

Introducing BNY Mellon's Insurance Industry Roundtable Series

A panel of our insurance industry experts offer their insights on the evolving European insurance industry. This document provides an overview of the transcript derived from one in a series of Insurance Industry Roundtable discussions in which our executive team and industry and product experts explore key trends and issues facing our insurance industry clients.

Our Insurance Industry Roundtable series considers the challenges facing Insurers in EMEA and how by accessing BNY Mellon's comprehensive Investment Management and Investment Services solutions we can help them achieve their business objectives. Other topics include:

- Cash Investments in a Turbulent World
- Investing in Illiquids: Challenges for Insurance Firms
- Managing Your Securities Financing & Derivatives Collateral for Optimum Results
- Seeking Alpha on Insurers' Efficient Investment Frontier
- Transparency: the Data Management Challenge Facing Insurers
- Using Trusts and Securitisation within Insurance Company Finance
- Using Your Global Markets Counterparties to Help Optimise Your Risk Profile

STEFANO MANZONETTO: TARGET2-Securities (T2S) represents an opportunity for insurers to simplify their custody requirements by using a single provider at the pan-European level, rather than a range of suppliers in different countries. The opportunity will vary, with multinational players most likely to reap benefits from using a single provider. How would you describe the opportunity for firms in the European insurance market? And how is BNY Mellon's value proposition to the insurance sector evolving in response to T2S?

TOM CASTELEYN: We're upgrading our core custody product in response to the launch of T2S by the European Central Bank. We will be able to offer better deadlines, greater asset safety, and eventually deliver pricing efficiencies to clients. But there are also strategic and revenue-earning factors stemming from T2S for many firms. The introduction of T2S – which went live with the first of four waves of migration in June 2015 – does give rise to opportunities for a number of operational efficiencies and cost savings for asset owners. These result largely from the fact that Europe's domestic central securities depositories (CSDs) will effectively outsource the settlement of securities transactions to a single, central standardised platform, thus enabling delivery versus payment settlement in central bank money. But T2S needs also to be viewed in terms of the wider context of post-crisis regulatory change impacting the financial markets.

Measures brought in by regulators to reduce systemic risk – such as the collateralisation of OTC derivatives transactions under the European Market Infrastructure Regulation and the US

Dodd-Frank Act, and the increased liquidity and capital requirements for banks introduced by the Basel III framework – have heightened demand for high-quality liquid assets (HQLAs). The combined effect is to push asset owners such as insurance firms and sovereign wealth funds toward a more proactive role in the collateral market, either collateralising their exposures or monetising their holdings of HQLAs in the securities lending or repo markets.

A more dynamic approach to collateral management can entail additional operational complexity, but T2S offers insurance firms opportunities to pursue offsetting efficiencies. BNY Mellon can help clients in the insurance sector to adapt effectively and profitably to the new environment through a range of collateral management tools and capabilities which are seamlessly integrated with a settlement and custody infrastructure that is being upgraded to take advantage of the workflow streamlining and process efficiencies afforded by T2S.

BRIAN LEDDY: At its simplest, T2S makes it much easier to move assets around Europe. We've been talking about disintermediation in the custody value chain for at least 25 years, but this is the first real step toward shortening that chain. But the interesting thing for insurers and other asset owners is how that convenience can drive revenue or improve risk mitigation. Insurance firms have an opportunity to realise revenue from the increased market demand for the kind of assets that they naturally have on their balance sheets. From BNY Mellon's perspective, T2S helps us to provide those clients with better access to market and more efficient use of market mechanisms

MODERATOR:
Stefano Manzonetto

PARTICIPANTS:
Brian Blanchard, Tom Casteleyn,
Brian Leddy



Stefano Manzonetto
Managing Director,
Client Executive

+39 287 909 829
stefano.manzonetto@bnymellon.com

regulatory capital, there are opportunities for insurers to optimise their asset mix to meet their regulatory capital requirements, return needs and collateral obligations.”

TOM: The bulk of the portfolios of European insurance firms generally contain euro-denominated fixed income assets, which means the benefits for them will be much greater than, say, US insurance firms. There are generally two types of assets held within the insurance company: those in the general account and those contained in unit-linked products or fund structures, which are typically marketed and operated domestically. To support these latter in-country structures – and offer the T2S-related benefits described above – custodians must supply domestic depository banking, fund accounting, transfer agency, and related services too.

As such, T2S is something of a catalyst for BNY Mellon, with our planned direct participation in a number of key markets being the first step in a broadening of our service proposition toward a wider range of the in-country custody and asset servicing capabilities that pan-European insurance firms will require for the fund ranges that they manage.

BRIAN BLANCHARD: BNY Mellon’s current European presence – in Ireland, Luxembourg, UK, Germany and the

Netherlands – reflects the importance of being close to the clients’ assets. Our ambition is to support clients in a wider range of European markets. If we can support the majority of a client’s assets – primarily for risk pricing purposes, plus also for collateral management and securities financing – we can provide an enhanced value proposition.

Almost all large insurers have in-house asset management groups that use some kind of unit fund structure or collective investment vehicle. From a regulatory perspective, the new level of integration represented by T2S prompts the question of whether and when will it be possible to offer currently in-country services such as depository banking on a cross-border basis. That may take some time but it is our intention to provide services across the value chain. Ultimately the vision of T2S is about moving securities freely across European borders. Our intention is to be at the forefront of supporting that movement.

STEFANO: From a service localisation perspective, why should local insurance players with a strong geographic concentration of assets consider using a global custody provider?

TOM: By executing our strategy as outlined, we are becoming more local in some key markets. As such, there will be minimal difference between a local

custodian in Italy and BNY Mellon in Italy as far as any client with international operations or ambitions is concerned. Furthermore, a number of service providers have encountered difficulties when connecting their local custody businesses to their global custody platform. In contrast, BNY Mellon has always operated as a global custodian with one global platform. Now we are connecting our global custody platform directly into the key local markets in Europe to deliver local custody into those markets. Clients of local custodians have often found it quite complex to move from a pure in-country service to a more international relationship because of the account structures and contracts that must be set up. With BNY Mellon, the process is much more seamless.

On the one hand I would say that it’s easy to broaden your relationship with BNY Mellon as your investment appetite changes and takes a more global direction, but on the other hand it will increasingly be the case that we can compete with local custodians in terms of the services we can offer in the local market. Our relationship management and client service presence on the ground enables us to deliver a global model at a local level.

bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorised and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, 225 Liberty St, New York, New York 10286 USA, a banking corporation organised pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorised by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorised and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, a subsidiary of The Bank of New York Mellon, and operating in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorised by the ECB, NBB and the FSMA and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon, Singapore Branch is subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch is subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. The Bank of New York Mellon Securities Company Japan Ltd acts as intermediary for The Bank of New York Mellon. Not all products and services are offered at all locations.

The material contained in this document, which may be considered advertising, is for general information and reference purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter, and is not to be used as such. The contents may not be comprehensive or up-to-date, and BNY Mellon will not be responsible for updating any information contained within this document. If distributed in the UK or EMEA, this document is a financial promotion. This document and the statements contained herein, are not an offer or solicitation to buy or sell any products (including financial products) or services or to participate in any particular strategy mentioned and should not be construed as such. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. Similarly, this document may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorised, or where there would be, by virtue of such distribution, new or additional registration requirements. Persons into whose possession this document comes are required to inform them about and to observe any restrictions that apply to the distribution of this document in their jurisdiction. The information contained in this document is for use by wholesale clients only and is not to be relied upon by retail clients. Trademarks, service marks and logos belong to their respective owners.

The views expressed herein are those of the contributors only and may not reflect the views of BNY Mellon.

© 2015 The Bank of New York Mellon Corporation. All rights reserved.

9/2015



BNY MELLON