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Can non life firms generate better investment returns?

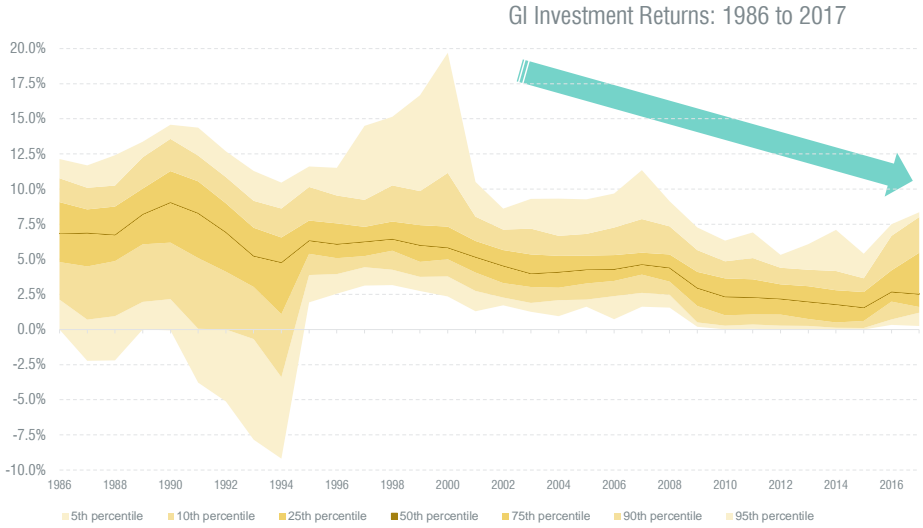
Simy Prakash
EY

16 May 2018

The background of the lower section is a photograph of several hanging light bulbs. One bulb in the foreground is lit, casting a warm yellow glow, while the others are unlit and appear as dark shapes against a blurred background.

-  **01** What are the challenges facing insurers' investment portfolios?
-  **02** How do insurers typically manage their investments?
-  **03** How have GI firms performed with different investment strategies?
-  **04** What questions should we ask ourselves to achieve a good return for the appropriate risk in 2018 and beyond?

No 'Free lunches' or 'Low hanging fruit'



Source: S&P

Various pressures on investment approach



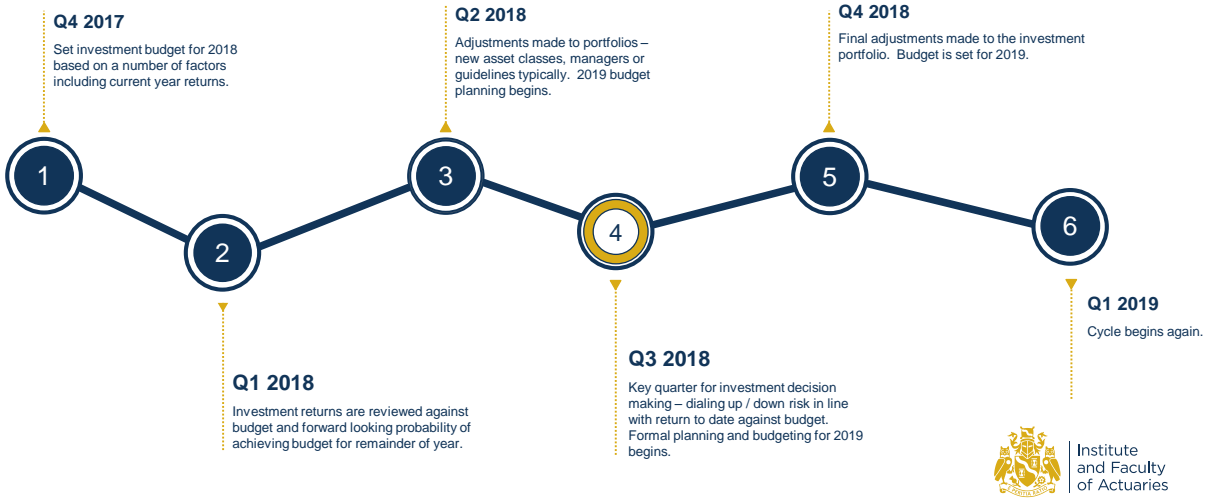
Risk Takers
CEOs, CFOs, CIOs ?

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



Investments face an uncertain world

US:
Growth or slowdown?
Policy shifts on taxes, spending & potential trade wars

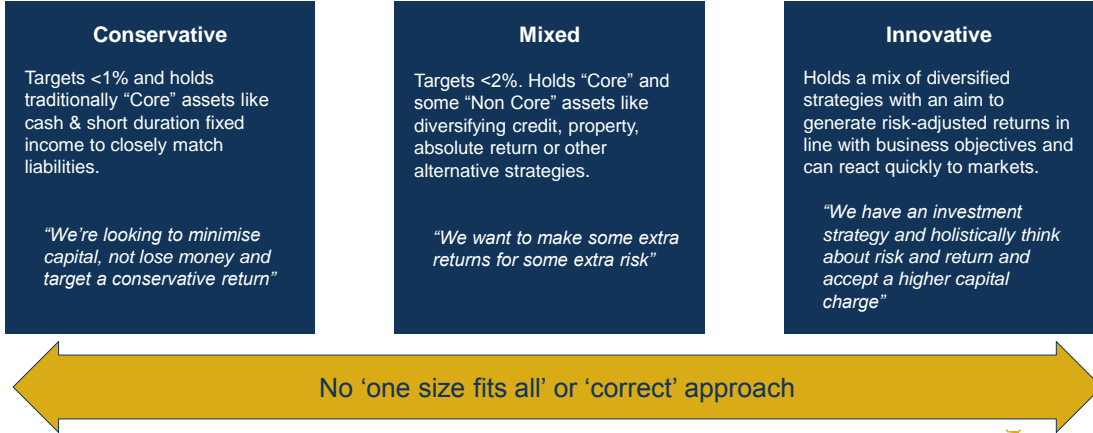
Europe:
Rise of populism
Negative Yields, Mixed Growth
Future of EU

Asia:
China slowdown?
Korean spotlight
Japan's demographics

Global themes in an increasingly globalised world...

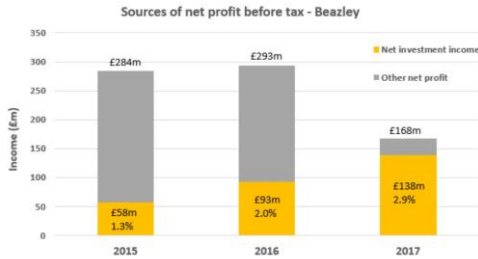
- Central Bank Policy Driving Markets
- Inflation (Deflation) Concerns
- Search For Yield – Illiquid & Alternative Assets
- Asset Class Valuations – 'It's all expensive'
- Signs of Deteriorating Liquidity Conditions
- Increased Political Uncertainty – Protectionism & Populism
- Wage Divergence & Gig 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

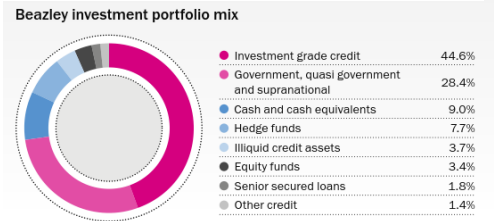


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Case study: Beazley



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."



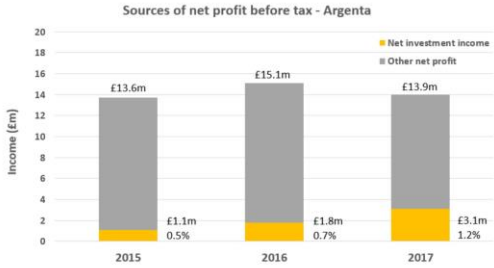
"We see a role for active stock picking in emerging markets and our managers delivered a good return, net of expenses, on these investments in 2017," says Stuart Simpson. "However in developed markets we prefer essentially passive and systematic strategies with lower fees."



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Source: 2017 Beazley Annual Report

Case study: Argenta



Investment managers and policy

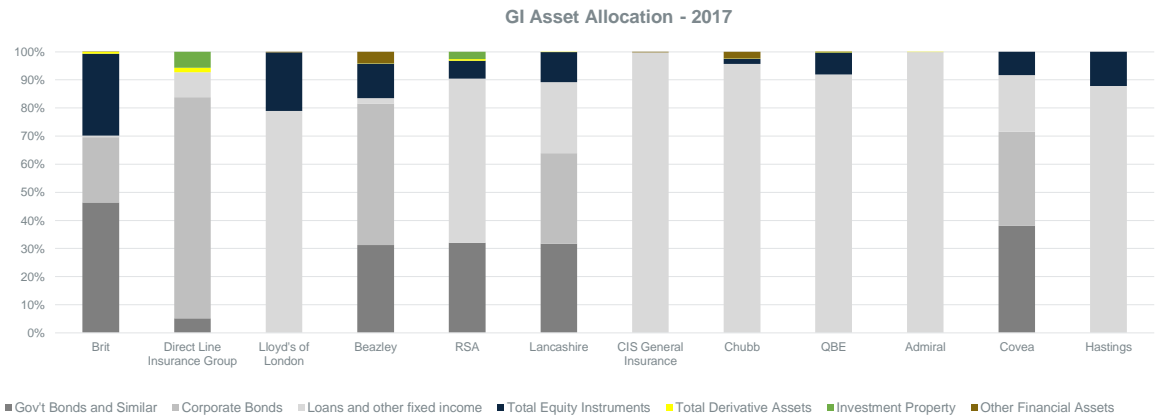
During 2017 **Insight Investment Management (Global) Limited ("Insight")** has been responsible for investing the vast majority of the syndicate's assets within a fixed income portfolio. The syndicate's **Canadian dollar assets** in the regulated trust funds are managed by **Lloyd's treasury** within 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 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.



Source: 2017 Argenta Annual Report

Varying asset allocations create varying investment return outcomes



Source: S&P

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

<p>1</p>  <p>Investment Strategy</p> <p>Are we targeting the right objectives?</p> <ul style="list-style-type: none"> ▶ 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? 	<p>2</p>  <p>Investment Risk</p> <p>Is our investment risk appetite appropriate?</p> <ul style="list-style-type: none"> ▶ 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? 	<p>3</p>  <p>Investment Visualisation</p> <p>Can we create MI to better understand our investments?</p> <ul style="list-style-type: none"> ▶ 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?
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Questions

Comments

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Thank you

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