The Evolution of Insurance Companies' Investment Strategy: Survey Results

American Fraternal Alliance
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June 9, 2011

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Research Project

- Sponsored by Society of Actuaries
- Online survey
- Follow up discussions
- Literature search
- Industry trends
- Conclusions

Survey

- Large/small companies
- Companies
  - P/C
  - Life
  - Health

Insurer Investing

- Investment Policy Statements (IPS) are common
  - Most are formally approved by board
  - 75% have updated their IPS
    - Not due to financial crisis
    - Often minor issues like renaming benchmarks

Insurer Investing During Crisis

- Most think insurers weathered the storm better than others
  - Conservative investment strategy
  - Limited leverage
  - Focus on core offerings
  - Recurring premiums

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Insurer Investment Practices

- Investment risk tolerance metrics are board approved
  - Statutory equity
  - Rating
  - Duration
  - Statutory earnings
- Stress tests added post crisis

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Insurer Investment Practices

- Portfolio changes
  - Avoided/reduced specific asset classes
  - **Sought out specific asset classes**
  - Some slow to rebalance due to fear/anticipated meltdown

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Insurer Investment Practices

- Outsourcing
  - Many insurers use outsourcing
    - Small firms outsource all assets
    - Large firms outsource satellite classes
    - What are firm's core skills?
  - Continues to evolve/expand

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Insurer Investment Practices

- Additional learnings
  - Securities lending stopped by many
  - Operating cash flows provided buffer
  - FHLB programs relied on
    - Some for the first time

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Variable Annuities

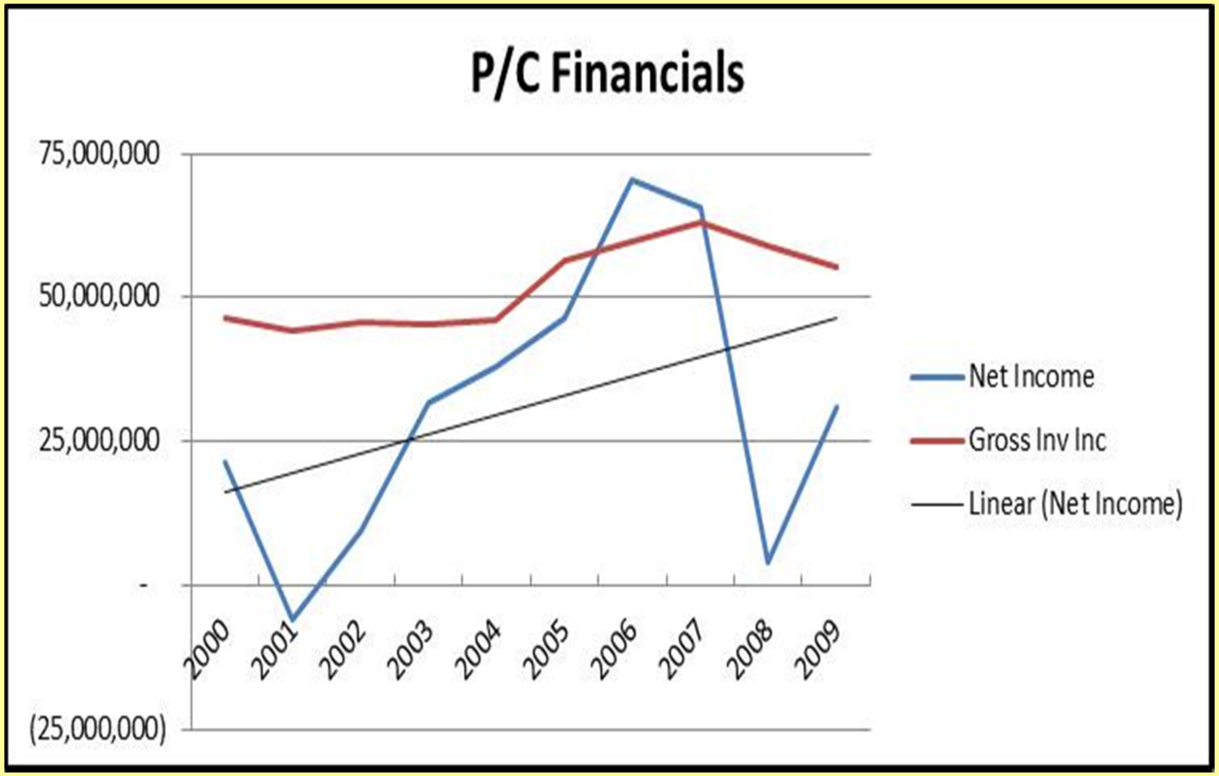
- Product has evolved
- During tech bubble GMDB and reinsurance dominated
- Last 10 years aggressive product features
  - GMIB, GMAB
- Hedging tools moving toward liquid positions
- Asset allocation diversification requirements

Follow up Questions

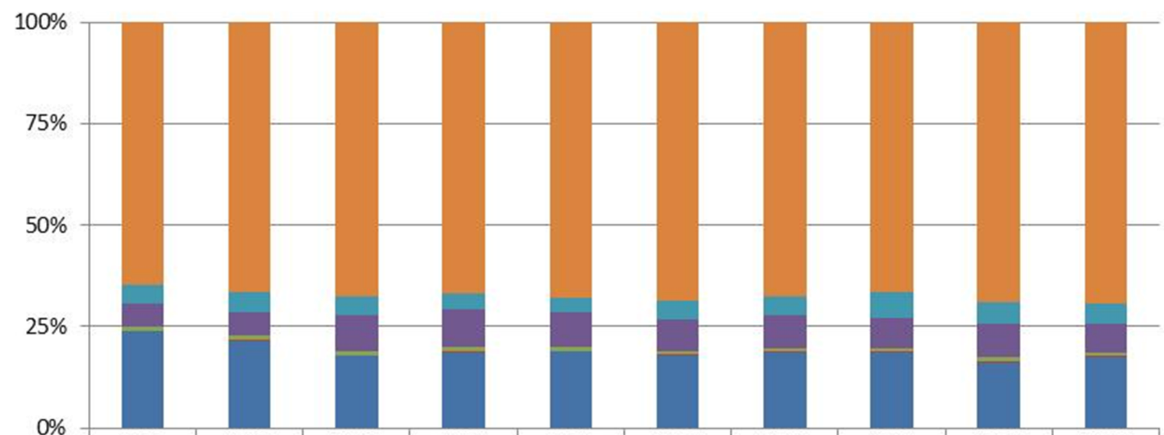
- What should we ask?
  - What asset classes are you worried about now?
  - Do capital requirements provide good incentives in a low interest rate environment?
  - How does the dynamic nature of liabilities impact an IPS?

Follow up Questions

- What should we ask?
  - If an IPS does not need to be updated after a severe stress period, does this mean
    - It was effective
    - It was too broad
  - Should metrics be tied to exposures?


P/C Financials
75,000,000
50,000,000
25,000,000
-
(25,000,000)
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Net Income
Gross Inv Inc
Linear (Net Income)

P/C Asset Class Mix



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bonds	65%	67%	68%	67%	68%	69%	67%	67%	69%	69%
Other	5%	5%	5%	4%	4%	4%	5%	6%	5%	5%
Cash	5%	6%	9%	9%	9%	8%	8%	7%	8%	7%
Real Estate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Mortgage Loans	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Unaffiliated Stocks	24%	22%	18%	19%	19%	18%	19%	19%	16%	17%

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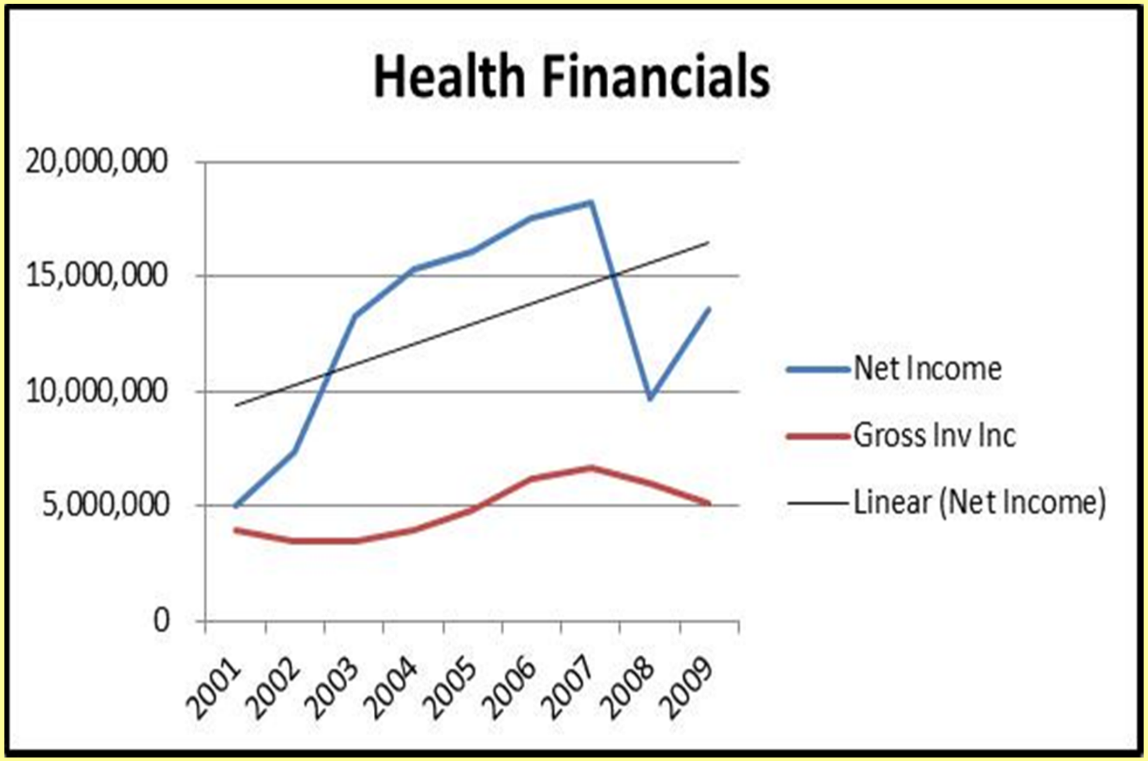

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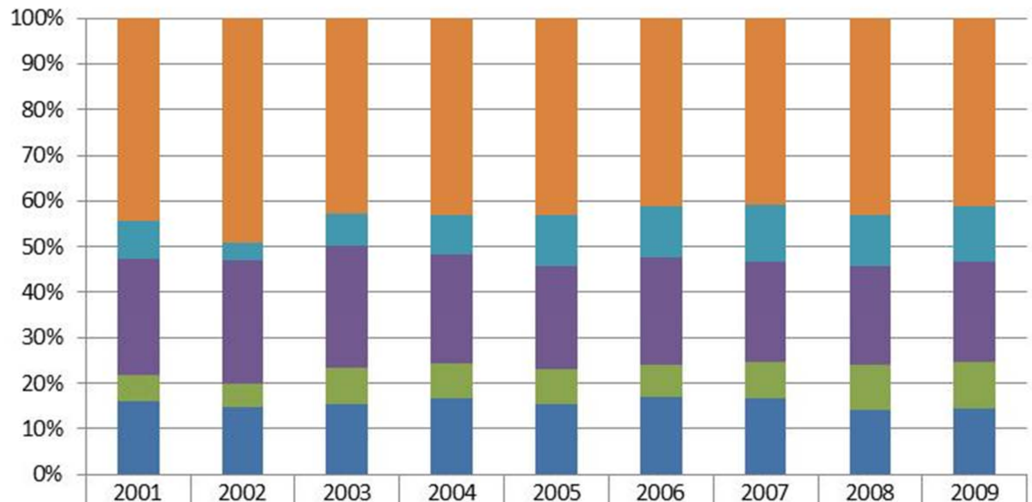
Health Asset Class Mix



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bonds	44%	49%	43%	43%	43%	41%	41%	43%	41%
Other	8%	4%	7%	9%	11%	11%	12%	11%	12%
Cash	26%	27%	27%	24%	23%	24%	22%	22%	22%
Real Estate	6%	5%	8%	8%	8%	7%	8%	10%	10%
Unaffiliated Stocks	16%	15%	15%	17%	15%	17%	17%	14%	15%

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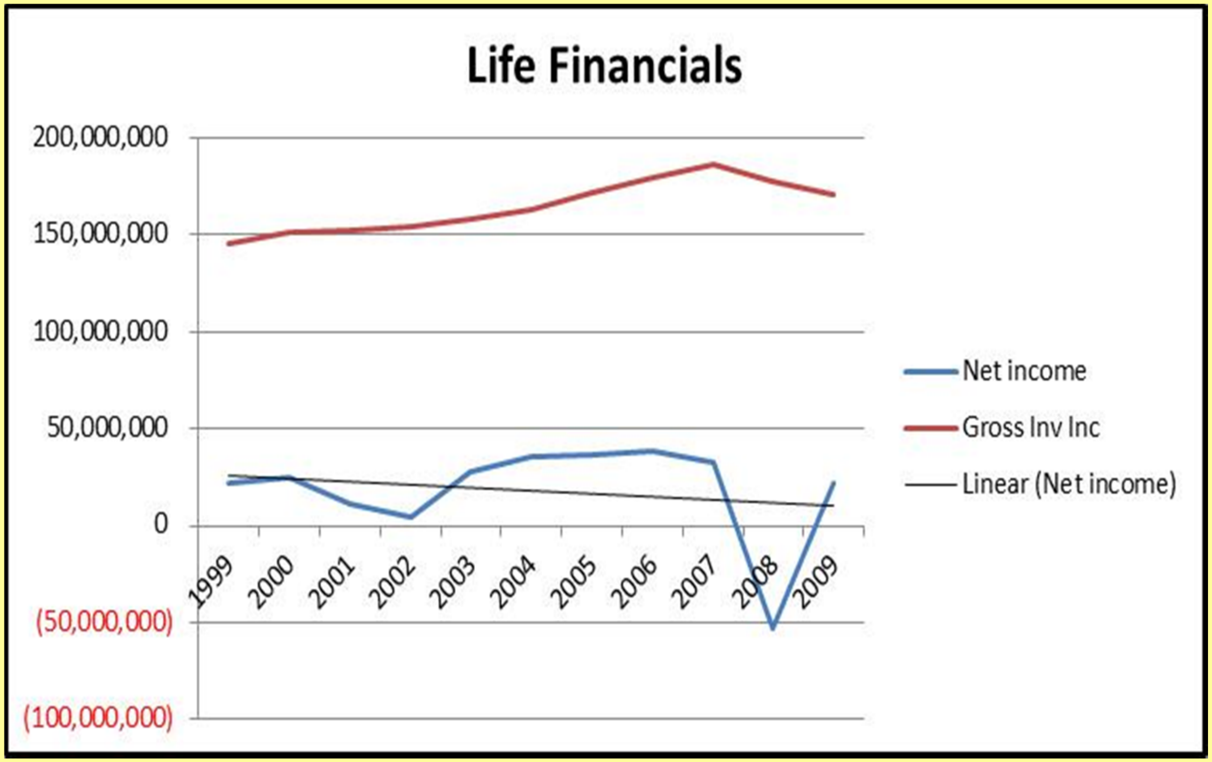

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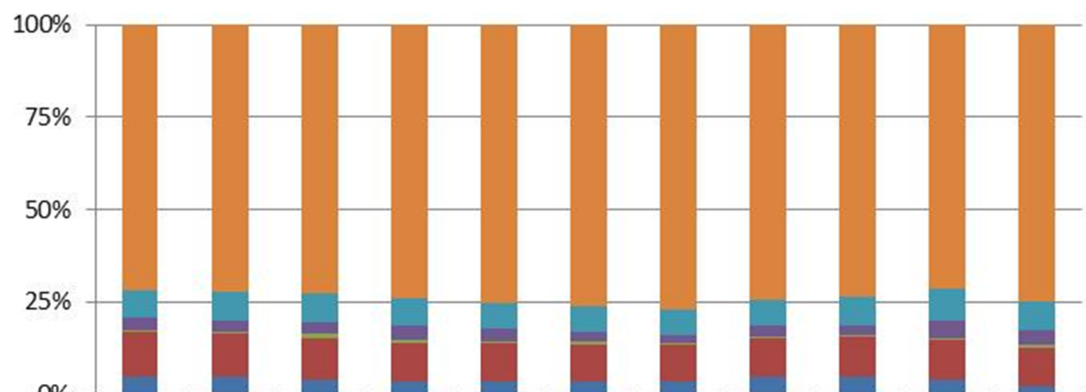
Life Asset Class Mix



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bonds	72%	72%	72%	74%	75%	76%	77%	74%	73%	71%	75%
Other	7%	8%	8%	7%	7%	7%	7%	7%	8%	9%	8%
Cash	3%	3%	3%	4%	3%	3%	2%	3%	3%	5%	4%
Real Estate	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Mortgage Loans	12%	12%	11%	11%	10%	10%	10%	10%	11%	11%	10%
Unaffiliated Stocks	5%	5%	4%	3%	4%	4%	3%	5%	5%	4%	2%

Thanks!
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