Institute and Faculty of Actuaries

Can non life firms generate better investment returns?

Sam Tufts and Ryan Allison
EY

01 What are the key themes emerging from the macro-economic environment?

02 What are the challenges facing insurers’ investment portfolios?

03 How do insurers typically manage their investments?

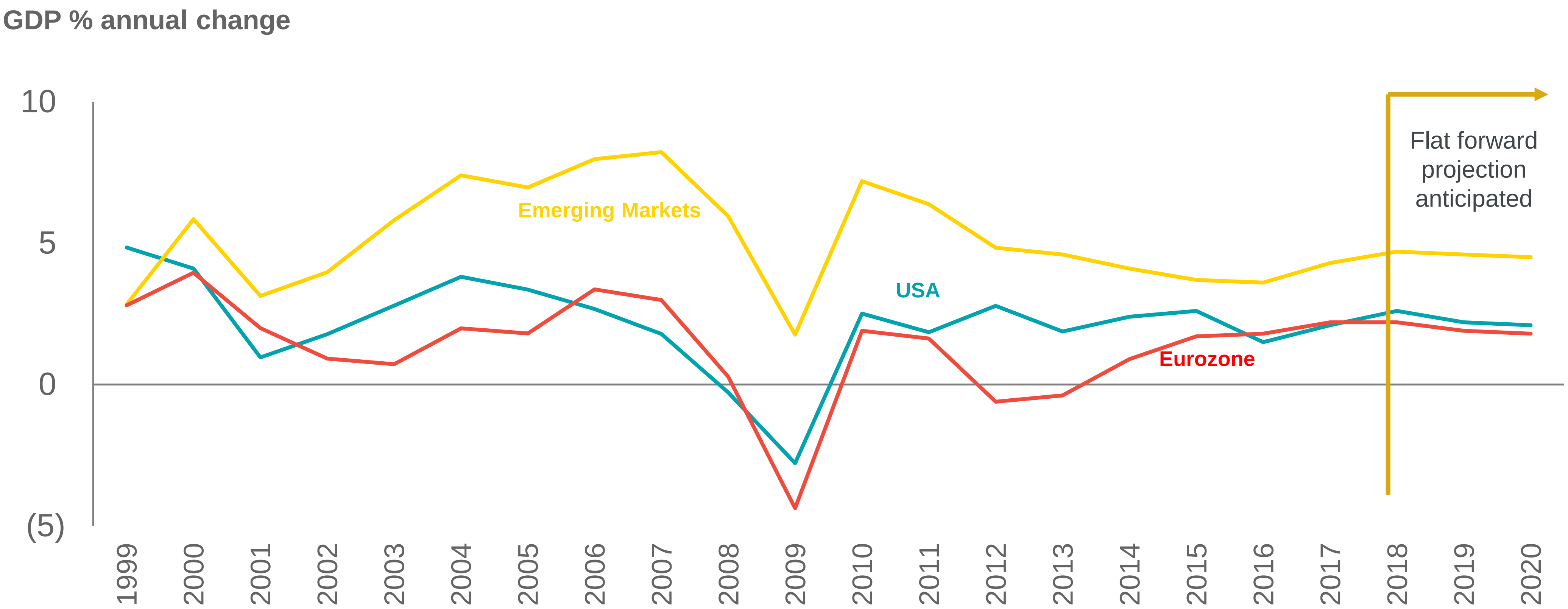
04 How have GI firms performed with different investment strategies?

05 What questions should we ask ourselves to achieve a good return for the appropriate risk in 2018 and beyond?

Institute and Faculty of Actuaries

What are the key themes emerging from the macro-economic environment?

Despite apparent global growth…



Source: EY analysis, Oxford Economics

Institute and Faculty of Actuaries

…investors face an uncertain world with high geographical correlation due to globalisation

US

Growth or slowdown?

Policy shifts on taxes & spending

Potential trade wars

Europe

Rise of populism

Negative yields, mixed growth

Future of EU

Asia

China slowdown?

Korean spotlight

Japan's demographics

What other themes have you observed in financial markets in past 6 – 12 months?

What investment risks do you see as a threat to the insurance industry?

Institute and Faculty of Actuaries

…investors face an uncertain world with high geographical correlation due to globalisation

Global themes in an increasingly globalised world

Central bank policy driving markets

Inflation (/deflation) concerns

Search for yield – illiquid & alternative assets

Asset class valuations – 'It's all expensive'

Signs of deteriorating liquidity conditions

Increased political uncertainty – protectionism & populism

Wage divergence & gig economy

Demographics - genomics & millennials

Climate change, clean energy, ESG

Increasing regulation

Tech, big data, social media, AI & robotics – better for all of us?

Institute and Faculty of Actuaries

Institute and Faculty of Actuaries

What are the challenges facing insurers’ investment portfolios?

There are various internal pressures on investment approach

Risk Takers
CEOs, CFOs, CIOs ?

Risk Reducers
CROs, CCOs?

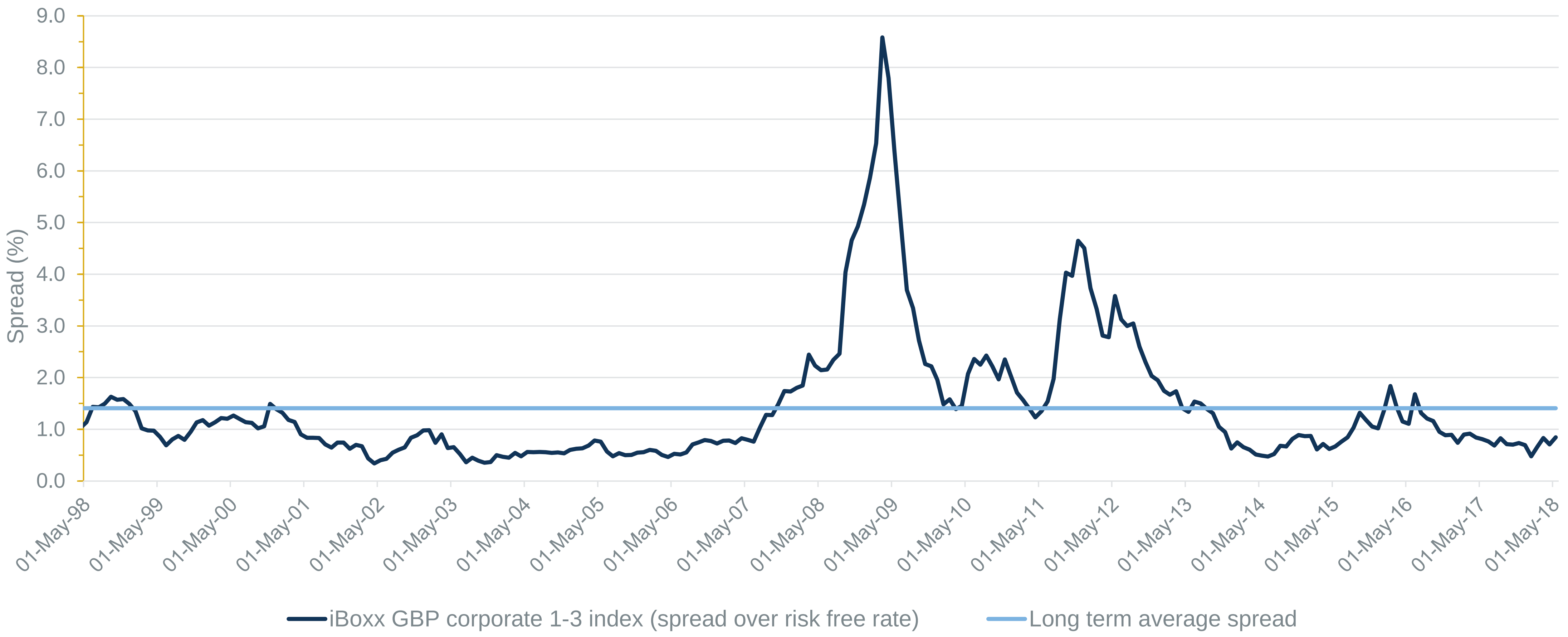
"Are we an insurer or an investor?"

"Is trying to achieve a positive investment return like last year possible?"

"Are we taking unintended risks?"

Institute and Faculty of Actuaries

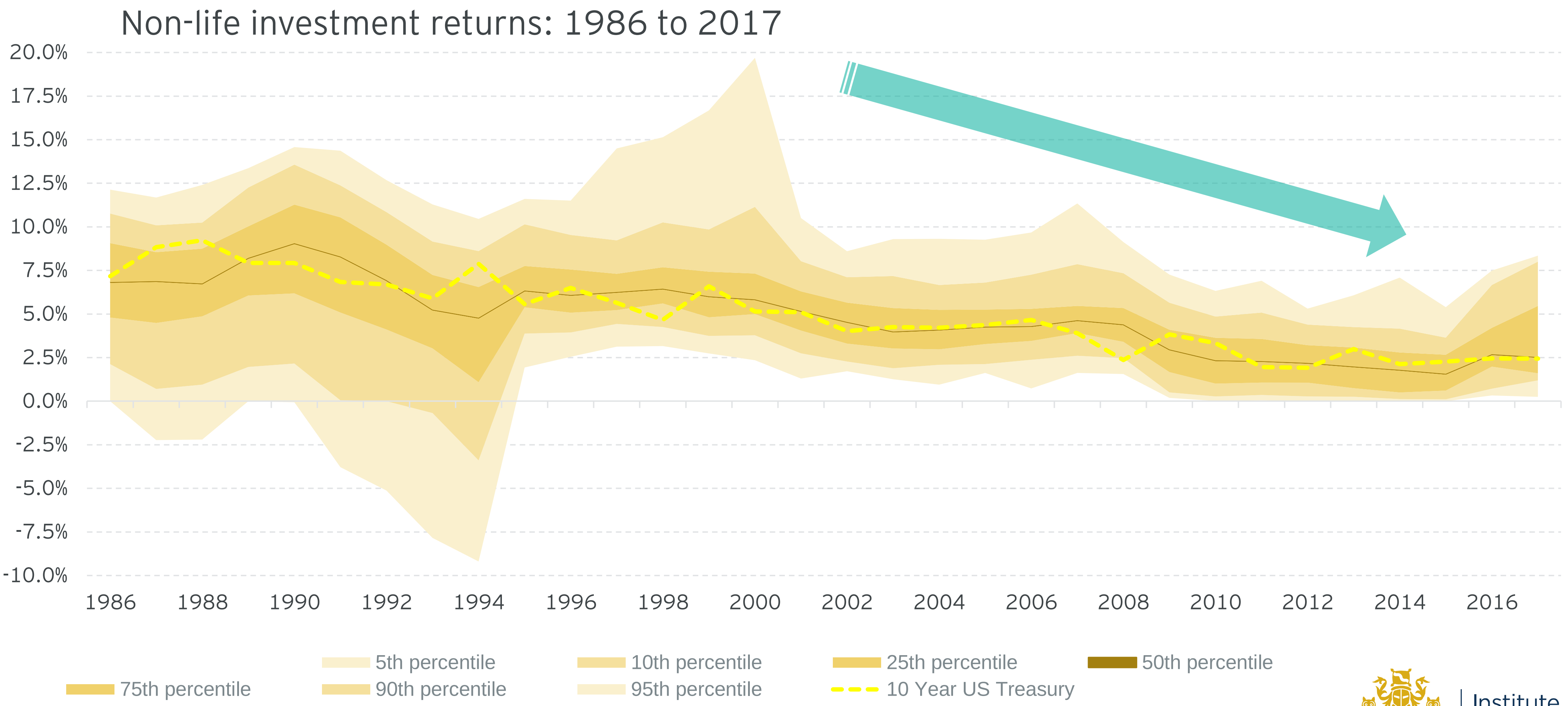
Spreads are below long term averages



Institute and Faculty of Actuaries

Source: Markit

Whilst there are no ‘free lunches’ or ‘low hanging fruit’



Institute and Faculty of Actuaries

Source: S&P

Institute
and Faculty
of Actuaries

How do insurers typically manage their investments?

Insurers can adopt a range of different investment strategy approaches

Conservative

Targets <1% and holds traditionally “Core” assets like cash & short duration fixed income to closely match liabilities.

“We’re looking to minimise capital, not lose money and target a conservative return”

Mixed

Targets <2%. Holds “Core” and some “Non Core” assets like diversifying credit, property, absolute return or other alternative strategies.

“We want to make some extra returns for some extra risk”

Innovative

Holds a mix of diversified strategies with an aim to generate risk-adjusted returns in line with business objectives and can react quickly to markets.

“We have an investment strategy and holistically think about risk and return and accept a higher capital charge”

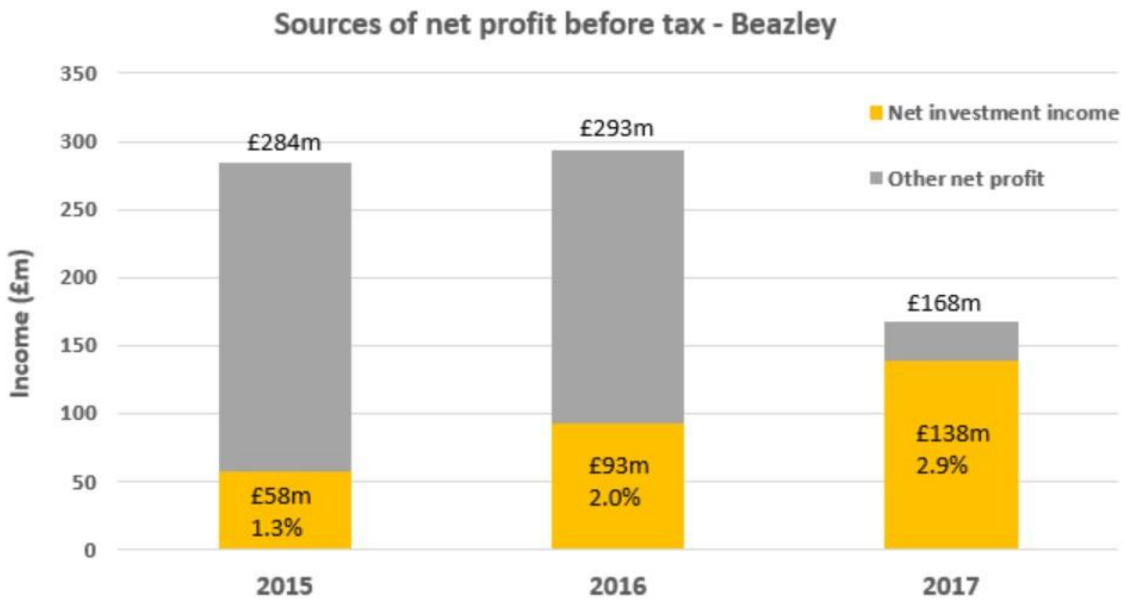
No ‘one size fits all’ or ‘correct’ approach

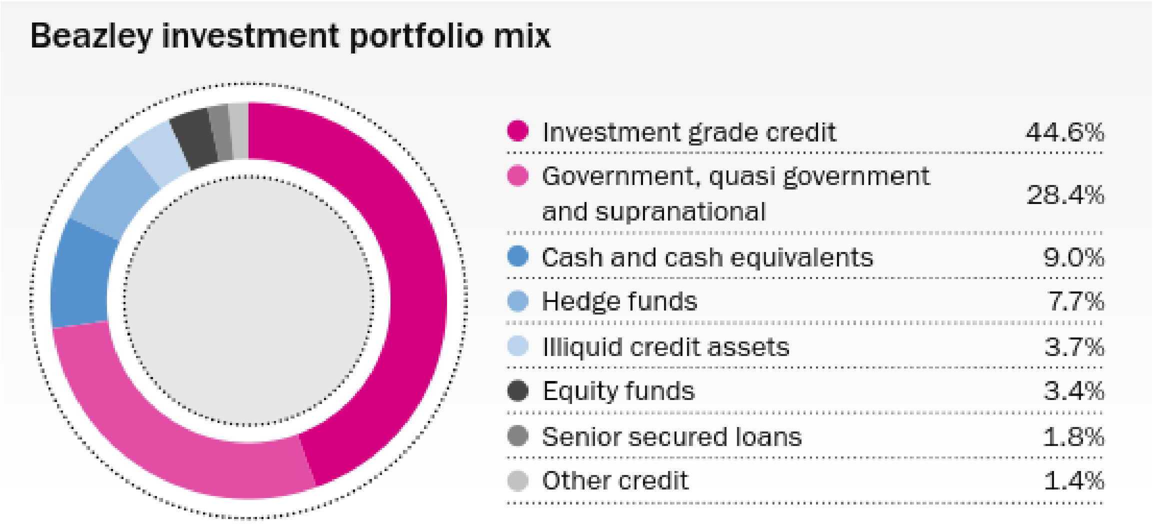
Institute and Faculty of Actuaries

Institute
and Faculty
of Actuaries

How have non-life firms performed with different investment strategies?

Case study: Beazley





Stuart Simpson, CIO in 2016: *"In investment management,* ***conservatism does not mean being slow*** *off the mark and* ***decisiveness need not be rash****. Sometimes you need to act quickly and decisively in pursuit of a conservative strategy, to extract additional value or to protect returns" [Source: 2017 Beazley Annual Report]*

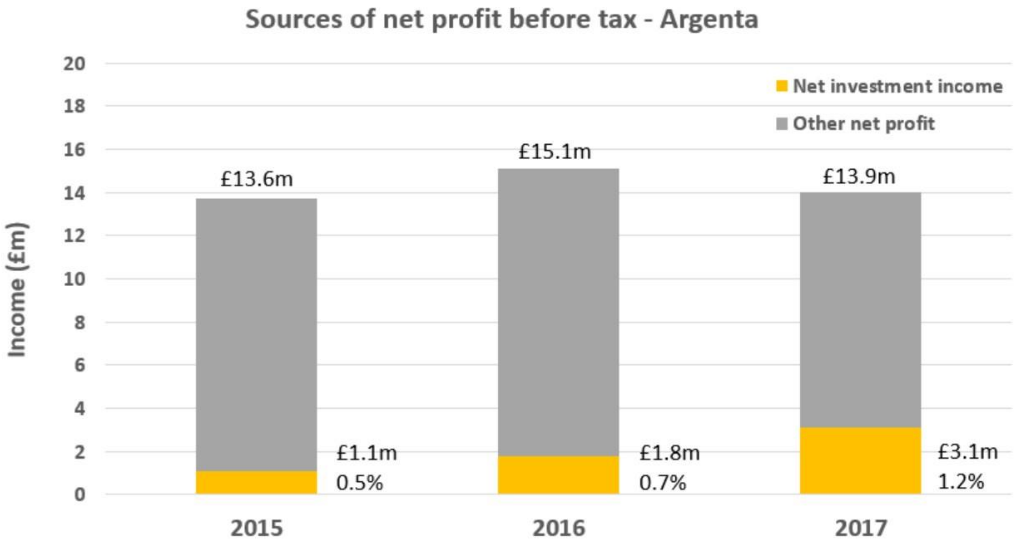
Institute and Faculty of Actuaries

Source: 2017 Beazley Annual Report

Case study: Argenta

"During 2017 Insight Investment Management (Global) Limited ("Insight") has been responsible for investing the vast majority of the syndicate's assets within a ***fixed income portfolio****. The syndicate's* ***Canadian dollar assets*** *in the regulated trust funds are managed by Lloyd's treasury within a fixed income portfolio. The returns achieved on these portfolios are measured with reference to appropriate benchmarks."*

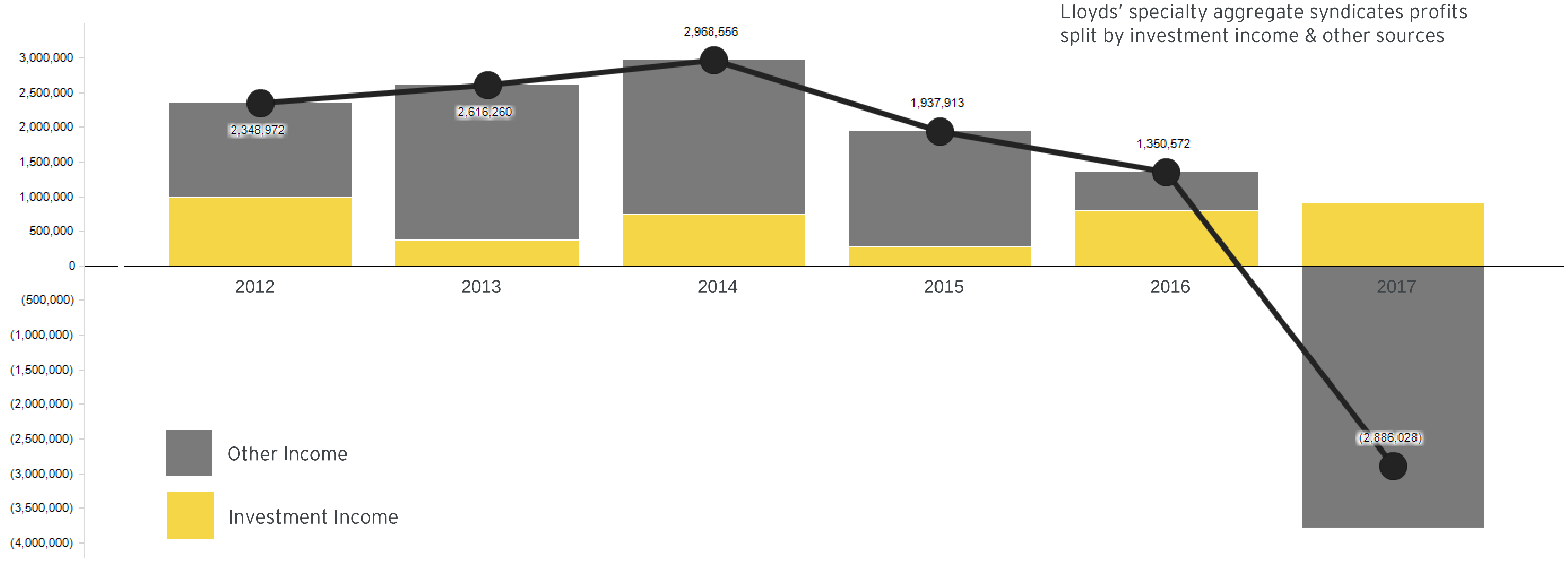
"In addition to the fixed income portfolios Insight also managed a separate portfolio of ***multi asset absolute return fund*** *within a UCITS structure. Initially this represented approximately* ***18% of the syndicates assets*** *although it was reduced closer to 14% by the year end. The objective of this asset class is to optimise investment returns consistent with capital preservation and liquidity, within regulatory constraints, whilst using assets that give diversification from the fixed income portfolio."*



Source: 2017 Argenta Annual Report

Institute and Faculty of Actuaries

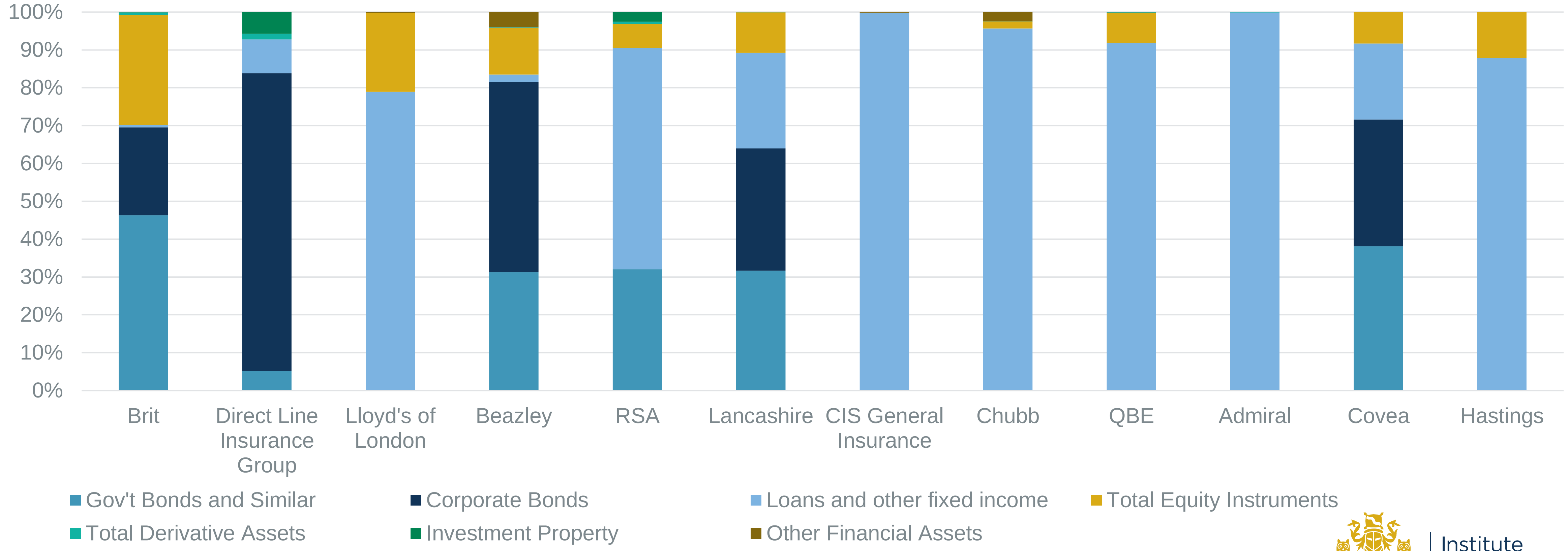
…and non-life investment income is becoming increasingly important



Source: 2017 Lloyds Syndicate Data

Institute and Faculty of Actuaries

Varying asset allocation leads to varying investment return outcomes



Institute and Faculty of Actuaries

Source: S&P

Institute
and Faculty
of Actuaries

What questions should we ask ourselves to achieve a good return for the appropriate risk in 2018 and beyond?

What questions should we ask ourselves to achieve good returns for the appropriate risk in 2018 and beyond?

1

Investment strategy

Are we targeting the right objectives?

2

Investment risk

Is our investment risk appetite appropriate?

3

Investment visualisation

Can we create MI to better understand our investments?

Institute and Faculty of Actuaries

Questions

Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the authors, in the case of non-IFoA research.

Institute and Faculty of Actuaries

Thank you

Contact

Simy Prakash, GI Investment Advisory Lead

Simy.Prakash@uk.ey.com

Office: +44 207 951 7901

Mobile: +44 7764 757 237

Ernst & Young LLP

25 Churchill Place,

London E14 5EY

Sam Tufts, EY Investment Advisory

STufts@uk.ey.com

Office: +44 207 951 6671

Mobile: +44 7468 357 674

Ernst & Young LLP

25 Churchill Place,

London E14 5EY

Ryan Allison, EY Investment Advisory

RAllison2@uk.ey.com

Office: +44 (0) 20 7951 4479

Mobile: +44 (0) 73 9210 6193

Ernst & Young LLP

25 Churchill Place,

London E14 5EY

Institute and Faculty of Actuaries