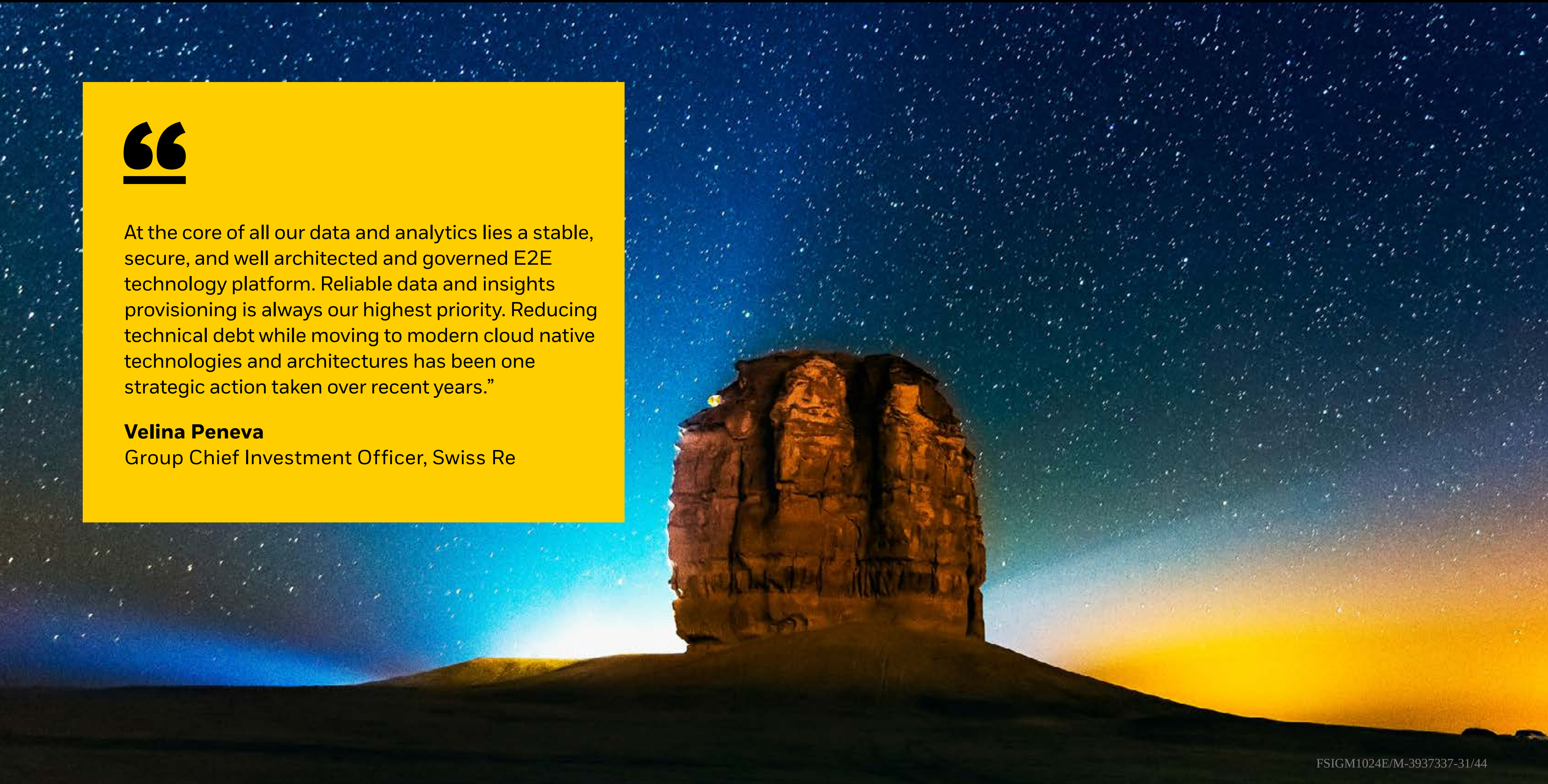
Source: [3] Moody's Infrastructure default and recovery rates, 1983-2023, July 2024
[4] The World Bank "Beyond the Gap," 2019

are crucial for economic development and social inclusion. Geopolitical fragmentation increases the need for local infrastructure development to enhance resilience. The low-carbon transition necessitates substantial investment in renewable energy and sustainable urban infrastructure. As demographics evolve and populations grow in EMs, necessary investment is needed relative to the growth. Examples include investments in social infrastructure such as hospitals and schools, as well as transport links to support ongoing urbanization. Investment does not need to be segmented among the mega forces and can often combine these tailwinds. For example, the recent electrification of bus networks in Bogota is an example of how changing demographics and the size and location of populations have resulted in a new infrastructure requirement. As an asset class, infrastructure debt provides the necessary capital for these projects, offering stable returns[3] to investors while supporting environmental sustainability and economic growth.

Insurance companies play a crucial role in infrastructure financing, particularly through their long-term investment horizons and substantial capital reserves. BlackRock's collaboration and deep relationships with government agencies and public-private partnerships led by the insurance industry exemplify the potential in scaling blended finance solutions. By aligning our investment strategies with the needs of insurers, we can create diversified portfolios that generate predictable returns while contributing to community resilience and sustainable development.

As we navigate the complexities of the modern investment landscape, our commitment to infrastructure and blended finance remains unwavering. By harnessing the power of mega forces and leveraging our expertise, we are well positioned to drive positive social and environmental outcomes while delivering value to our clients.

04 | Streamlining the operating model



"At the core of all our data and analytics lies a stable, secure, and well architected and governed E2E technology platform. Reliable data and insights provisioning is always our highest priority. Reducing technical debt while moving to modern cloud native technologies and architectures has been one strategic action taken over recent years."

Velina Peneva
Group Chief Investment Officer, Swiss Re

"Integrating analytical tools that are fed with reliable real-time data will enhance our innovation and efficiency. By implementing new technology and reorganizing our operating model, we can greatly improve our capital deployment and execution timeliness, optimizing returns per unit of capital."

Mark Konyn, Group Chief Investment Officer, AIA Group

An integrated process

According to survey responses, insurers consider the integration of key processes such as asset allocation and asset-liability management (ALM) as their highest priorities for technology needs within their investment management function.

Also high on the agenda were leveraging expanding data sets for processes such as environmental, social, and governance (ESG) considerations and enhancing coverage and analytical capabilities to support private credit assets.

As insurers aim to increase their exposure to private markets and advance their transition strategies to support their ambitions, they recognize the necessity of embedding the technology required to support these efforts.

"Data quality and fragmented data are central challenges across the investment lifecycle (public and private) for insurers. They create inefficiencies that hinder firms from being nimble, and insurers tell us they need to be able to adapt to market shifts and volatility."

Griff Norquist, Global Head for Financial Institutions, Aladdin

Global

Q.17 | Thinking specifically about investment management for your technology needs over the next 2 years, what are your highest priorities?

Source: BlackRock Global Insurance Survey, July-September 2024 (top four responses are shown).

"We are actively monitoring new technological developments and continue to invest to harvest efficiencies and improve connectivity across our teams and locations. We expect our partners to also keep pace with technology."

Stephan van Vliet, Group Chief Investment Officer, Zurich Insurance Group

Investing in technology

In an increasingly volatile and complex macroeconomic and regulatory environment, insurers recognize the importance of investing in technology. Survey respondents indicated that technology could add the most value in inflation risk monitoring (53%), private asset modeling in a multi-asset portfolio (53%), and regulatory capital integration (51%).

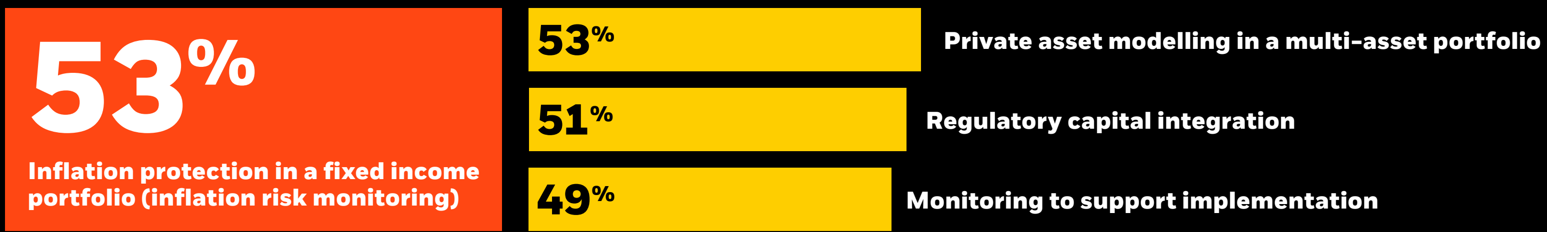
Artificial intelligence (AI) has become a driving force in a shifting labor market. As the AI revolution unfolds, more insurers are adopting the technology in aspects of their business. The mega force of digital disruption and AI was considered more of a risk than an opportunity for the insures we surveyed. It has the potential to boost productivity, automate laborious tasks, analyze huge sets of data, and generate fresh ideas. Digital disruption goes beyond AI.

"As insurers seek to tap into mega forces like data and AI, they need a unifying data platform underpinned by robust governance and operational oversight. With the growing importance of private markets in investment portfolios, a common data language across public and private asset classes is a key differentiator. By using a data platform that unifies the investment process, insurers are positioning themselves to streamline their operations and navigate continually evolving markets"

Eimear Martin, Head of DataOps and Transformation Aladdin Data, BlackRock

Q.18 | Looking at the evolution of asset allocation, where can technology add the most value?

Global



Source: BlackRock Global Insurance Survey, July-September 2024 (top four responses are shown).

The importance of agility

Among the insurers surveyed, opinions were evenly split on the dynamism of their current operating model. Half believed their model was dynamic enough to support strategic priorities while the other half saw a need for streamlining. This necessity to future-proof has been echoed in our discussions with insurance Chief Investment Officers, who emphasize that a strategy must be flexible and agile to respond to a changing environment.

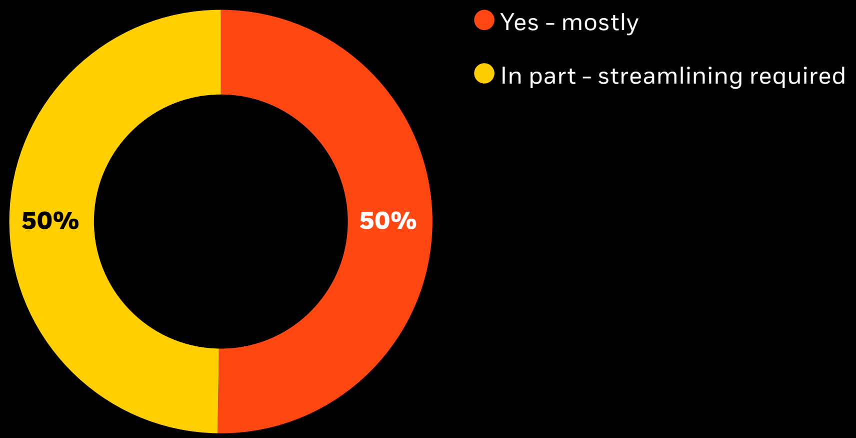
We see insurance investment portfolios becoming more complex, with increasing allocations to private markets and multi-faceted investment objectives. A successful investment approach demands scale, resources, and innovation. At the same time, insurers need to reduce operating costs and free up resources to grow and stay competitive.

Many insurers can benefit from partnerships to augment their internal expertise. According to 40% of survey respondents, it is important to have an investment partner who understands both their insurance business and its operating model.

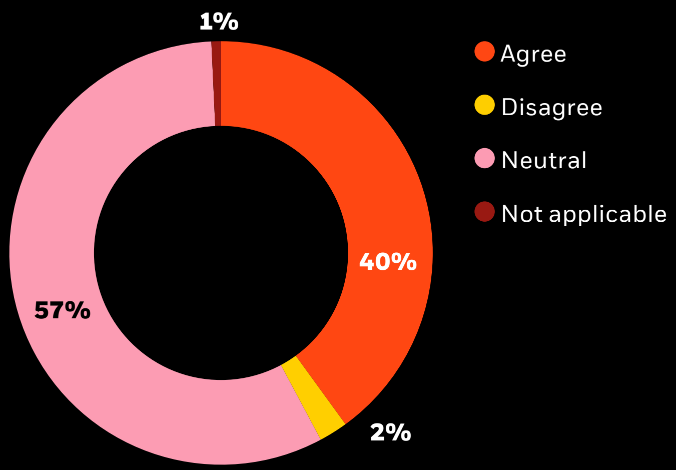
> **"The most effective investment partners are those with a strong understanding of both our insurance business and operating model. Without this, we have to spend time educating our partners, explaining exactly what we want, the form of delivery, and the methodology of measurement."**
>
> **Lisa Longino,** Chief Investment Officer, Corebridge Financial

Global

Q.19 | Is your current operating model dynamic enough to support your organization's top priorities?



Q.20 | Having an investment partner who understands both our insurance business and operating model is fundamental to the success of our strategic priorities.



Source: BlackRock Global Insurance Survey, July-September 2024.

Beyond SAA: Evolving operating models to deliver focused investment outcomes

Mark Azzopardi
Global Head of Insurance within the Financial Markets Advisory Group

Over the last 15 years, deployment into private markets has become an established theme across insurance companies. However, private markets are idiosyncratic, so effective managers should explore a wide range of opportunities to source and sustain premia. A key challenge for Chief Investment Officers (CIOs) is to assess new opportunities while maintaining agility.

“New asset-class assessment” was traditionally a topic addressed through strategic asset allocation (SAA). By virtue of the predominantly public exposures represented by data-rich benchmarks typically an assessment of both existing and candidate strategies could not only determine a balanced asset mix but also encapsulate insurance constraints, such as liquidity, capital, asset-liability management (ALM), and accounting, effectively. Further, the implementation could reflect the SAA accurately and hence provide comfort that allocation decisions would have predictable impacts across key insurance metrics. With private market assets, however, it can be hard to define asset classes cleanly, and the breadth of investment opportunities can mean that flexibility and origination capabilities are more relevant than asset-class allocation targets in delivering performance.

Although the SAA remains important to determine broad exposures, we find CIOs now need new implementation and oversight frameworks to guide portfolio managers and analyze new opportunities. A CIO’s understanding of the balance-sheet implications of investments has to be more granular, with a corresponding need for both the CIO and the underlying portfolio managers to embrace the insurance context of their investments. This is particularly true across private debt, especially when these assets play a material role in ALM. Accurately modelling and understanding the impact of portfolio holdings in this context increases the demands on data transparency and analytics, particularly toolsets to assess metrics such as regulatory capital, credit risk and behavior under market stress. We have seen an increasing number of insurance CIOs take a leading role in shaping technology requirements to address this need.

To sustain success, it’s crucial to find the right balance between the SAA and effective deployment in the presence of significant private allocations. Our engagement with clients provides strong evidence that those who have found this balance have delivered superior investment outcomes. Those who have yet to find the balance are making it a priority. This year’s survey suggests that insurers are focused on these issues with private asset modelling, regulatory capital integration, and modelling to support implementation all featuring prominently in how technology can add the most value to the investment process. While half of our respondents state that their operating model addresses the dynamic needs of their organizations, the remaining 50% acknowledge that needs are only met “in part”, with streamlining required. Although there is room for further optimization, we can see that the industry understands the challenge and is moving decisively to capitalize on the opportunities.

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