



Achieving Superior Performance Subject to State Mandated Investment Guidelines

Given all SAA clients are insurers, our work revolves around designing investment programs that will achieve our insurance clients' business objectives. Most of our clients are subject to regulatory constraints from either insurance or, in some cases, municipal regulators. These constraints typically revolve around fixed income sectors, quality and geography as well as limits and prohibitions centered on various aspects of risk assets.



Case Study

SAA recently completed work for a health insurer that is subject to especially restrictive state insurance regulations. These regulations impact quality (e.g. A- or better only fixed income assets), maximum allocation to equities based on admitted assets, etc. For this insurer, we focused on cash flow forecasts given health insurer liabilities are very short and a traditional asset liability framework is not as applicable. These forecasts helped determine the necessary liquidity structure for the portfolio for which the company uses a tiered approach with portfolios of under one year duration, under two year duration and then the balance in an intermediate duration of just under four years.

In addition, to help the company continue to grow its surplus position, SAA modeled the impact of various combinations of allowable risk assets (equities, high yield bonds, etc.) and the resulting expected risk/return. Given the company had regulatory limits on its risk asset allocation that were a function of admitted versus portfolio assets, SAA also had to translate these admitted assets constraints and apply them within the context of portfolio modeling.

As SAA does with all of its insurance clients, we modeled downside risk in terms of maximum and expected drawdown should these risk assets experience performance witnessed in the worst historical periods along with less dramatic and more common market events. By modeling these scenarios, SAA helped the Committee evaluate its willingness to accept a potential decrease in surplus and the resulting risk to the company's business. Would this decrease prevent the company from continuing to grow its business? Would it create issues with the regulators or rating agencies? Would it put the company's viability in question? These are all aspects of the work we do with clients to help them optimize their portfolios to meet the company's objectives.

After completion of the strategic asset allocation work, SAA helps insurers identify the best managers to implement the recommended allocations. We do this through use of our proprietary online fixed income manager database, as well as through the use of commercial databases for risk asset allocation searches.

The key to all of the work we do for our insurer clients is the fact that it is tailored to their specific objectives and constraints and informed by our extensive experience in working with insurers throughout the U.S. and our experience working at insurance companies in the past.

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SAA is an independent investment consulting firm that works exclusively with insurance organizations. Our experience and focus enables us to help our clients improve their investment process.