S&P Dow Jones Indices
A Division of S&P Global

Research

A Survey of Mexican Insurance Investment Officers – H2 2020

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OVERVIEW

In early 2020, S&P Dow Jones Indices and the Association of Mexican Insurance Companies (AMIS) conducted our second annual survey of insurance investment officers in Mexico to gather their perspectives on investments and the state of the local insurance industry.[1] The survey closed at the end of February 2020, just before COVID-19 had begun to rapidly spread throughout North America.

Because of this, we felt it necessary to administer the survey again, this time in the second half of 2020, to better gauge investors' sentiments as they adjust to their "new normal." The objective of this survey was to better understand Mexican insurers'[2] perspectives on the investment landscape, how companies invest and allocate their excess capital, and how their outlook and allocations may have changed in light of COVID-19.

This report summarizes insurers' views on the following topics:

- Investment concerns and risks;
- Economic and credit rating expectations for the remainder of 2020;
- Investments and asset allocation, with a focus on excess capital; and
- Investment trends, including ESG and passive investing.

INVESTMENT CONCERNS AND RISKS

One of the most significant shifts the H2 2020 survey results highlighted was in insurers' investment concerns. Respondents indicated their level of worry—very worried, somewhat worried, not worried, and no opinion—about a number of investment-related risk factors. The number of risk factors they classified as very or somewhat worrying increased from 59% in H1 2020 to 72% in H2 2020.

While insurers were more concerned overall about a range of risks, the nature of which risks were most concerning also shifted. Exhibit 1 shows

[1] Stokes, Kelsey and Raghu Ramachandran, "A Survey of Mexican Insurance Investment Officers," S&P Dow Jones Indices, April 2020.

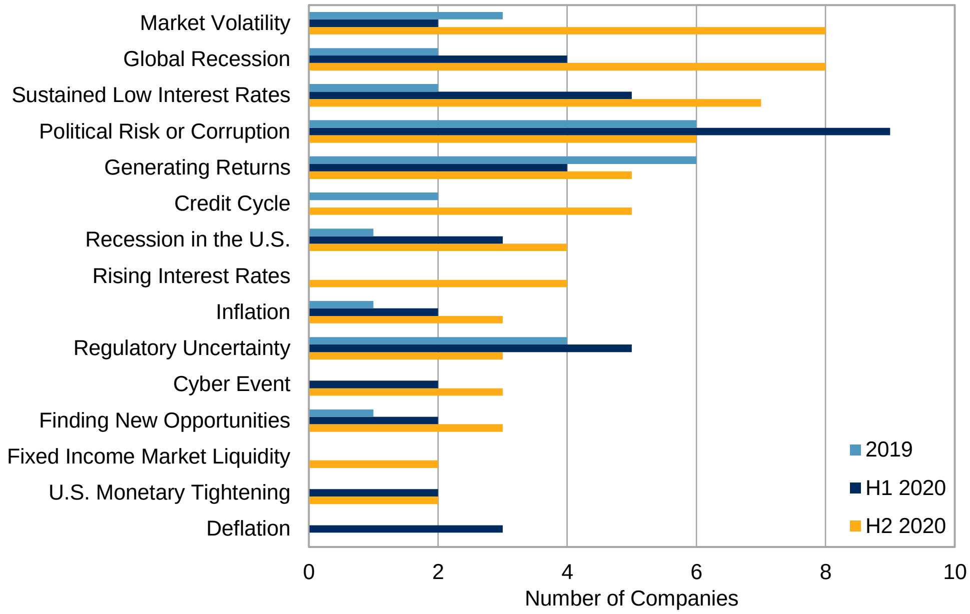
[2] Throughout this report, we will use the terms "insurers" and "respondents" interchangeably. For our purposes, the term "insurers" represents those who responded to the survey, but it does not necessarily represent all insurance investment officers in Mexico. Please see the appendix for more information on the methodology and firmographic profiles of survey respondents.

One of the most significant shifts the H2 2020 survey results highlighted was in insurers' investment concerns.

the frequency with which respondents described a risk as very worrying; risk factors like the credit cycle, a global recession, and market volatility, which were previously of lesser concern, now appeared to be more top of mind.

The number of risk factors they classified as very or somewhat worrying increased from 59% in H1 2020 to 72% in H2 2020.

Exhibit 1: Risk Factors Classified as Very Worrying by Year



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

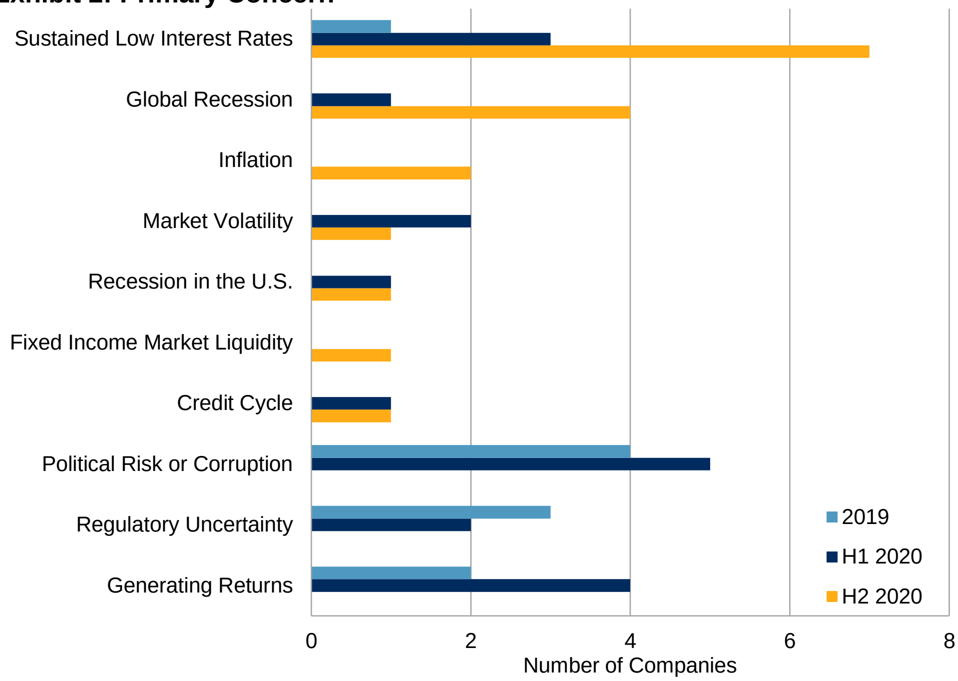
Risk factors like the credit cycle, a global recession, and market volatility now appeared to be more top of mind.

At the beginning of 2020, insurers were most concerned about political risk or corruption, generating returns, and the sustained low interest rate environment—only 16% of respondents cited low interest rates as their chief concern. The most recent data, however, tells a different story; 41% of respondents cited the sustained low interest rate environment as their greatest concern, followed by the threat of a global recession and inflation (see Exhibit 2). Additionally, insurers' three greatest concerns from 2019—political risk or corruption, regulatory uncertainty, and generating returns—were not among respondents' chief concerns in H2 2020.

At the beginning of 2020, insurers were most concerned about political risk or corruption and generating returns…

…whereas the most recent data show insurers' primary concerns were sustained low interest rates, global recession, and inflation.

Exhibit 2: Primary Concern



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

Insurers' shifting concerns illustrate the impact COVID-19 has had; this impact also appears in respondents' outlook on credit ratings, asset allocation, and expected returns.

ECONOMIC AND CREDIT RATING EXPECTATIONS

As part of each survey, we asked participants to predict the following measures of the Mexican economy at the current year-end: unemployment rate, inflation rate, interest rate, GDP growth rate, and the USD-MXN exchange rate.

Insurers' shifting concerns illustrate the impact COVID-19 has had.

Insurers' responses to the H1 2020 survey suggested that they expected inflation, unemployment, interest rates, and the GDP growth rate to be lower and the Mexican peso stronger at year-end 2020 than they forecasted for year-end 2019. However, the most recent survey data highlighted respondents' expectations for a sharp decline in the GDP growth rate and interest rates, higher levels of inflation and unemployment, and a weaker Mexican peso, likely informed by the economic impacts of COVID-19 (see Exhibit 3).

We asked insurers to predict the following at year-end 2020: unemployment, inflation, interest, GDP growth, and USD-MXN exchange rates.

Exhibit 3: Mexican Economic Projections

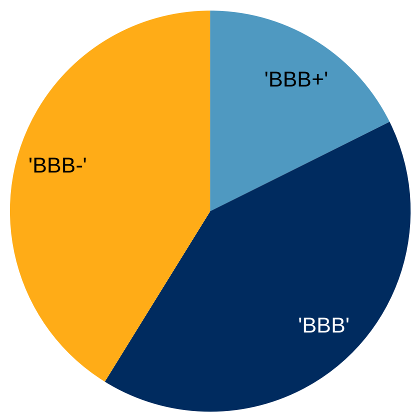
MEASURE	2019 SURVEY AVERAGE	YEAR-END 2019 ACTUAL	H1 2020 SURVEY AVERAGE	H2 2020 SURVEY AVERAGE
Unemployment Rate (%)	6.45	3.51	3.82	6.64
Inflation Rate (%)	4.04	2.83	3.23	3.98
Interest Rate (%)	7.68	7.56	6.44	4.43
GDP Growth Rate (%)	1.72	0.17	0.79	-8.59
USD-MXN Exchange Rate	19.72	18.86	19.48	22.19

Source: S&P Dow Jones Indices LLC, OECD, and the U.S. Federal Reserve. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

In the latest iteration of the survey, we also asked participants about their expectations for Mexico's credit rating, in terms of the foreign currency rating, at the end of 2020. At the time of the survey, S&P Global Ratings' long-term (LT) foreign currency credit rating for Mexico was 'BBB,' with a negative outlook.[3] More than 80% of respondents expected that the LT foreign currency credit rating would either remain at 'BBB' or see a further downgrade to 'BBB-,' while 18% predicted an upgrade to 'BBB+' (see Exhibit 4).

Respondents' expected a sharp decline in the GDP growth and interest rates, increases in inflation and unemployment, and a weaker Mexican peso.

Exhibit 4: Expected Mexico LT Foreign Currency Credit Rating



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

When predicting Mexico's LT foreign currency credit rating, over 80% of insurers expected it would either remain at BBB or downgrade to BBB-.

INVESTMENTS AND ASSET ALLOCATION

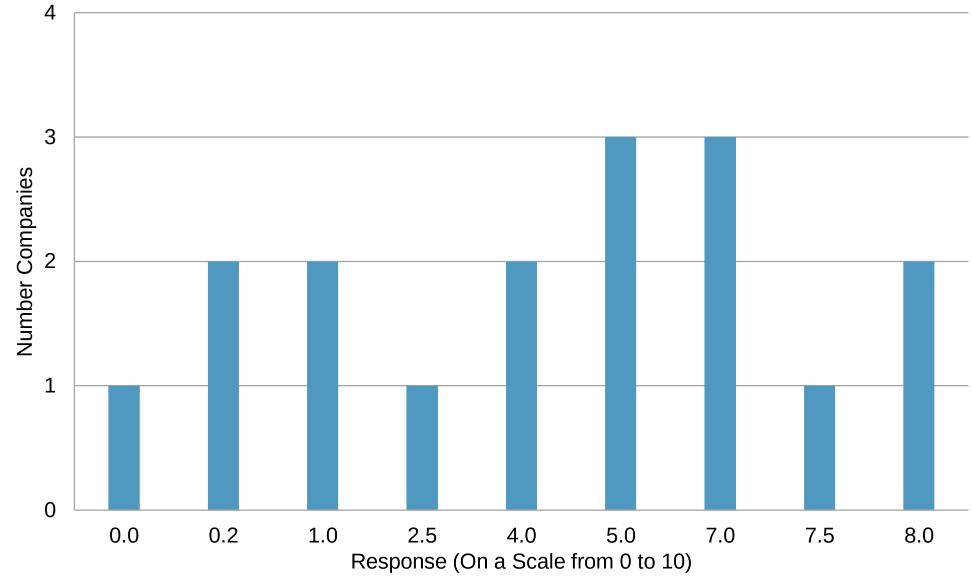
Respondents addressed questions about asset allocation through the lens of excess capital, given the greater latitude insurers may have in how they can invest. In our most recent survey, we asked respondents to indicate the extent to which the way they invest has changed in light of COVID-19, on a scale from 0 to 10, where 0 indicated no change and 10 indicated significant change. While average and median responses suggested that insurers felt some change to the way that they invest, the range of responses suggested that the impact of COVID-19 may have been felt differently from one company to the next (see Exhibit 5). Interestingly,

[3] Maurya, Sakshi, "S&P downgrades Mexico, Trinidad and Tobago amid coronavirus outbreak," S&P Global Ratings, March 2020.

In our most recent survey, we asked respondents to indicate the extent to which the way they invest has changed in light of COVID-19.

when we analyzed the responses based on firm characteristics—such as company size, type of insurance offered, and ownership structure—no strong trends emerged.

Exhibit 5: Degree to Which Respondents' Investments Have Changed Due to COVID-19



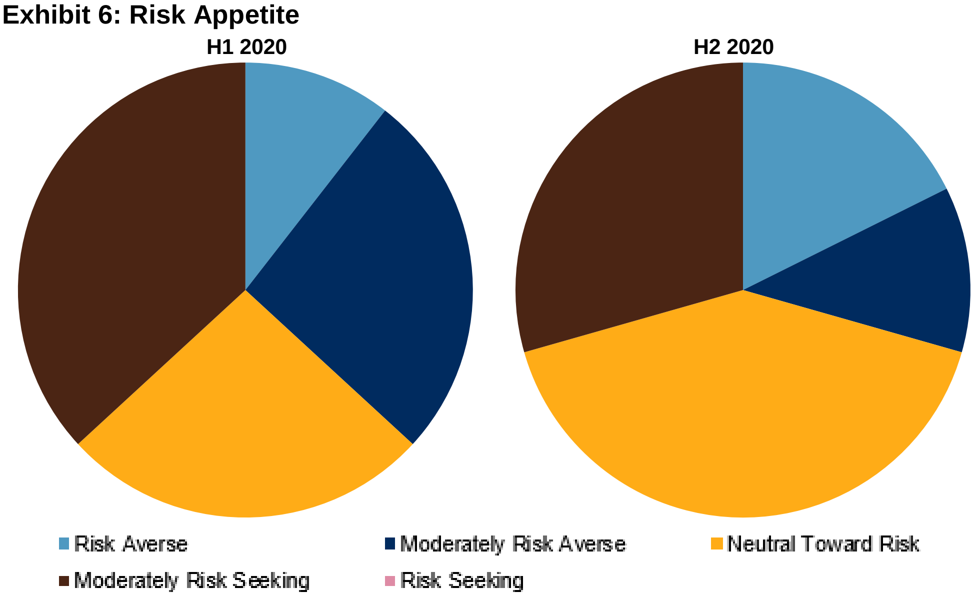
Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

While most insurers felt some change to the way that they invest…

While COVID-19 may have contributed to a riskier investment landscape, the data from H2 2020 did not reveal dramatic shifts in risk appetite, although slightly fewer respondents described themselves as "moderately risk seeking" (see Exhibit 6).

…the range of responses suggests that the impact may have been felt differently from one company to the next.

Exhibit 6: Risk Appetite

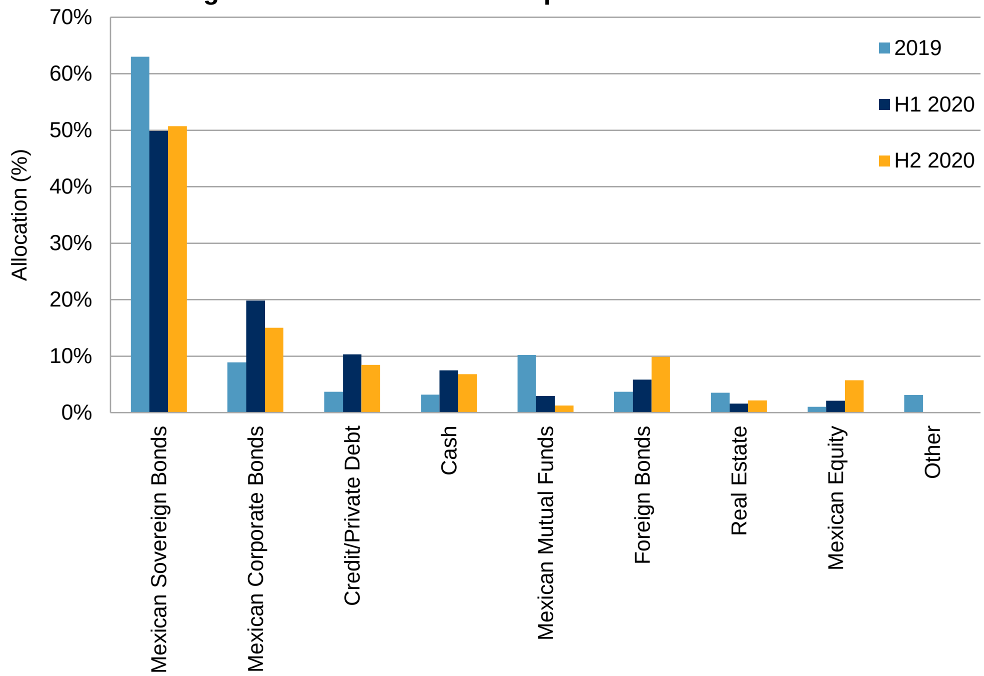


Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

Though COVID-19 may have contributed to a riskier investment landscape, the data from H2 2020 did not reveal dramatic shifts in risk appetite.

However, from H1 to H2 2020, respondents meaningfully increased their allocations to foreign bonds and Mexican equity—asset classes that could be considered “riskier”—while they retreated from Mexican corporate bonds and mutual funds. Exhibit 7 shows the average percentage of the portfolio allocated to each asset class.

Exhibit 7: Average Allocation of Excess Capital



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

However, from H1 to H2 2020, respondents increased their allocations to foreign bonds and Mexican equity (“riskier” asset classes)…

…while they retreated from Mexican corporate bonds and mutual funds.

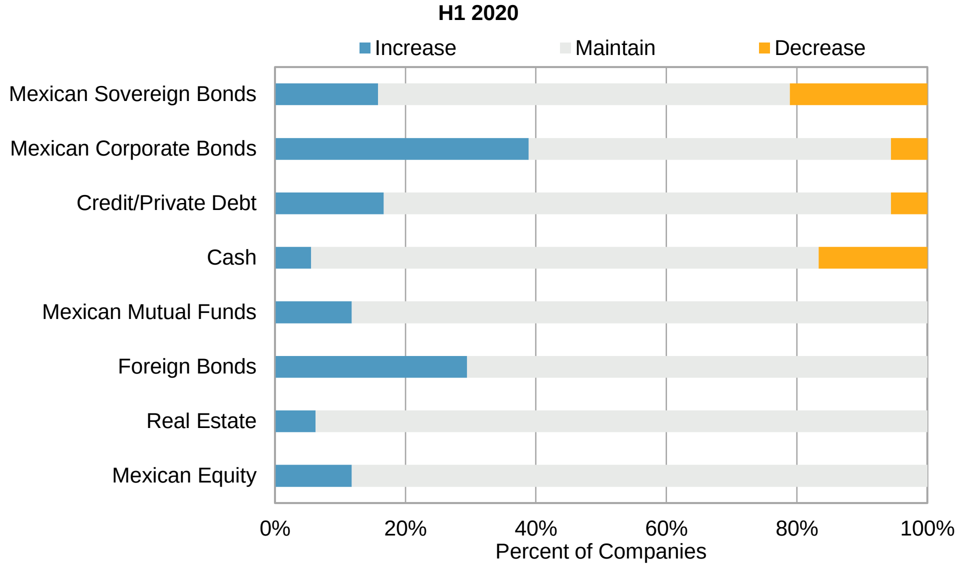
Looking at expected changes to asset allocation in H2 2020, respondents planned to increase allocations to cash, foreign bonds, and credit/private debt more than any other asset class. In H1 2020, foreign bonds were also among one of the top areas to which respondents planned to increase their allocations. Notably, Mexican corporate bonds—the asset class most frequently reported as an area in which respondents intended to decrease their allocation in the remainder of 2020—had been the primary asset class in which they planned to invest more heavily in H1 2020. Across all asset classes, though, the majority of respondents said they intended to maintain their current allocations, which may include not investing at all in a particular asset class (see Exhibit 8).

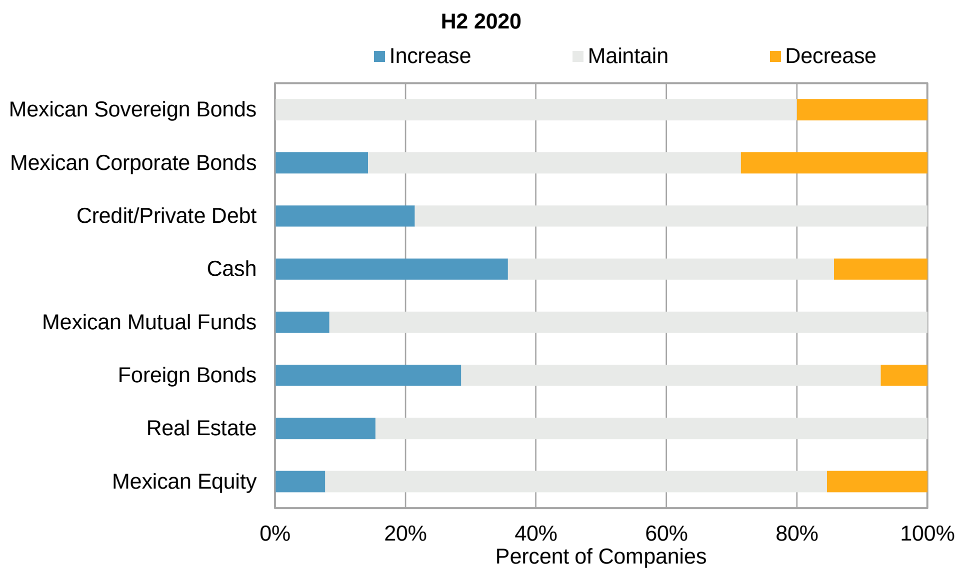
In H2 2020, respondents planned to increase allocations to cash, foreign bonds, and credit/private debt.

Across all asset classes, though, the majority of respondents said they intended to maintain their current allocations…

…which may include not investing at all in a particular asset class.

Exhibit 8: Expected Changes to Asset Allocation in 2020



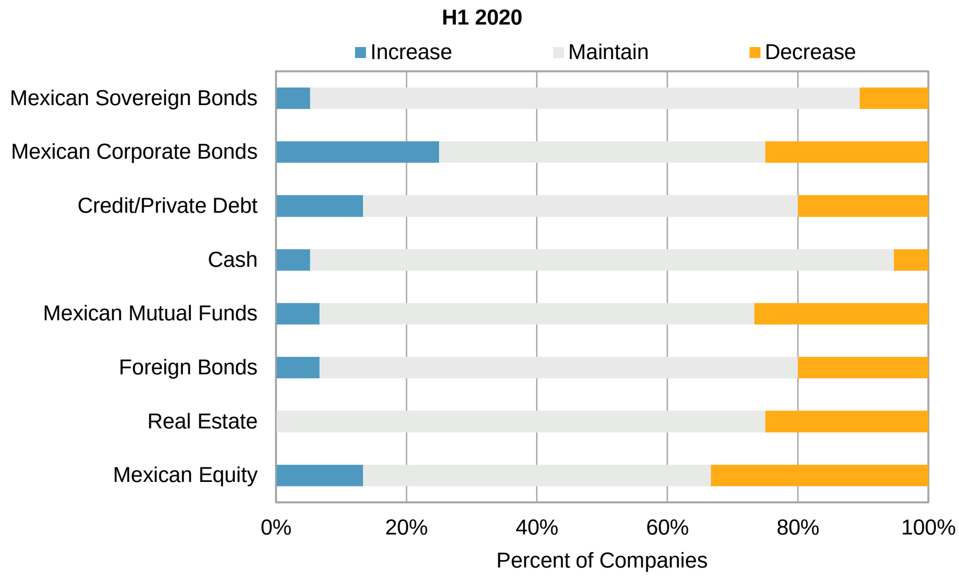


Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Charts are provided for illustrative purposes.

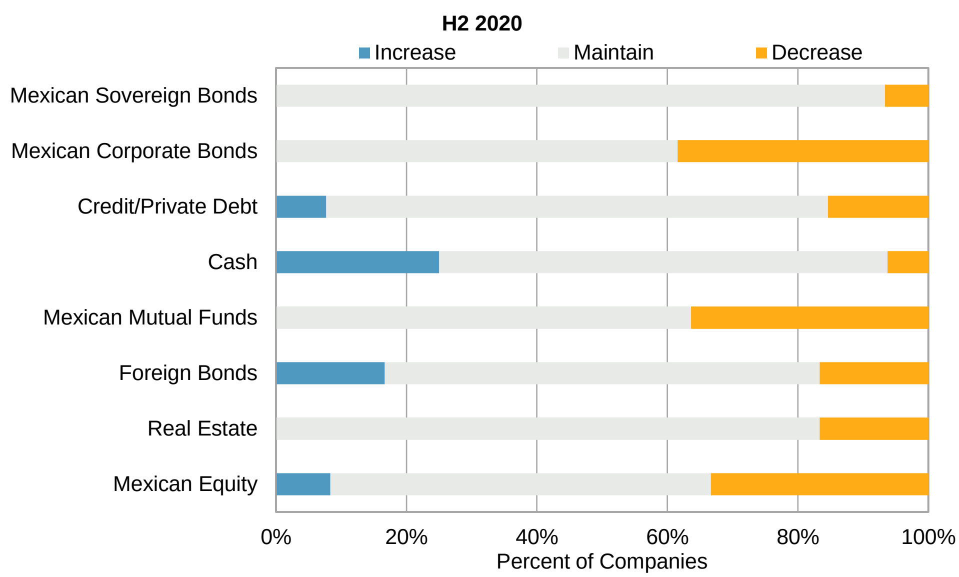
Similarly, the majority of respondents said that they intended to maintain their current risk tolerances across asset classes for their excess capital. However, respondents reported that they would decrease their risk tolerance for Mexican corporate bonds, equity, and mutual funds more than any other asset class. No respondent said that they would increase their risk tolerance for Mexican sovereign or corporate bonds, mutual funds, or real estate (see Exhibit 9).

The majority said that they intended to maintain their current risk tolerances across asset classes for their excess capital.

Exhibit 9: Expected Changes to Risk Tolerance in 2020



No respondent said that they would increase their risk tolerance for Mexican sovereign or corporate bonds, mutual funds, or real estate.



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Charts are provided for illustrative purposes.

Although there were some changes to expectations in H2 2020, respondents expected the same asset classes to be in the top half and bottom half of performers.

Notwithstanding their risk tolerances or allocations, respondents also ranked each asset class in terms of expected return from 1 to 8, where 1 corresponded to the asset class with the highest expected return. Exhibit 10 shows that although there were some changes to expectations in H2 2020, respondents expected the same asset classes to be in the top half and bottom half of performers; respondents still expected Mexican sovereign bonds, Mexican corporate bonds, foreign bonds, and credit/private debt to have the highest expected returns at year-end 2020.

Exhibit 10: Average Asset Class Ranking Based on Highest Expected Return at Year-End 2020

ASSET CLASS	2019 RANKING	H1 2020 RANKING	H2 2020 RANKING	CHANGE
Credit/Private Debt	1	1	4	▼
Mexican Corporate Bonds	2	2	2	-
Mexican Sovereign Bonds	3	3	1	▲
Foreign Bonds	4	4	3	▲
Mexican Equity	5	4	7	▼
Mexican Mutual Funds	7	6	6	-
Real Estate	8	7	5	▲
Cash	6	8	8	-

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

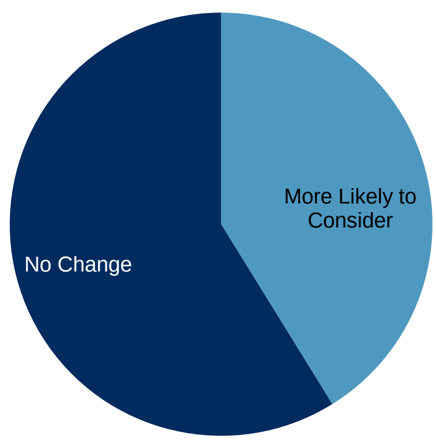
2020 has been a pivotal year for ESG investing, as investors turned their attention to ESG investment solutions that showed resiliency during recent market drawdowns.

INVESTMENT TRENDS: ESG AND PASSIVE INVESTING

2020 has been a pivotal year for environmental, social, and governance (ESG) investing, as investors turned their attention to ESG investment solutions that demonstrated resiliency during COVID-19-related market drawdowns. We asked participants if COVID-19 made them more or less likely to consider ESG criteria within their investment process, and 41% of respondents said that they were now more likely to do so (see Exhibit 11). No one said that they were now less likely to consider ESG criteria.

Exhibit 11: Likelihood of Considering ESG Investment Criteria in Light of COVID-19

We asked if COVID-19 made them more or less likely to consider ESG, and 41% of respondents said that they were now more likely to do so.



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

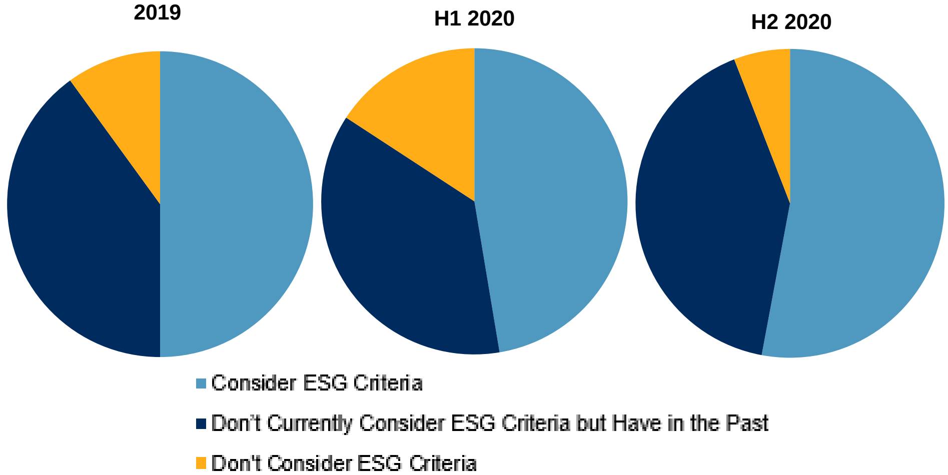
No one said that they were now less likely to consider ESG criteria.

As ESG investing becomes increasingly mainstream, new solutions have emerged across Latin America, including in Mexico,[4] to help investors integrate ESG criteria into their investments. Exhibit 12 shows about 94%—the highest percentage of respondents to date—either use or have previously used ESG criteria in their investment processes.

[4] Kitchener, Silvia, "TalkingPoints: ESG Access Continues to Evolve in Mexico – Get to Know the S&P/BMV Total Mexico ESG Index," S&P Dow Jones Indices, October 2020.

As ESG investing becomes increasingly mainstream, new solutions have emerged across Latin America to help investors integrate ESG criteria.

Exhibit 12: Adoption of ESG Criteria in Investments

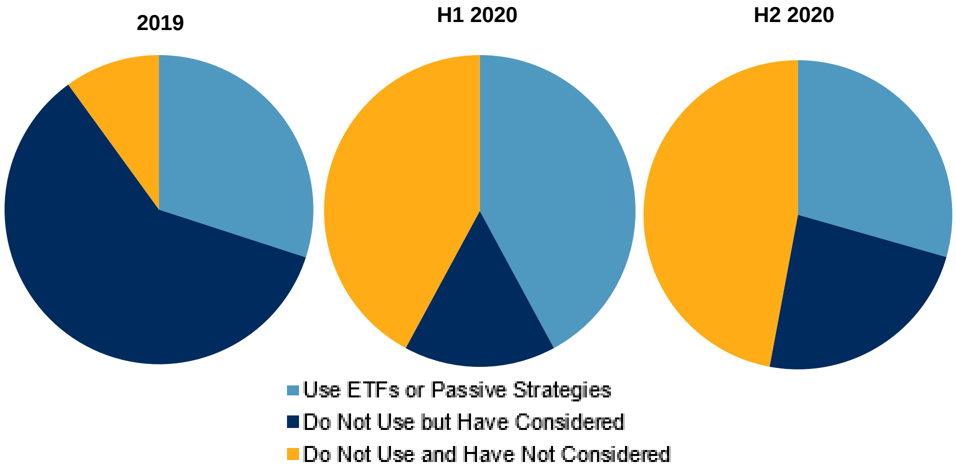


Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Charts are provided for illustrative purposes.

This survey revealed that 94% either used or considered ESG criteria in their investment processes...

While COVID-19 seemingly has created a tailwind for the adoption of ESG investing among insurers in Mexico, it appears to have been a slight headwind for the adoption of exchange-traded funds (ETFs) or other passive strategies. In the latest survey, 29% of respondents reported investing in these strategies, down from 42% who reported doing so in H1 2020 (see Exhibit 13).

Exhibit 13: ETF or Passive Strategy Usage



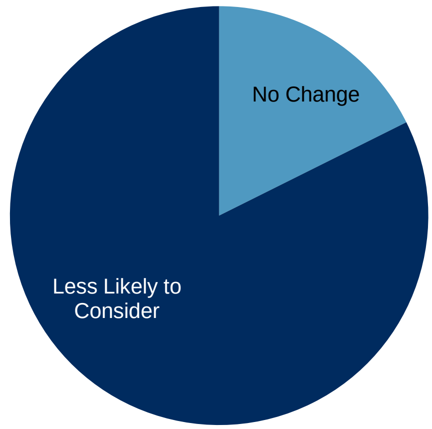
…while 29% reported investing in ETFs or passive strategies, down from 42% who reported doing so in H1 2020.

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

In H2 2020, 18% of respondents said that COVID-19 has made them less likely to invest in ETFs or other passive strategies, while 82% said that they were neither more nor less likely than they were before to invest in these strategies (see Exhibit 14).

While COVID-19 has created a tailwind for the adoption of ESG investing among Mexican insurers, it appears to have been a slight headwind for the adoption of ETFs.

Exhibit 14: Likelihood of Considering ETFs or Other Passive Strategies in Light of COVID-19



Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Chart is provided for illustrative purposes.

CONCLUSION

The results of our H2 2020 survey illustrate the degree to which respondents' outlook on the investment landscape has shifted in the wake of COVID-19. While individual sensitivities vary from company to company, concerns such as the threat of a global recession, market volatility, and a continued low interest rate environment appear to be more top-of mind than they were previously. These concerns play a role in how insurers invest and allocate capital, as they attempt to find yield while mitigating risk.

APPENDIX A: METHODOLOGY

S&P DJI and the AMIS developed and administered the survey of insurance investment officers in Mexico collaboratively. S&P DJI managed data collection via an online survey tool. While we collected firmographic information—such as type and size of insurance company—we did not collect any information that could identify a specific firm or an individual at that firm; all responses remained anonymous.

The H2 2020 data included in this analysis were collected between Sept. 15, 2020, and Oct. 9, 2020. H1 2020 data were collected between Feb. 5, 2020, and Feb. 28, 2020, and 2019 data were collected between March 1, 2019, and March 20, 2019. In the H2 2020 survey, 17 insurers participated, while 19 and 10 insurers participated in the H1 2020 and 2019 surveys, respectively.

APPENDIX B: FIRMOGRAPHIC DATA

Exhibits B1-B6 break down survey participants based on various company characteristics. Please note that due to rounding, values may not sum to 100%.

Exhibit B1: Type of Company

TYPE OF INSURANCE	RESPONDENTS (%)		
	2019	H1 2020	H2 2020
Traditional Insurance	100	95	82
Reinsurance	-	5	18

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

Exhibit B2: Type of Insurance Company

TYPE OF INSURANCE COMPANY	RESPONDENTS (%)		
	2019	H1 2020	H2 2020
General Insurance	50	37	35
Life Insurance	20	26	29
Surety	-	11	-
Combination	30	26	35

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

Exhibit B3: Type of Ownership

TYPE OF OWNERSHIP	RESPONDENTS (%)		
	2019	H1 2020	H2 2020
Private	70	58	71
Public	10	16	18
Bank-Owned	-	16	6
Mutual	10	11	6
Other	10	-	-

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

Exhibit B4: Size of Company

SIZE OF COMPANY	INVESTED ASSETS (MXN MILLIONS)	RESPONDENTS (%)		
		2019	H1 2020	H2 2020
Small	Invested Assets < 20,000	-	58	47
Medium	20,000 ≤ Invested Assets < 50,000	60	5	18
Large	50,000 ≤ Invested Assets < 100,000	30	5	12
Mega	100,000 ≤ Invested Assets	10	32	24

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

Exhibit B5: Type of Insurance

TYPE OF INSURANCE	RESPONDENTS (%)		
	2019	H1 2020	H2 2020
Primary Insurance	80	74	65
Reinsurance	-	5	18
Both Primary Insurance and Reinsurance	20	21	18

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

Exhibit B6: Local Company or Foreign Subsidiary

LOCAL COMPANY OR FOREIGN SUBSIDIARY	RESPONDENTS (%)		
	2019	H1 2020	H2 2020
Foreign Subsidiary	60	63	59
Local Company	40	37	42

Source: S&P Dow Jones Indices LLC. Data as of Oct. 9, 2020. Table is provided for illustrative purposes.

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