Honorable Mention

By Editorial Staff *Thu, Jul 9, 2020*

SIMON platform to offer Allianz Life fixed indexed annuities; Janus risk-managed index available in Global Atlantic FIA; Morningstar completes purchase of Sustainalytics; MetLife joins sustainability initiative; Life insurers' real estate assets bear watching: AM Best; Asset management consolidation to continue: Cerulli.

SIMON platform to offer Allianz Life fixed indexed annuities

Allianz Life Insurance Company of North America, the top seller of fixed indexed annuities (FIAs) in the U.S. for well over a decade, has added its products to the SIMON Annuities and Insurance Services annuities platform and digital marketplace for Raymond James wealth managers.

“Expanding SIMON’s Marketplace with the on-boarding of Allianz Life delivers not only a broader selection of annuities products to Raymond James advisors [who use] SIMON’s platform, but also the depth of analytics they seek to effectively serve the wealth management and retirement needs of their clients,” a SIMON release said.

Within SIMON’s interactive platform, Raymond James advisors can evaluate Allianz Life’s annuity products and features, run allocation and income analytics within these products, and access product-specific marketing literature.

Scott Stolz, president of Raymond James Insurance Group, who facilitated ties between SIMON Annuities and Raymond James advisors earlier this year said in a statement, “SIMON greatly simplifies all required annuity education by combining it together into a single, easy to use platform that resides on each of our advisors’ desktop.”

SIMON, an independent spin-off from Goldman Sachs’ structured product department, serves more than 30,000 financial professionals managing more than $3 trillion in assets.

Previous RIJ **stories** about SIMON’s annuity business appeared in our issues of October 2019 and December 2019.

Janus risk-managed index available in Global Atlantic FIA

Janus Henderson Investors has licensed its Janus SG Global Trends Index to Global Atlantic Financial Group, which is in the process of being acquired by KKR, the private equity firm.

The index will be available in a new FIA crediting method called the Enhanced Accumulation Strategy, or EAS, which is available in Global Atlantic's Choice Accumulation Edge product. The Janus SG Global Trends Index uses dynamic risk management tools to diversify among global stocks, bonds and commodities.

"Traditional tools have typically relied on the assumption that stocks are always higher risk, while bonds are relatively safe, which does not always hold true. Such asset allocation approaches can over-allocate to bonds in rising interest rate environments, and may not consider the changing return potential of different asset classes over time," a Janus release said.

The Index was co-developed with Société Générale who acts as the index sponsor and licensor. Global Atlantic will have exclusive usage rights to the index within their fixed index annuity (FIA) offering.

Janus Henderson Indices has been providing quantitative index strategies since 2012, and these strategies are now the basis for $3.5 billion in investment products with major financial partners including FIAs, variable annuities, and exchange traded funds (ETFs). The Janus SG Global Trends Index uses market signals to manage these challenges dynamically, adapting to changes in risk profiles between bonds, stocks and commodities.

Morningstar completes purchase of Sustainalytics

Morningstar, Inc., has completed its previously announced acquisition of **Sustainalytics**, which provides security-level ESG Risk Ratings on the environmental, social, and governance (ESG) factors of tens of thousands of companies worldwide, Morningstar said in a release.

Institutional asset managers, pension funds and investors use Sustainalytics' risk ratings when integrating ESG factors into their investment processes and decision-making. They underpin Morningstar Indexes and Morningstar's Sustainability Rating for funds.

More than 650 members of Sustainalytics global workforce, including its CEO, Michael Jantzi, and his executive team, have joined Morningstar.

Morningstar will support Sustainalytics' existing offerings and integrate ESG data and insights across the firm's research and solutions for individual investors, advisors, private equity firms, asset managers and owners, plan sponsors, and credit issuers.

Morningstar marked the acquisition by publishing a primer on sustainable investing, “Sharpening the Tools of the ESG Investor: Why ESG Factors Are Important, How Investors Use ESG Data, and What Policies Promote (or Impede) Effective ESG Investing?”

MetLife joins sustainability initiative

MetLife, Inc. has become the first U.S.-based life insurer to join the United Nations Global Compact, the world’s largest corporate sustainability initiative. The compact calls for companies to honor 10 universal principles in the areas of human rights, labor, the environment, and anti-corruption.

The 10 principles of the Global Compact are:

On human rights

Businesses should support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in human rights abuses.

On labor

Businesses should uphold: the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labor; the effective abolition of child labor; the elimination of discrimination in respect of employment and occupation.

On the environment

Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; encourage the development and diffusion of environmentally friendly technologies.

On anti-corruption

Businesses should work against corruption in all its forms, including extortion and bribery.

Last week, MetLife issued its annual Sustainability Report, which aligns with the U.N. Sustainable Development Goals and details the ways MetLife and MetLife Foundation deliver for their stakeholders.

In 2019, MetLife became the first insurance company to join the U.N. Women Global Innovation Coalition for Change, and in February 2020, the company became the first U.S.-

based insurer to sign the U.N. Women's Empowerment Principles.

Life insurers' real estate assets bear watching: AM Best

U.S. life/annuity (L/A) insurance companies continued to increase their exposures to commercial mortgage loans in 2019 and now hold more than $522 billion, up significantly from $382 billion in 2015, according to a new AM Best special report.

The Best's Special Report, titled, "Commercial Mortgage Loans Increasing, Credit Quality Decreasing," notes that U.S. economic fundamentals were mostly favorable throughout 2019, with continued GDP growth, low unemployment and rising retail sales. All of these factors led to stable commercial real estate rents and stable vacancy rates. However, more recent trends for commercial mortgage loans (CML) properties show decreases in office and retail properties and increases in apartment properties.

COVID-19-related developments may lead to further percentage declines in these holdings. Holdings in hotel and motel properties, which make up roughly 4% of L/A insurers' CML investments, also likely will come under pressure until economies reopen more fully.

Despite the increased holdings, including an 8% year-over-year increase in 2019, the percentage of investment-grade loans with the highest rating, designated as CM-1, has declined steadily, while the percentage of loans designated as CM-2 has grown. The shift to CM-2 loans appears to be due to insurers' efforts to increase yield, rather than to deteriorating conditions leading to downgrades.

AM Best's recent COVID-19 stress testing on its rated companies assumed declines in several asset categories, including a 10% drop in the statement values of CMLs, with such declines reducing surplus, adjusted for taxes.

CML valuation declines will impact Best's Capital Adequacy Ratio (BCAR) results, particularly for property types affected the most by the COVID-19 shutdowns. Hotel properties in particular are experiencing unprecedented vacancy rates.

Retail and office property also are experiencing significant drops in revenue, which can lead to deterioration in quality and declines in valuations. This will also affect the performance of other mortgage-backed assets, such as commercial mortgage-backed securities. A prolonged impact of COVID-19 could have a significant effect on the loan values and operating income of most property types as well.

As the pandemic leads to loan forbearance, along with remote work forces and travel restrictions, the potential for deterioration in credit quality grows. However, L/A insurers' low exposure to hotels will help minimize the impact. Instead, insurers will feel the impact of longer-term pandemic conditions through accelerated loss recognition, leading to pressure on GAAP earnings. AM Best said it will closely monitor insurers with higher CML exposures relative to total statutory surplus.

Asset management consolidation to continue: Cerulli

Secular trends in the asset management market that made the environment ripe for consolidation during the past five years—namely, fee compression, outflows from higher-cost active strategies, and product rationalization—are still active despite the COVID-19 pandemic, to the latest *Cerulli Edge—U.S. Asset and Wealth Management Edition.*

Numerous subscale managers have joined forces In order to combat fee compression, shrinking shelf space, and the rising cost of compliance due to stricter regulations. These subscale deals are aimed at strategic expansion into broader markets around the globe and consolidation/rationalization of product lineups to focus on top-performing strategies.

"In theory, these M&A deals make sense on paper," said Cerulli managing director Bing Waldert. "But they can also exemplify the difficulties of melding operations within different firms with varying cultures. They typically lead to at least some level of reorganization and staffing reductions."

A clearer path to success may reside in another type of M&A deal, said Cerulli senior editor David Fletcher said. "We have observed an increasing amount of M&A deals that primarily focus on the opportunistic acquisition by larger firms of smaller firms with strong brands and reputations for specific capabilities in a given sector—e.g., alternative investments and environmental, social, and governance (ESG) offerings.

Alternative investment capabilities are an attractive M&A target for many asset managers given investors' increasing interest in uncorrelated, risk-adjusted allocations and these products' relatively attractive revenue potential.

Alongside the 74% of firms polled by Cerulli in 2020 citing the potential for increasing revenues as motivation for developing alternative investment capabilities, 59% point to business diversification as a chief driver. In addition to the alternatives space, an increasing number of managers are expanding via acquisitions in the ESG-related product universe.

Nearly one-quarter of firms polled are in the process of developing ESG capabilities during the next two years. For some firms, there will be significant cost to building these processes and staffing them.

Therefore, as asset owners continue to place increased scrutiny on asset managers' business practices and processes, Cerulli expects that more M&A activity related to ESG/responsible investing will occur in the near term.