



## Solvency II to spark search for asset management alternatives - 3 March 2010 15:50

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FRANCE - Asset managers will have to offer alternatives to equities if they are to guarantee the best possible return for their investors under the likely constraints of Solvency II, the author of a recent survey of French institutional investors claims.

Richard Bruyere, president of asset management consultancy Image & Finance, warned French investors will not increase allocations equities despite strong 2009 performance because of the possible ramifications of Solvency II.

“Our thesis is that the money cannot go into equities because French investors have traditionally been very limited equity investors, and now there are a number of factors that limit their appetite for the asset class,” said Bruyere.

He also noted that €25bn of French investments are currently invested in money market investments and may not find their way back into equities.

Combined with the likely effects of the European Union’s Solvency II Directive, this could lead asset managers to search for other means of return, away from equities, he argued.

“It is up to asset managers to regain the trust of clients and to be able to provide and propose innovative solutions that will enable them to avoid that catch-22 they face today,” said Bruyere.

He listed liquid alternatives, absolute [return] products and more flexible investment products as possible sources of new opportunities. “All of these are hot topics at the moment. It should ring positive bells in investors’ ears,” he said.

That said, he warned French insurance companies looking after pension scheme assets could even face insolvency if these new investment opportunities were not able to offer stable returns, given the likely capital buffer requirements under Solvency II.

“Theoretically, I guess, the insurance companies would be in trouble and a consolidation of the sector could happen,” he warned, albeit noting that insurance companies do not offer a guaranteed rate of return and therefore would not be bound to a minimum payment.

Bruyere suggested Solvency II could cause many changes to the sector, so asset managers are now pressed to search for new revenue streams.

“The impact of this reform, if it goes ahead, will be very significant and will keep the French institutional investors out of equities,” he added.

*If you have any comments you would like to add to this or any other story, contact Julie Henderson on +44 (0)20 7261 4602 or email [julie.henderson@ipe.com](mailto:julie.henderson@ipe.com)*

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