

ENTERPRISE RISK MANAGEMENT

ERM

Symposium

Where Cutting Edge Theory Meets State of the Art Practice



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

Preliminary Results

- 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

Preliminary Results

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

Preliminary Results

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

Preliminary Results

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

Preliminary Results

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

Preliminary Results

- 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!

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