

Outsourced Asset Management and the New Insurance Chief Investment Officer

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There's no denying the shift to asset management outsourcing in the insurance industry. Given the complexities of the market, the pains of the recent financial crisis still being felt and the rapid expansion of specialized insurance asset managers, this trend is expected to continue. Does that mean a decreased – or even non-existent – role for the insurance company Chief Investment Officer? Not at all. In fact, that role is more important now than ever before.

Challenges to profitability

The insurance industry is facing a confluence of issues that make reaching ROE targets difficult:

- excess capital on balance sheets
- soft pricing environment
- lower expected investment returns

Leaders in the industry have recognized that maintaining the investment strategies of the past are not likely to produce the desired results going forward. Getting the investment strategy right over the next three to five years has never been more important.

There's no substitute for in-house stewardship

Within insurance companies, there is an inherent competition for capital between the assets and liabilities. Leading management teams understand the importance of skillfully integrating the investment strategy into the overall business. They are also recognizing a void: they need an in-house expert driving the company's investment strategy so as not to simply "hand over the keys" to their outside investment manager. This requires an individual who has their best interests and unique business circumstances at the top of mind. Put simply, they need a Chief Investment Officer (CIO).

No one knows the issues like you do

What we are hearing from insurance company leadership is that they feel that they are "leaving opportunities on the table" or, worse yet, "feel that the outsourced manager doesn't value their individual relationship." It's up to the insurance company to seek what it needs from the external asset management relationship. Insurance asset managers are focused on their respective markets and run on economies of scale. That makes it difficult for managers to offer heavily customized products that will fit within a unique business environment.

With an accomplished CIO at the helm, your company's investment strategy can be thoughtfully integrated into your business. In-house expertise facilitates clearer communication of your company's goals, objectives and risk appetite to your external managers. It also allows you to play to the manager's relative strengths resulting in better outcomes and – perhaps more importantly – fewer surprises. Shepherding these relationships on the part of the insurance company provides a maximal benefit to both parties. The company remains the master of its investments and the money manager is able to provide solutions that are more closely tailored to your needs.

"It helps to have someone investing who has a day-to-day understanding of your business. You can't expect Goldman or PIMCO to truly understand all of the intricacies of your operating company."

New requirements of the role

We've conducted numerous projects for investment leaders on platforms with a significant component of outsourced assets. In each case, there has been an emphasis on two main contributions:

Break down the walls between investments and the operating company

It is imperative for the CIO to work at the operating level of the company, understanding the nuances of the business so that the investment strategy is aligned with the broader insurance enterprise. Adding this expertise will truly differentiate the integration of your investment strategy. A talented person to bridge the gap between the investment managers and the company ensures maximum value from the relationship.

Think broadly, deeply and three moves ahead

CIOs must be conversant in a broad array of topics from macroeconomic trends and investment strategies to the details of specific trade ideas. Equally important is the ability to effectively communicate these topics to the management team and Board of Directors. A thorough understanding of the investment strategy and issues allows the company's leadership to rest more easily knowing what they own and why they own it.

As one Chief Investment Officer stated, "For companies that are unique or have more volatile businesses, this is a necessity. You are handing over your entire business. Without a healthy investment portfolio, you have nothing." ■

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