

Case Study 1: Solvency II Expertise Benefits Multinational Insurer

Client Summary

A large and sophisticated multinational insurance company was seeking to increase the emerging markets exposure within its fixed-income investment portfolio. The insurer wanted to work with an external investment manager that had both experience in emerging markets and would be able to serve as a strategic partner to assist internal teams as they worked through a variety of objectives and constraints within multiple jurisdictions. For example, the insurer was seeking to invest in a Solvency II capital-efficient manner using investment vehicles that would satisfy specific accounting and legal requirements of its subsidiaries in different countries

Western Asset's Impact

Western Asset highlighted some of the "sweet spots" within the Solvency II regulation that provide favorable capital treatment to bonds issued by certain supranational organizations. Through a reverse inquiry process, Western Asset offered to approach the supranational issuers and ask them to issue bonds denominated in local currencies. The resulting diversified portfolio would obtain its exposure to emerging markets through local currencies rather than through credit, and its Solvency II spread risk charge (SCR) would be zero.

Western Asset has managed the EM Local Currency Supra portfolios for years now, all the while working closely with this client in partnership to providing access to our Portfolio Management Team and, more broadly, our Firm's global resources.

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