INSURANCE ASIA NEWS
Institutional Asset Management Awards
2024
★★★★★

Best Investing / Product Strategy

BNY Mellon Investment Management

BNY Mellon Investment Management's (BNY Mellon IM) innovative climate-aware credit portfolio approach was highlighted for its ability to help insurance company clients build portfolios that reflect their ESG and decarbonisation strategies.

This pioneering approach was enabled by BNY Mellon IM developing the ability and the data to analyse investment grade credit securities for Scope 3 carbon emissions (emissions produced by third party suppliers). Previously, most of the industry has only been able to calculate issuers' Scope 1 and 2 carbon emissions.

BNY Mellon IM have identified securities that lack some carbon data metrics such as carbon footprint (tCO2/$m EVIC – enterprise value including cash) and have sought with its credit analysts to obtain relevant emissions and EVIC figures to allow them to manually calculate carbon data for issuers held.

As a result of this work, the coverage of carbon footprint has increased in the relevant fund portfolios. For BNY Mellon IM's flagship buy-and-maintain corporate bond portfolio, coverage of Scope 1 and 2 carbon footprint has increased from 49% to 71%, and for Scope 3 from 51% to 69%. Using this expanded data they have scaled down or eliminated holdings that, in their view, are more carbon intensive and exposed to material climate risks, without impairing the risk/return characteristics of the strategic credit portfolios.

BNY Mellon IM believe they are ahead of the curve in recognising that meaningful climate change-related risks are yet to be priced into markets. Using these developments, BNY Mellon IM subsidiary, Insight Investment is working with insurance clients to set specific carbon emission goals in their portfolios, which typically target net zero on or before 2050.

Dynamic risk modelling

Another of the key pieces of work BNY Mellon IM does for Asian insurance clients is dynamic risk modelling analysis. This often helps clients makes informed asset allocation with knowledge of the downside risk to a statutory surplus from current and/or proposed asset allocations. BNY Mellon IM's approach begins with building a custom financial model that is unique to each client to project balance sheets, income statements, reserve balances and cash flows. They review past financial results as a starting point and then work with clients to incorporate their budget projections. They identify the key variables and define the specific financial metrics the client is seeking to optimise. The model is calibrated by generating scenario analysis and reviewing results with the client. Once the model is built and calibrated, BNY Mellon IM will stochastically simulate asset and liability behaviour, assessing different asset allocations and comparing the resulting targeted financial metrics. This process helps the client establish risk limits and formulate their investment policy.

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