



2011 ERM Symposium March 14-16, 2011

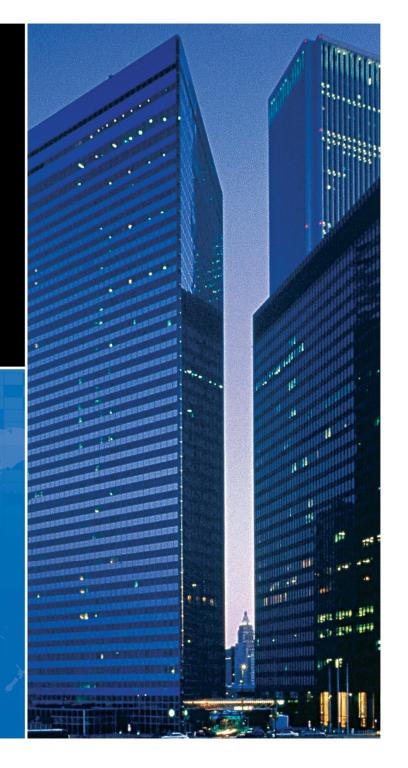
> Swissôtel Chicago Chicago, IL

Insurance Investment Practices during an Economic Downturn

March 16, 2011 9:45 – 11 am

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### Research Project

- Ongoing research sponsored by Society of Actuaries
- Online survey
- Follow up phone discussion
- Literature search
- Conclusions



# Survey

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



- 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



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



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



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



- Outsourcing
  - Many insurers use outsourcing
    - Small firms outsource all assets
    - Large firms outsource satellite classes
  - Continues to evolve



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



### 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?



### What have we learned recently?

- Slides were due in February
- Research is continuing
- Literature search
- Financial trends of the industry
- Outsourcing trend
- Discussions



### Question for the Audience

- Does the insurance industry pose a systemic risk?
  - Why or why not?
  - What are your biggest worries?
  - How do emerging risks fit in?



# Thanks! Max J. Rudolph, FSA CFA CERA Rudolph Financial Consulting, LLC Max.rudolph@rudolphfinancialconsulting.com (402) 895-0829



