

The role of institutional investment for Capital Markets Union

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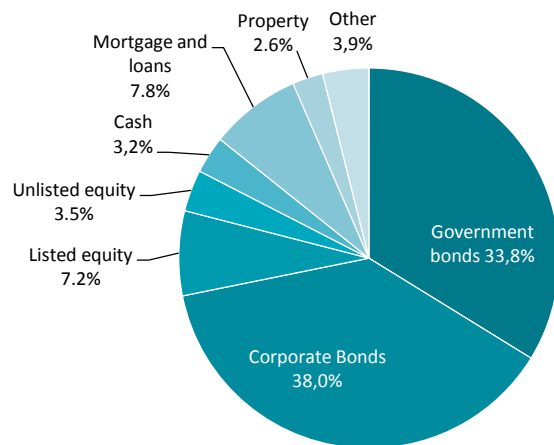
Head of MACS, AXA IM

Financial risk sharing is about diversification: for income & consumption smoothing

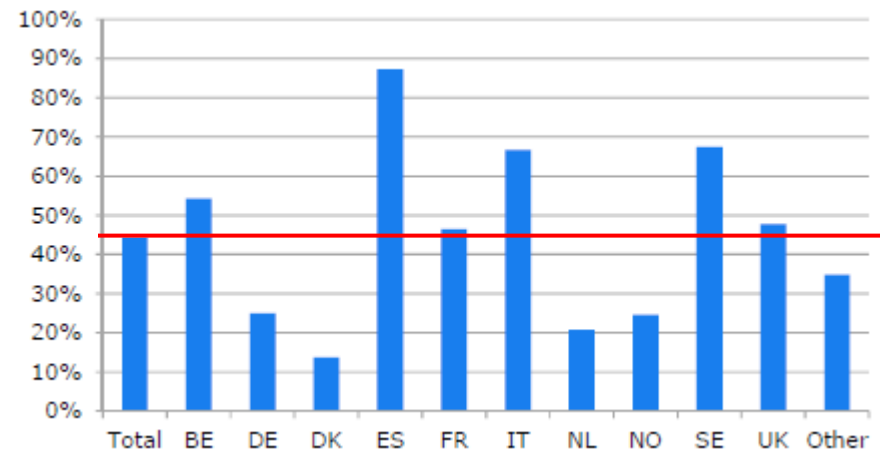
- The insurance sector is the largest institutional investor in the EEA with more than €11tr of assets under management ⁽¹⁾
- Insurers are mainly invested in bonds providing the core of the return and other assets for diversification
- Government bond 'Home country' bias in aggregate terms is 44% and this level varies from country to country

The results of three types of constraints: economics, regulation, accounting standards

Investment split for Life European Insurers (2017) ⁽²⁾



Home country bias' in government bond allocation for 2016 (as a % to total govies) ⁽¹⁾



1 Source: (1) EIOPA, Investment behavior report, Nov 2017; (2) EIOPA, average split for European Life Insurance companies based on 2027 solo insurance undertakings in EEA as of 30/06/17

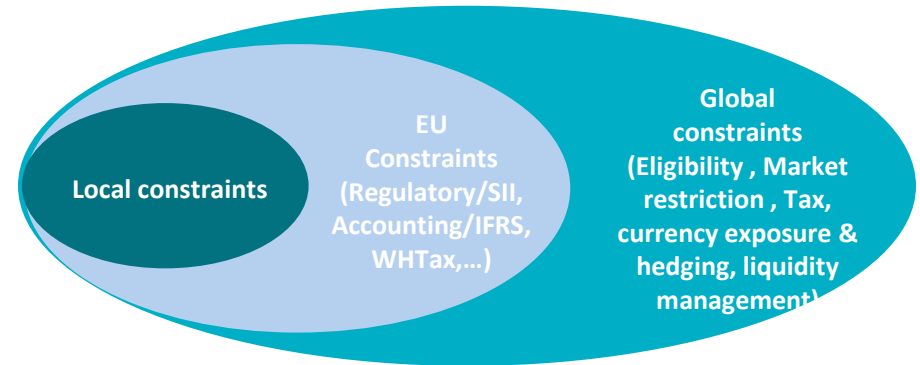
Insurers Investment universe is at the intersection of many constraints

Insurers constraints....

- **Economic** to optimize long term economic return while managing duration and asset allocation in line with liabilities
- **Accounting** constraints penalizing P&L realization under IFRS, favoring buy and maintain strategies to ensure recurring earnings and low volatile assets (private Vs listed)
- **Regulatory** to optimize solvency margin
 - While SII favors government bonds with no capital charge for the asset class and with a sophisticate liability valuation methodology including government bonds for discounting, mitigating sovereign spread volatility and providing back stop in case of domestic crisis

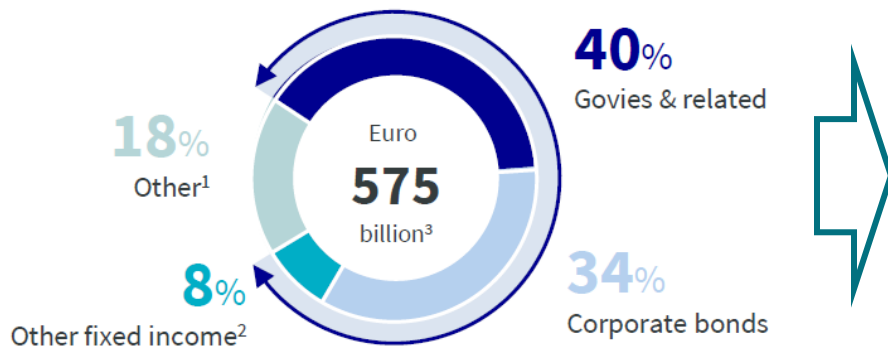
...a structural long liquidity position by nature...

...and several layer of external & market constraints

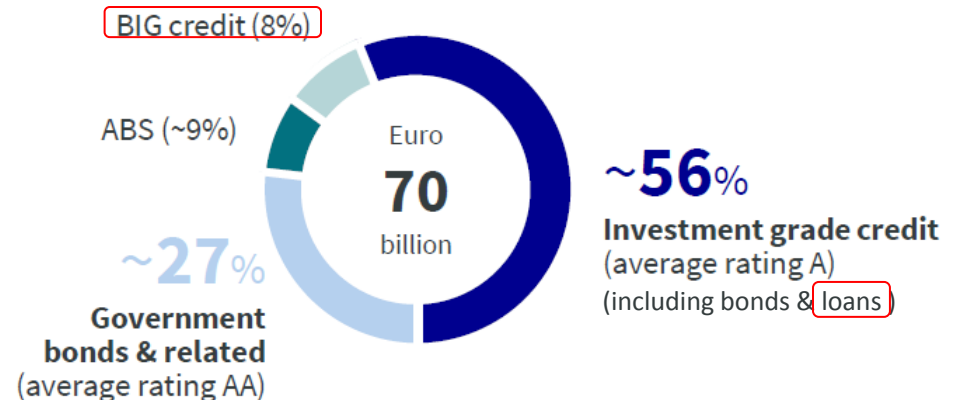


Resulting in more corporate financing and alternative Fixed Income investments and less sovereign

Total General Account Invested Assets in 2017*



New fixed income investments in 2017*



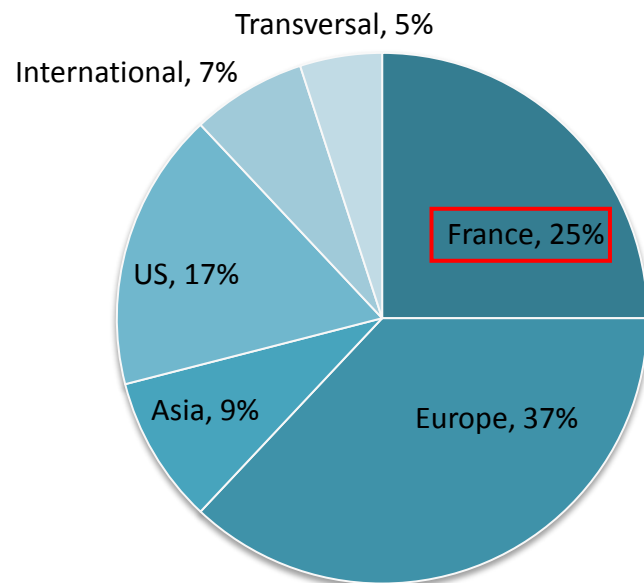
² FI asset durations end June 2017: 8.2y for L&S and 5.5y for P&C

Alternative Fixed Income assets

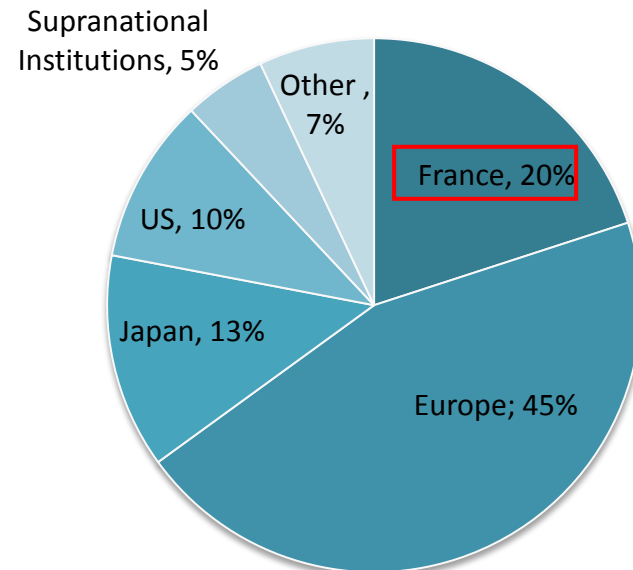
Geography of investment reflects these constraints

- Geographical allocation reflects both ALM constraints and regulatory & accounting issues
- Core allocation is defined first to match local business, with some diversification to enhance yield
- Liability adjustment rule for contingent event –welcome- also contributes to home bias

AXA 's revenues by geography ⁽¹⁾



Breakdown by geography of AXA government bonds and related portfolio ⁽¹⁾



What would help to reduce investments barriers in Europe

WHT harmonization

Capital Market harmonization in the context of Brexit

Loan access:

- Enhance and standardize data quality
- Harmonize enforcement mechanisms and insolvency proceeding
- Develop and standardize credit servicers processes

Securitization:

- Simplify STS rules and review SII treatment for non senior STS
- EU 5% risk retention Vs 0% potentially in the US

Equity:

- SII capital charges & IFRS 9 treatment penalize the asset class
- On-going EC initiative in the good direction

Infrastructure/ European Long Term Investment Funds (ELTIF)

- Simplify and clarify rules to allow institutional and retail products development

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