Peer Group Analysis: Overview and Considerations

Most insurance companies have an investment program specifically designed to meet their unique goals and objectives.

However, it is important for insurers to compare their portfolio to other insurance companies as a measure of performance and identify potential improvements.

Peer Group Analysis can lead insurance companies to ask more poignant questions about their investment process, both internally and to any outsourced investment experts *(i.e. manager, consultant, etc.)*; ensuring the investment process becomes much more robust.

Benefits and Use

- Tracking the performance of an insurer over time
- Creating institutional goals relative to your competition
- Seeing what peers at the "next level" are doing and the results needed to reach that level

SWOT Analysis:
Review common practices and concerns within an insurance company's peer group analysis

View Overview >>

Key Considerations

- Selected peers should be based on comparable portfolio sizes and similar lines of business. Comparisons to insurers that don't have similar sizes, operations, etc., can lead to misleading results.
- Peer analyses can easily become lengthy and lose the ability to provide useful information. Identifying key ratios and comparisons your insurer should focus on will provide greater benefits.
- Boards and staff may rush to make incorrect decisions (or choices for the wrong reasons) because the peer analysis shows that they might not be doing something as well as their peers. Rushing to "immediately fix it" can lead to unintended consequences.
- Whether it's underwriting, reserving, investments, reinsurance – Boards and staff often ask, "These companies are better at 'XYZ', so why not us?" Instead they should ask, "how can this information lead us to ask better questions?"

Sample Peer Analysis:
Request Your Insurer's Peer Group Analysis

View Peer Group >>

Continue to Key Comparisons & Questions >>

Key Ratios and Comparisons

Risk Assets-to-Surplus:
Indicates an insurer's allocation to "risk assets" relative to your peers.

As returns are not guaranteed, an increase in risk assets over time should yield an appropriate increase in return. If your company is in a lower quartile, it is important to consider if any added benefits could be gained.

Operating Leverage:
Measures a company's net retained premium in relation to its surplus and exposure to pricing errors in its current book of business.

A company should demonstrate a controlled business growth with quality surplus growth from strong internal capital generation. With lower operating leverage, one may be able to take on more investment risk.

Expected Return vs Expected Risk:
Indicates a company's expected return to your portfolio standard deviation relative to your peers.

Expected return is not a guaranteed rate of return, but rather, a forecast of the future value of the portfolio. The standard deviation reflects your portfolio's expected volatility.

Risk Asset Downside Impact (as a % of Surplus):
Reflects the expected annualized return of your company's risk asset portfolio and the potential downside impact to surplus from market movements in risk assets *(before any applicable taxes)*.

Surplus growth and declines are primarily driven by the return and volatility characteristics in risk assets.

Questions to Ask

- How have peers structured their investment portfolios?
- Are peers using strategies, tactics or ideas we should consider?
- Is the worst-case impact of our portfolio's risk appetite as 'bad' as our peers?
- Is our portfolio 'expected' to perform as well as our peers, given our risk assets?
- How does the investment structure mesh with the business – can this help us from a competitive perspective?
- Are we getting value for the investment types we are allocated to?
- Are we effectively maximizing our allowed investment flexibility?

Sample Peer Analysis:
Request Your Insurer's Peer Group Analysis

View Peer Group >>