Can non life firms generate better investment returns?

Simy Prakash
EY
No ‘Free lunches’ or ‘Low hanging fruit’

Source: S&P

Various 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?”
An investment timeline for GI firms

Q4 2017
Set investment budget for 2018 based on a number of factors including current year returns.

Q1 2018
Investment returns are reviewed against budget and forward looking probability of achieving budget for remainder of year.

Q2 2018
Adjustments made to portfolios – new asset classes, managers or guidelines typically. 2019 budget planning begins.

Q3 2018
Key quarter for investment decision making – dialing up / down risk in line with return to date against budget. Formal planning and budgeting for 2019 begins.

Q4 2018
Final adjustments made to the investment portfolio. Budget is set for 2019.

Q1 2019
Cycle begins again.

Investments face an uncertain world

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

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?
GI 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

Case study: Beazley

Stuart Simpson, who took on the role of chief investment officer from 2016, observes: “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.”

“We see a role for active stock picking in emerging markets and our managers delivered a good return, net of expenses, on these investments in 2017,” says Stuart Simpson. “However in developed markets we prefer essentially passive and systematic strategies with lower fees.”

Source: 2017 Beazley Annual Report
Case study: Argenta

Investment managers and policy

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 Argenta’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 funds within a UCITS structure. Initially this represented approximately 18% of the syndicate’s assets although it was reduced to 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.

Varying asset allocations create varying investment return outcomes

GI Asset Allocation - 2017

Source: 2017 Argenta Annual Report

Source: S&P
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?
   ▶ Do we have the right policy, investment approach & objectives for the current market in line with our constraints?
   ▶ How do we monitor and adapt our ‘path to success’ appropriately during the year?
   ▶ Are we paying the right fees to our suppliers i.e. asset manager(s)?
   ▶ Are there any areas where we can improve our investment strategy?

2. Investment Risk
   Is our investment risk appetite appropriate?
   ▶ Can we monitor our investment risks against our risk appetite in a better way?
   ▶ Are we thinking about investment risk holistically and considering capital and regulatory risk?
   ▶ Can we perform robust stress and scenario tests on our portfolios?
   ▶ Can we model and assess new or more complex types of investments in the appropriate way?

3. Investment Visualisation
   Can we create MI to better understand our investments?
   ▶ Is there a better way for us to understand our investment portfolios through analytics?
   ▶ Can we produce better data & MI to help make us take better decisions in relation to investment return and risk?
   ▶ Can our board reports and investment committee packs align better to our objectives and risk appetites?

Questions

Comments

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Thank you

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