



## Low Rates: Time for an Investment Process Check-Up?

Interest rates have never been lower and there are few reasons to expect them to grow in the near future. With this challenging environment, and from a corporate governance perspective, it may be an appropriate time for an independent review. A SWOT Analysis will identify internal strengths, weaknesses, external opportunities and threats to each component of your insurer's investment process. We find a SWOT Analysis to be the best way to develop a blueprint and prioritization of how and where to improve the investment process. Conducting a SWOT Analysis consists of the following steps:

### Case Study

#### 1. Obtain Information Regarding Financial Condition and Investment Portfolio

These documents include: financial statements, cash flow forecasts, claim payment information, investment policy statement, information related to the regulatory framework that the company operates under (state regulation citations for review), most recent board report, investment management and custodian agreements and contacts, quarterly investment management reports, quarterly return streams for all portfolios, holdings for all portfolios, etc.

At this time we would also have initial conversations with the insurer's management or investment committee to determine company objectives and constraints. Though this seems like a great deal of information, most insurers are able to assemble and provide this information within a few days.

#### 2. With the Provided Information, SAA will Complete a SWOT Analysis on the Insurer's Investment Process Value Chain

The SWOT analysis will identify internal strengths and weaknesses, as well as external opportunities and threats to each component of the insurer's investment process. We find that the SWOT analysis is the best way to set out a "road map" to guide the work and the relationship with the insurance company.

As outlined in the graphic on the next page, these components include the following:

##### **Strategic Asset Allocation Analysis**

SAA reviews the impact of different allocations in a risk management framework by modeling various asset class combinations.

##### **"Best Practices Review" of the Investment Policy**

SAA utilizes a sample 'best practices' approach to an insurer's investment policy. Importantly, we know that a 'best practices' investment policy for an insurer must have these key components:

#### For More Information:

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- Preamble - Who? What? Roles and Responsibilities
- Investment Return and Management Objectives
- Asset Allocation and Risk Management Guidelines
- Investment Performance and Reporting
- Investment Policy and Guidelines Evaluation

Relevant state and other regulations, as well as other factors such as tax situation (if applicable), are also incorporated into the strategic asset allocation and investment policy development process. The investment policy is reviewed at least annually or more frequently if changes to the investment portfolio or overall business require modifications.

### **Peer Group Analysis**

SAA compares overall allocations and strategies amongst similar insurers and determine if the differences between the insurer's structure and of those peers make sense or if further evaluation is necessary.

### **Investment Manager Evaluation, Search and Selection**

SAA's approach to manager evaluation, search and selection is multi-faceted. This process incorporates Investment Manager Reviews, including, where requested, investment manager search using SAA's proprietary [Manager Select](#) database of managers with fixed income insurance specialization. In the initial stage of the relationship, SAA would conduct an in-depth analysis of each legacy investment manager to determine if they are meeting objectives and to ensure that the company, the investment team and investment philosophy and process are stable and that their competitive advantage is sustainable. This evaluation is typically done through a combination of calls/meetings and review of our database and other data supplied to SAA.

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### **Portfolio Monitoring**

SAA's process goes beyond simply monitoring what the investment manager does and includes assistance in areas such as compliance, other than temporary impairment, stress testing, and analysis of overall and specific risk exposures, etc.

### **Performance Measurement and Analysis**

SAA's performance measurement and analysis process goes beyond simple comparisons to the benchmark and reviews yield and total return performance on a risk adjusted basis and against larger databases of manager performance. Most insurers are also keenly focused on downside risk which is important given the risk inherent on the business side of an insurer. Portfolio Benchmarking aims to provide a realistic 'hurdle' for the investment manager that is tied directly to the preferred asset allocation. For many insurers, this means a customized versus a generic benchmark.

### **3. Prioritize and Address the Most Important Issues and Results from the SWOT Analysis with the Insurance Company**

SAA and the insurance company will prioritize the work that needs to be completed to address the most important aspects first. In some cases, the SWOT analysis identifies changes that need to be made immediately with the insurer's investment manager roster or other aspects of the investment program. These activities can require more time from the company and/or committee given they must approve any proposed changes.

**If Your Insurer's Investment Process Needs a Check-Up,  
[Contact Strategic Asset Alliance to Learn More.](#)**

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