Bank+InsuranceHybridCapital Briefing

Resilient credit market sets stage for burst of sub insurance hits from AIA, Axa, CNP

Last week was the busiest of 2021 for subordinated insurance issuance, as AIA, Axa and CNP Assurances hit the market with benchmark trades, with the sector having this year proven stable against the backdrop of rates volatility and, most recently, the implosion of Archegos. *Neil Day* reports, with insights from Crédit Agricole CIB trading and syndicate.

A burst of subordinated insurance supply last week highlighted the attractive levels available to insurers in a resilient credit market, as AIA and CNP Assurances found strong demand for dollar Tier 2 and RT1 trades, respectively, and Axa evinced the greenium in the sector with a €1bn debut green Tier 2.

Axa was able to achieve pricing some 10bp-15bp inside fair value on its 20.5 non-call 10.5 transaction, while CNP's choice of dollars for its $700m (€590m) perpetual non-call 10 Restricted Tier 1 (RT1) allowed for a saving of some 37.5bp versus euros, and AIA uncovered around $5bn of demand for its $750m perpetual non-call five Tier 2.

The three deals made it the busiest week of 2021 for insurance issuance, both by volume and number of deals, while Axa's trade is the largest euro benchmark from the sector this year.

The supply emerged in the wake of the implosion of family office Archegos, which led to certain banks facing multi-billion dollar losses, with Credit Suisse worst hit. However, the incident was almost as notable for the ability of the credit markets to shrug off its impact, with primary activity unruffled — except for directly-exposed Nomura retracting a $3.25bn three tranche senior HoldCo issue executed on 23 March. AT1 prices were only marginally affected, and insurance levels unchanged.

"It's quite astonishing how resilient the overall market has been," said André Bonnal, FIG syndicate at Crédit Agricole CIB. "In the pre-QE world, that would have likely shut the market for a few days.

"Yes, Credit Suisse has been affected,

but the fallout has been very contained. That only underlines the strength of the technicals that are supporting the market, be that the central banks safety net, the supply-demand dynamic, the liquidity situation, etc."

The pick-up in primary market insurance activity came against a more stable rates backdrop, albeit at higher yields, with the 10 year US Treasury trading between 1.65% and 1.75% after sharper moves in preceding weeks. The insurance sector had also proved relatively immune to the earlier volatility.

> On any dip investors are just looking to add

"We had a small sell-off at the start of the year, but insurance has not sold off anywhere near the level that AT1 has," said Nigel Brady, AT1 credit trader at CACIB. "It's held its levels quite well.

"A lot of this is down to scarcity versus European bank AT1, so on any dip investors are just looking to add."

Ongoing concern about the direction of rates — which has seen the 10 year Treasury rise from 0.90% since the start of the year — is nevertheless making investors more cautious on duration, according to Bonnal.

He noted that UBS, for example, found demand in five years stronger than in 10 years when approaching the market with a senior OpCo transaction on 25 March, pricing a €1.5bn shorter tranche on the back of a €2.6bn book and a €1bn longer tranche against €2bn of demand, in parallel with a £500m December 2023 trade.

"Investors are a little more cautious when it comes to duration," said Bonnal. "We've clearly seen that for 10 years and longer issuers need to pay a bit more new issue premium to investors to compensate for those concerns over duration.

"People expect inflation to overshoot targets in the short term, but the question is what that means in the long term."

Axa shows power of green

Axa announced its plan to issue its Reg S euro benchmark 20.5 non-call 10.5 green Tier 2 transaction on Monday of last week, with investor calls scheduled ahead of launch anticipated for Wednesday.

The French insurer's green debut comes under a broader sustainability bond framework that encompasses five green and five social eligible categories, and also allows for social and sustainable bond issuance. Social categories vary from affordable housing to response to natural disasters, while the five green categories are green buildings, renewable energy, clean transportation, energy efficiency, and natural resources/sustainable forestry.

The inaugural transaction also represented Axa's first bond issue since a €2bn 2049 non-call 2029 Tier 2 trade in March 2018, which was launched as part of the financing of its acquisition of XL.

"One has to bear in mind that Axa has been in deleveraging mode over the past three years and has not been active in the capital markets since the acquisition of XL, so there was always going to be strong scarcity value in this trade," said Bonnal at CACIB, which was one of Axa's two global coordinators and green structuring advisors.

"Then you add the green feature, and it becomes a trade that is hard to pass on."

After the one-and-a-half days of premarketing — with a virtual roadshow presentation available and over 45 investors participating in group calls — the leads opened books on Wednesday morning with initial price thoughts of the 165bp-170bp area. This compared with a pre-announcement level of 141bp for Axa's 2049 non-call 2029s, which implied fair value of 150bp-155bp for a new conventional 20.5 non-call 10.5, according to Bonnal.

André Bonnal, CACIB: 'Green sub insurance bonds trade much tighter than the conventionals'

"There were strong chances to reach a very strong outcome on this trade, firstly, because Axa had not been in the market for so long, and secondly, because for insurance sub debt there is evidence in the secondary market that green bonds trade much tighter than the conventional bonds. We can clearly see from CNP and Munich Re that green trades at least 10bp inside conventional.

> It's a combination of scarcity, but also spread

"Investors went into this trade with eyes wide open," he added, "anticipating that this would come very tight given the green angle, and some investors simply told us that they weren't ready to pay up. We also had some flagging that duration was not their sweet spot."

The leads were nevertheless able to attract over €2.5bn of orders by a first book update after around three-and-a-quarter hours. At that point, they announced that books would go subject half an hour later, with guidance to follow — a step that Bonnal acknowledged was somewhat unconventional in the euro market.

"The trade had been in the market technically for two full days by then, and the idea was to push investors to tell us whether or not they cared for the transaction at that point," he said.

"This proved to serve us very well, as we attracted close to €1bn of additional demand and we were then able to tighten guidance to the 140bp area plus or minus 5bp, will price in range, and fix the size at €1bn. We knew there would be a lot of price sensitivity, since we were potentially offering something up to 10bp inside the two year shorter outstandings — which by the morning of launch were at 145bp — even before taking into account the difference in duration."

The deal was ultimately priced at 140bp, with more than €1.85bn of orders good at this level, and was trading at re-offer the next day.

"140bp was a very strong outcome for the issuer, 10bp-15bp inside where the conventional fair value was," said Bonnal. "That confirms the case that in insurance sub there is a greenium of some 10bp.

"It's a combination of scarcity, but also spread," he added. "If you look at the broader ESG landscape, there aren't many green bonds offering 140bp over swaps — there are a few green bank Tier 2s now, but most green bonds are done in senior — and insurance also offers a good diversification for the green funds."

Asset managers were allocated 63% of the bonds, insurance companies and

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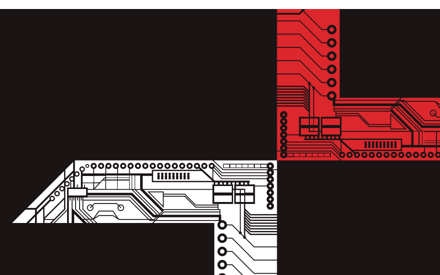
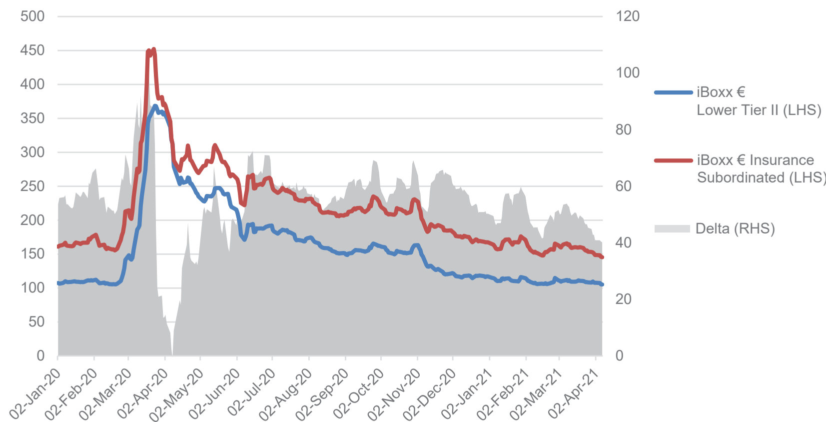


Secondary market performance



Source: Markit, Crédit Agricole CIB

pension funds 26%, central banks and official institutions 9%, hedge funds 1%, and banks and private banks 1%. France took 36%, southern Europe 18%, Germany and Austria 13%, the UK and Ireland 10%, the Benelux 7%, the Nordics 6%, Switzerland 3%, and others 7%.

Axa said that with the launch of the new issue, it had increased by €1bn, from €24bn to €25bn, its target for green investments by 2023.

"Axa was among the first companies in the finance industry to adopt an ambitious climate strategy and we are committed to accelerate our actions towards a low carbon economy," said Alban de Mailly Nesle, chief risk and investment officer of Axa.

"With the recent publication of Axa's sustainability bond framework and with the issuance of our first green bond, we continue with our peers to set new standards for climate finance and to contribute to the ongoing growth of this asset class."

Norway's Storebrand had the previous Wednesday, on 24 March, sold a €300m no-grow 30.5 non-call 10.5 Tier 2 green debut in conjunction with a tender offer for up to €50m of a €300m 6.875% 2043 non-call 2023 Tier 2 issued in 2013.

Following IPTs of the 230bp over mid-swaps area, guidance was set at 205bp plus or minus 5bp on the back of around €1bn of orders, and the pricing was fixed at 195bp. Around €400m of orders dropped at the re-offer spread as Storebrand also encountered price sensitivity, but the deal was still twice covered.

"It's difficult to say where fair value lay given the lack of outstandings, but they were able to price very close to Sampo, which is a bigger Nordic name," said Bonnal, "and I'm sure the green element contributed to that."

Storebrand bought back €49.998m of its outstanding bond at a spread of 100bp and price of 112.739%.

CNP, AIA find favour in dollars

CNP Assurances had kicked off the week's insurance issuance with its $700m perpetual non-call 10 RT1 on Monday. The deal is the French insurer's second RT1 issue, following a €500m deal in June 2018 that was the first euro benchmark in the deeply subordinated insurance instrument.

Following IPTs of the 5.25% area and peak demand above $3bn, guidance was revised to the 4.875% area, plus or minus 0.125%, and the deal was ultimately priced at 4.875% with an order book of some $2.7bn comprising nearly 200 accounts.

"Somewhat like Axa, they didn't push it to the tight end of the range but respected investors' sensitivity," said Bonnal, "and while there's no shame from an issuer's perspective in trying to get a tight level, it's good for the market to have a couple of examples where the issuers didn't push it. The pricing at 4.875% suggests there may have been some price sensitivity in the book, and it looks like they did the right thing, because the deal has performed well in the secondary market.

"There could also have been a question over whether a non-call 10 RT1 works well right now given the concerns around duration," he added, "but the fact is we're still talking a small size and an investment grade product that's probably more resilient than banks, so I don't think there were any problems whatsoever on this particular transaction."

Bonnal said the choice of dollars was a smart move, offering a saving of as much as 37.5bp versus euros. According to the issuer, the notes were swapped into euros for a 10 year period providing an effective yield cost of 2.852%.

"This issuance will allow CNP Assurances to prepare next call dates and to optimize its capital structure, while maintaining its financial flexibility to issue Restricted Tier 1, Tier 2 and Tier 3 subordinated notes," it said.

AIA Group entered the market between CNP Assurances and Axa, on Tuesday, with its $750m (HK$5.83bn) perpetual non-call five Tier 2. Following IPTs of the 3.25% area, pricing was fixed at 2.7% on the back of over $5bn of orders.

"This was a very strong transaction," said Bonnal. "Non-call five for a name like AIA was always going to be a blowout thanks to its Asian reach."

AIA's new securities are intended to qualify as regulatory Tier 2 capital under a new group-wide supervisory (GWS) framework that was implemented in Hong Kong the day before the insurer hit the market (29 March). The Insurance Authority of Hong Kong drew up insurance group capital rules following the enactment of a GWS Amendment Ordinance in July 2020, which gave the regulator oversight of insurance groups whose holding companies are incorporated in Hong Kong. ●

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