



# ISHKA ADVISORS

**INDEPENDENT, HOLISTIC YET SIMPLE INSURANCE ADVISORY**

FOUNDER - ASHIK MUSADDI, CFA, FRM, MBA



# What Ishka brings on the table?

- Founded by Ashik Musaddi, ex Head of European Insurance Research at Morgan Stanley and J.P. Morgan London.
- Deep understanding of insurance fundamentals: Products, Financials, Business Models, backed by approx 20 years of experience.
- Understanding of Global Institutional Investor's needs/sentiments, likes/dislikes etc.
- Independent advice, as Ishka has no conflict of interest with insurers/investors/bankers.
- Core strength of Ishka Advisors is to simplify insurers strategy to broader investment community



# OUR MISSION

Our mission is to prepare our clients for their long term journey to stand tall in any market conditions through candid, righteous and independent advice





# KEY PILLARS OF STRATEGIC ADVICE



**PRODUCT**



**BUSINESS  
MODEL**



**COMMUNICATION**



**FINANCIALS**



# PRODUCT STRATEGY

01



# IMPORTANCE OF PRODUCT STRATEGY

Product strategy plays a crucial role in shaping the future of insurance companies. Key aspects it influences are:

- Quality of the Balance Sheet (Assets/Liabilities Risk)
- Profitability of the Business
- Predictability of Cash Flows



# There are Plenty of Products

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Personal motor

Personal home

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Participating life

Fire

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Non-participating life

Accident-damage

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Unit linked

Commercial insurance

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Protection

Liability insurance

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Embedded options in life  
products

Workmen compensation

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Asset administration

Reinsurance

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Disability insurance

Health insurance

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**And Many more...**



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# IMPACT OF PRODUCT STRATEGY FOR LIFE INSURERS

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## Balance Sheet

- Risk of ending with higher asset risks. US/UK life insurers (Legal and General, Phoenix, Athene)
- Reserving issues on liabilities. US variable annuities underwriters (Jackson National, Brighthouse)
- Duration mismatch between assets and liabilities. Japan / Korean / German life industry

## P&L

- Risk of weaker P&L due to negative spread (incase of duration mismatch businesses),
- Higher earnings volatility due to reserve charges




## Cash flows

Balance sheet issues lead to weaker capital and cash flows volatility

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# Examples for troubled life insurers

	01	02	03	04	05	06	
							
	<p>(including lots of US life insurers) Variable annuities business turned out to be toxic</p>	<p>Heavy upfront commission based products</p>	<p>Concentrating into bulk annuities (guaranteed spread business)</p>	<p>Sold group pension spread business while ignoring Solvency II</p>	<p>Duration Mismatch and concentrated longevity risk</p>	<p>Heavy asset risk – corporate credit, equities, non-standard assets</p>	



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# IMPACT OF PRODUCT STRATEGY FOR NON-LIFE INSURERS

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## **Short tail Non-Life Insurers**

Short tail Motor/home insurers, product strategy is largely a source of volatility for P&L and cash flows but balance sheet stays relatively stable.

## **Long tail lines of Business**

Commercial lines insurers and/or reinsurers product strategy could bring in significant source of volatility for P&L, cash flows and balance sheet.

## **P&L**






P&L and cash flows volatility comes from product mis-pricing and/or short term shocks on factors such as inflation, catastrophe losses etc.

## **Balance Sheet**

Balance sheet volatility mainly stems from changing trends such as climate change, tech changes, long term inflation etc

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# Examples for troubled P&C insurers

	01	02	03	04	05	
						
	<p>Social claims inflation on casualty</p>	<p>Long term inflation</p>	<p>Motor insurance pricing in the UK</p>	<p>Mismatch between inflation and pricing in Spain</p>	<p>Impact due to climate change</p>	



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# MONOLINERS

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- The insurance industry operates within a macro-oriented and highly regulated framework, which inherently brings volatility.
  - Even if an insurer excels within its niche, unforeseen issues can arise. Dependency on a single line of business leaves little room for diversification, making them vulnerable to external shocks.
  - In summary, while specialization has advantages, monoline insurers must navigate carefully to mitigate risks and adapt swiftly to changing conditions.
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beazley

# EXAMPLES OF MONOLINERS GOING WRONG

01

St James Place : One of the best wealth managers in UK impacted due to regulation

02

Just Group / Partnership Group : Specialized enhanced annuities underwriter impacted due to pension legislation changes in the UK

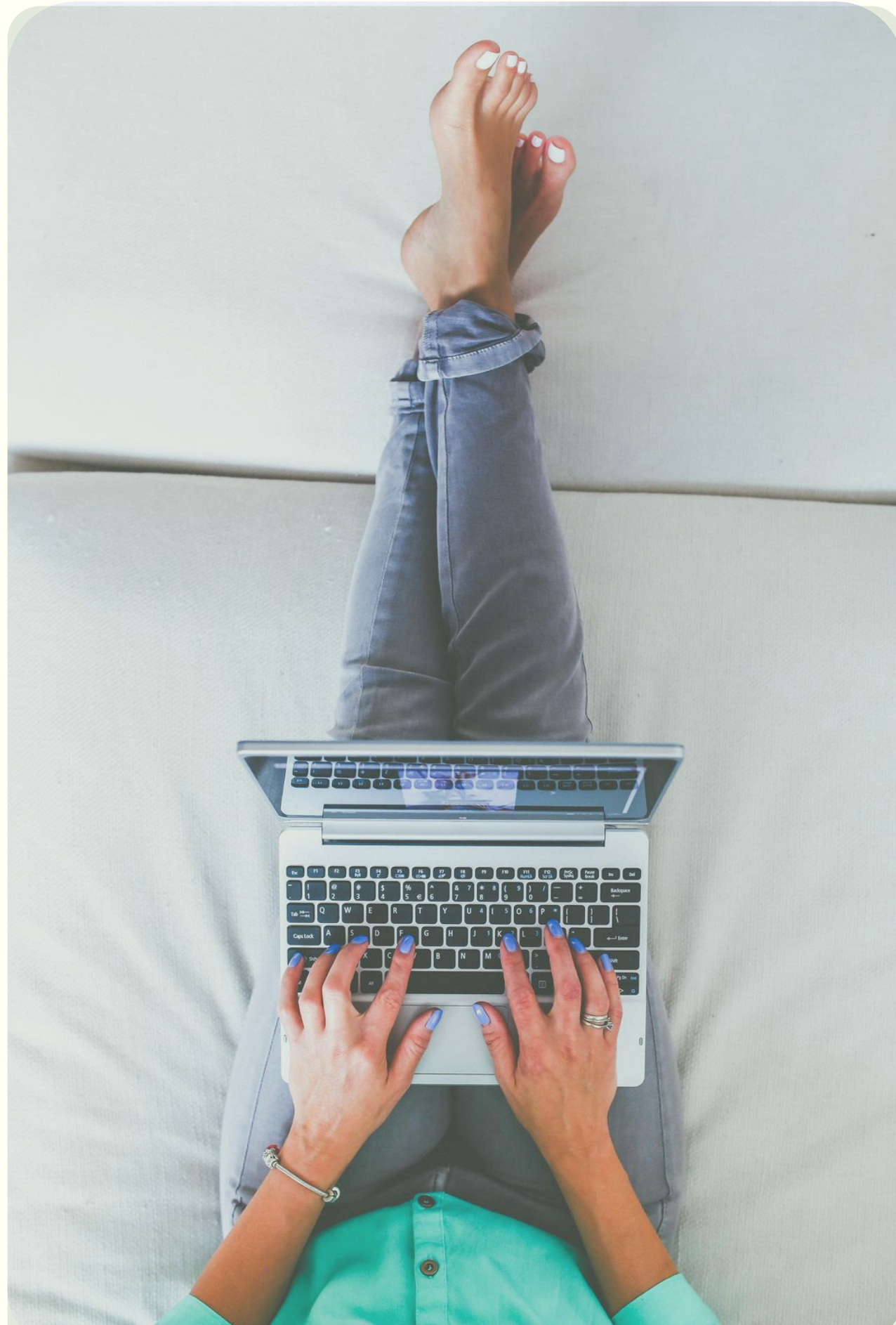
03

Linea Direct : One of the best direct motor operator in Spain impacted due to sudden spike in inflation

04

Beazley : Leader in cyber insurance globally, yet its seen as black-box risk for investors





# EXAMPLES OF MACRO RISK

01

US life insurers :  
Insurers with asset  
risk such as  
Brighthouse financial,  
Jackson National are  
trading at a steep  
discount

02

Chinese life insurers : High  
credit and equity risk has  
led to significant  
underperformance in past  
few years

03

Japanese scenario :  
Duration mismatched  
insurers are trading  
significantly lower  
compared to insurance  
risk focused insurers

04

UK life insurers :  
LGEN/Phoenix had been  
underperforming



# Consolidators : Right/wrong M&A

- M&A is quiet common in insurance as scale provides benefits. But investors tend to differentiate between good/bad M&A.
- In-market/bolt-on M&A is considered value creating whereas large transformational is not.
- Examples of in-market consolidation are NN Group/Delta Lloyd, ASR/Aegon, Phoenix/Standard Life whereas transformational deals announced in recent past include AXA/XL, Aviva/Friends Life.
- Bolt-on M&A's are typically seen as neutral, though there is a share price overhang if any company has specific bolt-on M&A strategy such as Generali.



Examples of in-market consolidation



Examples of M&A not appreciated by investors



# **BUSINESS STRATEGY**

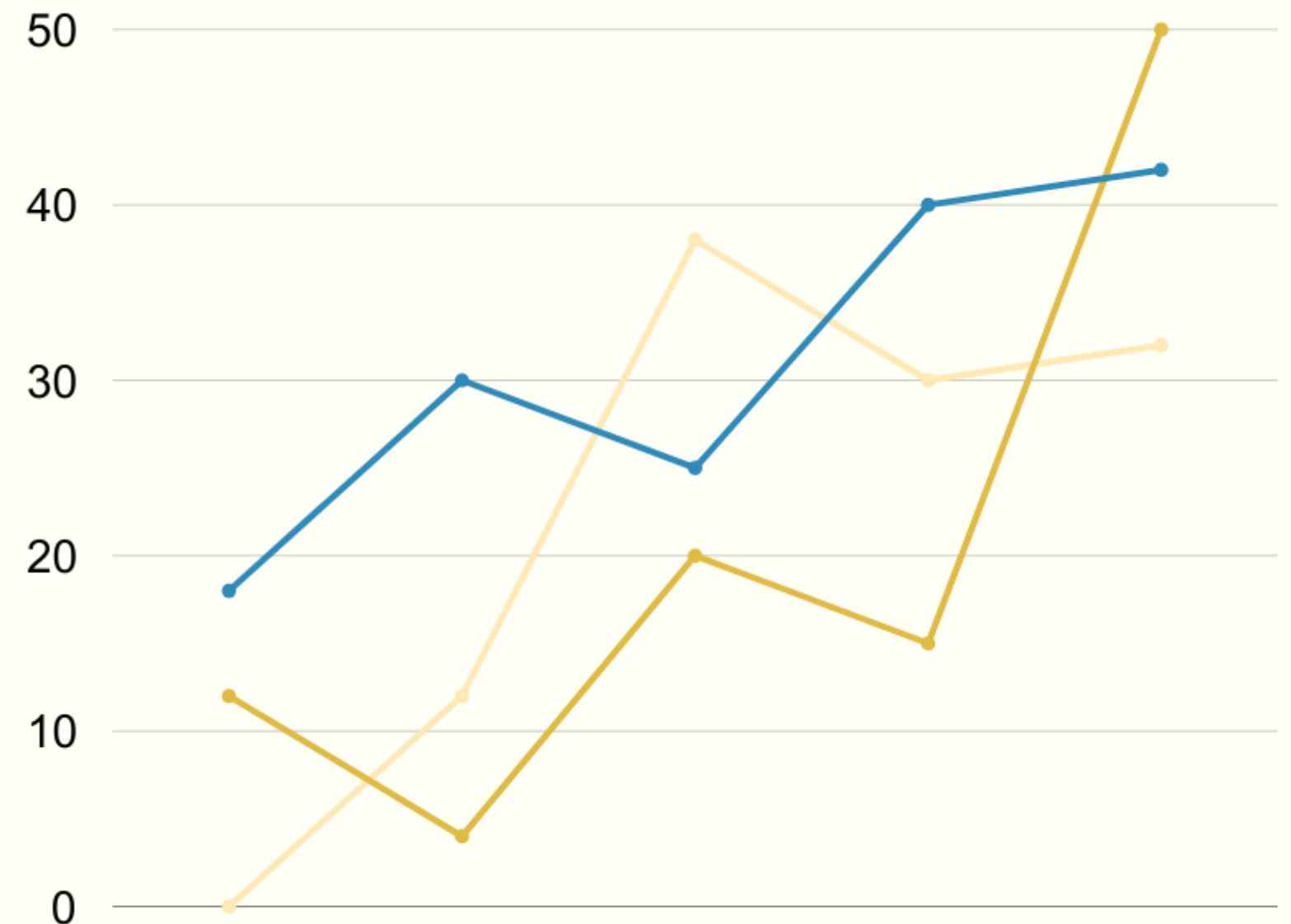
02





# Growth: Good or Bad?

- Usually, growth is perceived to be a key attraction for investors to determine investment ideas, however in insurance growth is not necessarily a positive.
- If growth is delivered in a concentrated way and/or high macro risk line of business and/or with high initial cost base then it lead to weaker profitability / cashflows and balance sheet concerns in future
- Insurers where growth haven't been rewarded are US variable annuities underwriters, UK spread business writers, Chinese life insurers etc.





# Underwriting Risk VS Investment Risk

- In the European insurance context we have noticed that investors tend to value insurance risk far more than investment risk.
- For life it's the biometric risk and for non life it's the underwriting risk.
- Classic example of observable valuation differences are Nordic insurers vs. core European P&C insurers, Pan Asian insurers vs. Chinese life insurers.



# Capital Return is a Rewarded Strategy

- European insurers are the best performing sector in Europe since 2011 and a large part of that is due to its consistent capital return profile.
- Dividends have grown by an average 5-6% over past 10-15 years and currently total capital return yield is >7%.
- Even during COVID, large part of the sector was able to pay dividends showcasing cash generative business model.
- More than half of the listed insurers either pay special dividend and/or does share buybacks and typically performance of consistent strong capital return stories are strong.



# Restructuring : Perceived as a Blackhole

- When an insurer encounters balance sheet issues related to asset quality or product mispricing, these challenges can endure over an extended period.
- Transforming a legacy life insurance portfolio requires years of management effort, and investors often fail to give credit for the efforts for long.
- Some examples of such ever going restructuring in Europe are Aviva, Aegon, Generali, Direct line, in US its MetLife, Prudential Financial, Lincoln National etc.



# COMMUNICATION STRATEGY

03



# Investor communication

The insurance industry can indeed appear complex to investors due to various accounting standards like IFRS 4/IFRS 17, Embedded Value, Solvency II, and US GAAP. These intricacies often create a “black box” perception.

## Our Expertise: Converting GREEK into ENGLISH

- With approx 20 years of experience in sell-side research, we specialize in simplifying complex financial information for investors.
- Our mission is to convey narratives that empower investors to make informed decisions.
- In straightforward terms, we take the intricate “GREEK” of insurance and translate it into clear and understandable “ENGLISH.”



# Supporting Investor Relations

- We'll infuse fresh insights to enhance the team's understanding and decision-making. Diverse viewpoints can lead to better strategies.
- Simplifying the investment story.
- Building marketing schedule and to focus on how being investors in UK is different from Europe, US/Asia etc.
- With shrinking team sizes, we'll step in to cover essential responsibilities.
- Comprehensive Training for new additions in IR teams.
- Supporting during busy times such as capital markets day, results season etc.



# FINANCIAL STRATEGY

04





1. Capital/Cash allocation:

- M&A
- Capital return
- Financial Leverage

2. Asset allocation

3. Solvency II/IFRS 17 financials

# Financial strategy supports re-rating

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# Focus on Cash flows

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- Cash flows is something that investors understand and give credit for.
- There are many accounting measures in insurance but one number that all developed market investors look at are cash flows as it's the litmus test of accounting.
- Even if cash flows are relatively small compared to profits, it's still something investors track consistently as it gives the direction of travel.



- Regulation plays a big role in insurance as it determines the product structuring, capital rules, cash flows etc. There are N number of regulatory rules around the world such as Solvency II, RBC regime in US, GWS regime in HK/Asia.
- Similar to regulation, there are N number of accounting regime that insurers follow, IFRS4 (now IFRS17), US GAAP, Local GAAP in Asia etc.
- Converting complicated regulation/accounting into a simple easy to understand economics for investors is key for value creation for the insurers.

# Regulatory/ Accounting

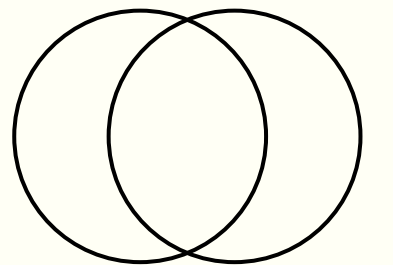




# ABOUT THE FOUNDER

## **Ashik Musaddi, CFA, FRM, MBA**

- Ex - Head of European Insurance research at Morgan Stanley and JP Morgan London
- #1 rated Sell side Insurance analyst in Europe- Institutional investors (II)
- Maintained top 3 rank in II for more than a decade at JPM and Morgan Stanley London.
- Education - CFA, FRM charter holder, MBA from Indian Institute of Management.





# Key attributes that supported top ranks with investors

1

Investor communication – Focus on economics helps simplify the message

2

Understanding the economics of the insurers was the key focus

3

Pan European coverage (life/P&C/Reinsurers) while keeping a close eye on Global insurance stocks.

4

Conviction in the fundamental understanding and regular follow ups with news flows

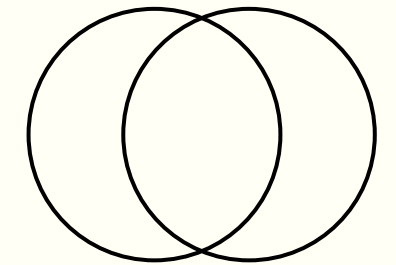


# Regional Focus

- EMEA – Approx. 20 years of direct coverage of Pan European insurers (life/P&C/Re)
- US – Coverage of subsidiaries of EU Insurers (AXA, Allianz, Prudential, Aegon)
- Asia – Active coverage of Prudential vs. AIA with market-by-market focus
- Developed Asia – Japan/Korea/Australia, collaborative work with local analysts
- India – Always been of interest given its Ashik's home country



# TOP STRATEGIC CALLS: LONGS



01 NN GROUP

02 M&G

03 MUNICH RE

04 AIA

05 ZURICH

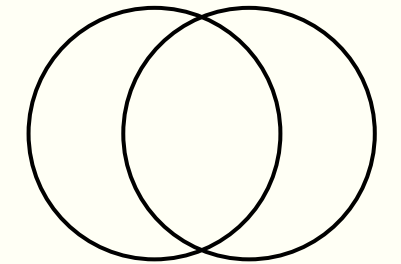
06 AEGON (POST THE  
CEO CHANGE)

07 AGEAS

08 POSTE ITALIANE (POST  
THE CEO CHANGE)



# TOP STRATEGIC CALLS: SHORTS



- 01 PRUDENTIAL UK
- 02 LEGAL AND GENERAL
- 03 PHOENIX (POST THE CEO CHANGE)
- 04 SWISS RE

- 05 JUST GROUP
- 06 AEGON (PRE CEO CHANGE)
- 07 DIRECT LINE
- 08 CHINA LIFE INSURANCE





# CONTACT ME



[ashikmusaddi@ishkaadvisors.com](mailto:ashikmusaddi@ishkaadvisors.com)  
[ashikmusaddi@gmail.com](mailto:ashikmusaddi@gmail.com)



+91 8240 306 366  
+44 7584 206 900



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