

Headings & Horizons: Peer Reports Trends & Insights

William Rotatori:

The insurance industry is a competitive industry. They compete for policyholders, they compete for shareholders and capital, they compete for ratings so it's important that they know where their investment portfolio stands relative to their competition.

I think a lot of times in the industry, people look at peers and it's this notion of, "Oh, I want to be like my competitor." You're not evaluating your portfolio versus your competition to look like your competition. You're looking at your portfolio differences and other relative standing of your portfolio, to understand how you're different, to tell your story to differentiate yourself in the marketplace and be successful with policy holders, shareholders, and rating agencies.

{GRAPHIC} DIFFERENTIATE YOURSELF IN THE MARKETPLACE

{GRAPHIC} INSURERS FACE A TOUGH INVESTMENT ENVIRONMENT

Tobias Gummersbach:

We have 84% of insurance organizations that now report a book yield that is lower than what they reported in 2010. That is something that is felt throughout the industry and throughout most insurance organizations that we analyzed.

{GRAPHIC} PRE-TAX BOOK YIELDS - CHART SHOWING RETURNS DECLINING OVER TIME

Mark Yu:

Given that the investment return is getting lower and lower, the company will need to pay more attention on the underwriting side, but at the same time they also need to make sure that they make sufficient and enough return on the investment side to cover the liability or insurance obligation, such that they will make a sufficient return on equity.

Tobias:

So, when we look at secular declines in portfolio book yields, we really have experienced it for many, many years. It's not a new phenomenon. We see it across most of insurance organizations and we see it across most asset classes that we look at. These organizations will be challenged by what we see right now, because the reinvestment rates that we need to sustain the business are not there. Very often though, what we see is that higher book yields come with higher risks.

{GRAPHIC} THE SEARCH FOR YIELD

Mark:

For the life industry we saw them taking on more credit risk in terms of the BBB allocation. 10 years ago, it was close to 30%, but as of year-end 19, it went up to close to 40%. So definitely we see an increase of that credit risk taken.

But for the P&C, they have allocated more and more into the equities. So, we see that allocation of equity from 10 years ago represented 40% of their surplus. Now it was at 60% of their surplus.

If you are taking too much risk relative to your peers, when that situation happens you might get downgraded, you might lose your rating, and that would have negative impact to your business in terms of revenues, so on and so forth.

{GRAPHIC} TOO MUCH INVESTMENT RISK | NEGATIVE IMPACT

Tobias:

We have 95% of P&C insurance organization reporting in book yield anywhere between 2% and 4% with the majority, with the median, essentially just in the center around 3%. So the conclusions that we draw from it might be very, very different, and it's really specific to each individual organization's unique circumstances, but it's something that needs to be understood and it's something that we help clients and prospects routinely with evaluating, by looking at customized peer reports.

{GRAPHIC} WHAT IS A PEER REPORT?

Our job is to take all of that information, combine it with other lenses that are provided to us by our proprietary technology platforms and help customers, our clients, our prospects, along that journey to ultimately get to those high level organizational goals.

{GRAPHIC} WE TURN DATA INTO TAILORED INSIGHTS

{GRAPHIC} AIM TO HELP OUT CUSTOMERS ACHIEVE THEIR GOALS

We are talking hundreds of thousands of assets that we evaluate and crunch through as an annual process, as soon as publicly available information becomes available. We evaluate thousands of companies between property and casualty industry and the life and health industry.

Mark:

Peer reports are important because you want to know whether you leave any money on the table. And on the risk side, you want to know whether you take excessive, additional risk relative to your peers or the industry.

{GRAPHIC} IS YOUR COMPANY THE OUTLIER?

{GRAPHIC} SCATTER CHART SHOWING RETURN/RISK PROFILE FOR INSURANCE COMPANIES, HIGHLIGHTING AN OUTLIER

Tobias:

When it comes to looking at your own exposure, first and foremost, you may need to find out if you are an outlier. What are our competitors doing? What is the industry doing? How is this potentially being regarded by rating agencies and regulators, but at the end of the day, it is again, the evaluation of what does this mean to my organization that needs to be addressed.

Our job is to identify those trends, identify those asset classes and translate them into what is meaningful to your organization as a client or a prospect.

The buffers that insurance organizations have long started to enjoy are going to melt away, there's less room for error, they got to get it right.

{GRAPHIC} THE PATH FORWARD

William:

Recognizing the challenges that the insurance industry is going to be confronting over the coming years it's really important that you have a good sense for where your investment risk and investment return stand relative to the industry. Knowing where you stand today can help you develop the appropriate strategy for success tomorrow.

If you're curious how you stack up in relation to your peers, visit our website and request a customized peer report.

www.neamgroup.com/peer

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