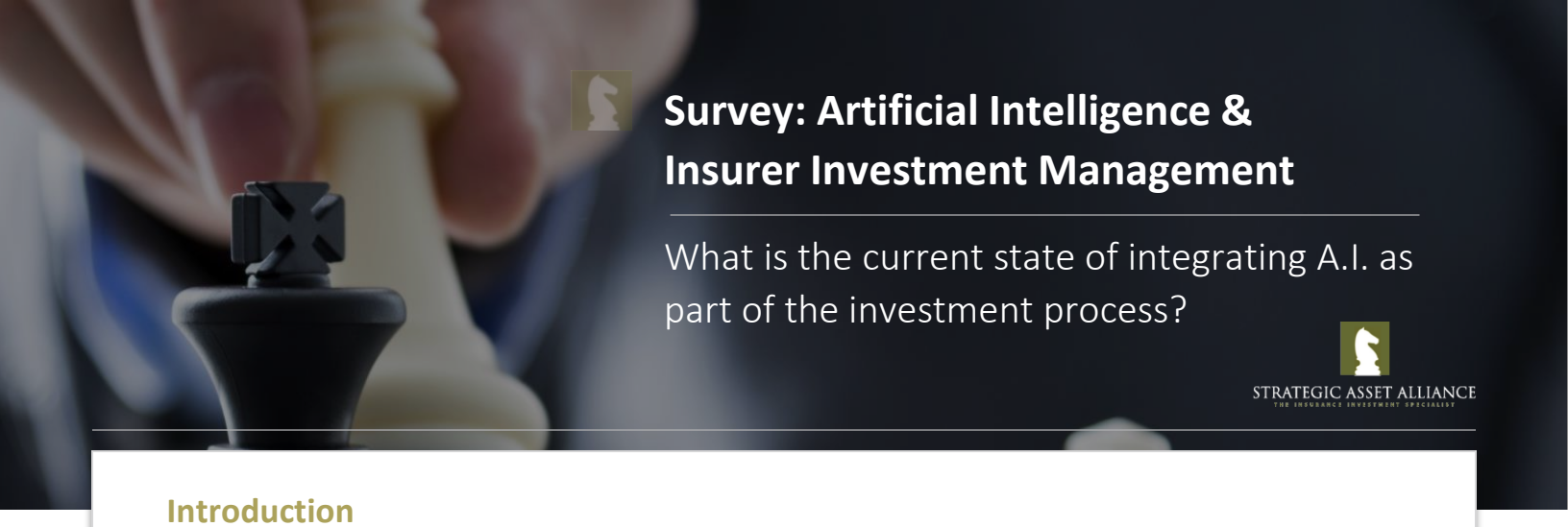

Survey: Artificial Intelligence & Insurer Investment Management

What is the current state of integrating A.I. as part of the investment process?

STRATEGIC ASSET ALLIANCE

Introduction

As the hope and hype surrounding Artificial Intelligence persists, so too does the curiosity of insurance companies regarding its potential uses. In these early stages, insurance companies are asking more-and-more about how A.I. is being used in the investment management process.

These questions have primarily focused on how insurance asset managers are researching, developing, and implementing A.I. into its operations, and in turn, improving the portfolio management services they provide.

With questions surely to continue, our team at Strategic Asset Alliance (SAA) conducted a survey focused on the current approach and integration of Artificial Intelligence among fixed income managers working in the insurance space.

Survey Overview:

SAA invited a myriad of fixed income managers working in the U.S. insurance space to participate in this survey - Fifteen (15) firms submitted responses for this report.

Note: *For complete transparency, most firms that declined to participate, did not participate because their firm's current A.I. development/implementation is in the beginning stages. Thus, they would be unable to provide substantive answers to the survey.*

Participating firms provided responses to 10 open-ended questions asked by SAA. SAA then reviewed each response and summarized the key takeaways and insights that will help insurance companies better understand the current state of A.I., as well as how its role and use will develop over time.

This information is only intended for institutional investors, such as insurers or risk pools.
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Thank You to Our Survey Participants!

We'd like to thank the investment management firms that participated in this survey and shared their current practices and insights on the present state of A.I. within insurance asset management.

**Not all participating firms listed below, per request*

- AAM – Insurance Investment Management
- Allspring Global Investments
- CS McKee
- Clearwater Advisors
- Income Research + Management
- Longfellow Investment Management
- Manulife Investment Management
- New England Asset Management
- Principal Asset Management
- Wellington Management Company
- Western Asset Management

Survey: Artificial Intelligence & Insurer Investment Management

Executive Summary:

- Microsoft Azure and ChatGPT *(via Microsoft Copilot)* are the most utilized third-party A.I.-centric tools.
- It was a near even-split among firms internally developing A.I.-related tools vs. firms that only evaluate third-party platforms & tools.
- Firms are focusing their use of A.I. within the filtering of large datasets, summarizing extensive documents, and supporting the overall research process.
- Most firms have an A.I.-focused 'acceptable use' policy currently in place, with all firms enforcing some type of policy to protect data and prevent violations.
- Every firm prohibits the use and entry of proprietary or non-public data when utilizing A.I. in any capacity.
- No firms have changed or adjusted their firm's investment process or philosophy since exploring the integration of A.I. into their decision-making process.

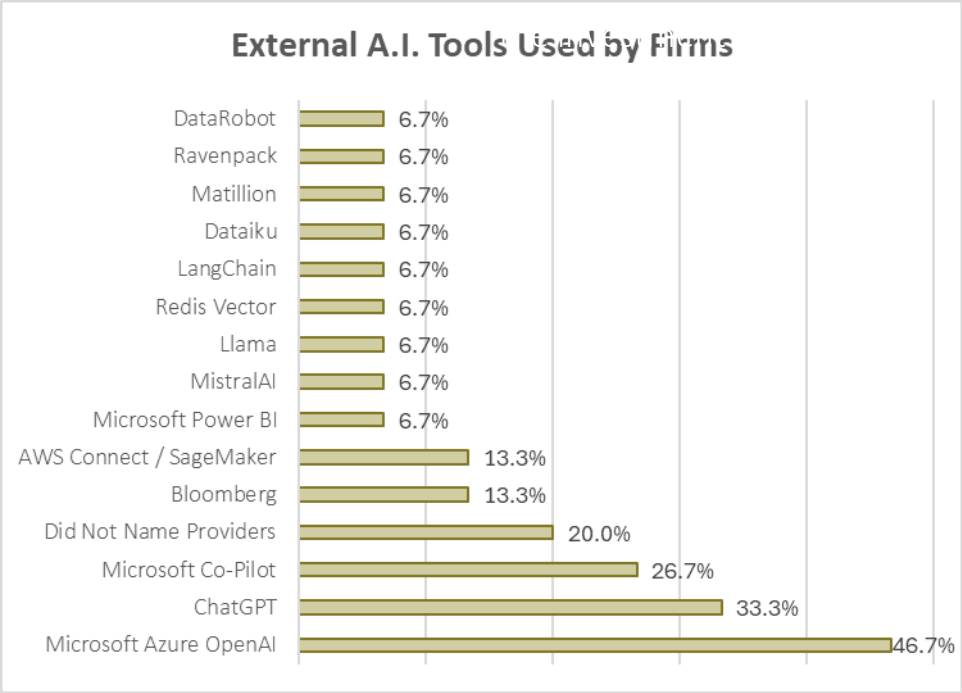
External A.I. Tools: What Tools and Platforms Are Being Utilized

More than half of firms (60%) said they utilize one of Microsoft's A.I. focused or enabled products, with Microsoft Azure and ChatGPT *(via MSFT Copilot)* being the most common tools listed.

Only a few firms (20%) said they are not currently using any external A.I.-centric tools currently.

Some of the other third-party tools that firms mentioned using were Bloomberg, AWS Connect, LangChain, and Dataiku.

Regardless of the product, all firms utilizing external A.I. tools said they are using these platforms to assist with their research process, primarily filtering through and assessing large amounts of data or word documents *(i.e. earnings call transcripts)*. A couple firms said they are researching if these A.I. tools can help with their trading process in some capacity.



Internal A.I. Tools: What Are Firms Developing?

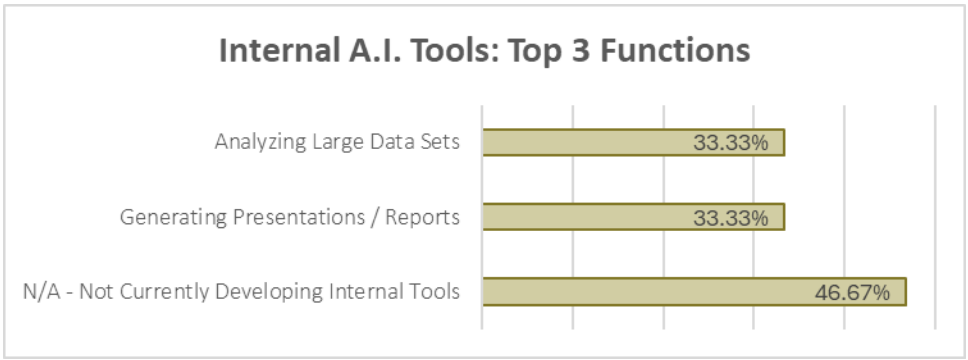
There was a near even split between firms developing proprietary A.I. tools (53%) vs. firms that said they are not in the process of developing proprietary A.I. tools (47%).

For the firms that are developing internal A.I. tools, their efforts are primarily focused on analyzing large data sets and automating report generation.

Other areas being explored by firms include Data Visualization, creating a proprietary search wizard, as well as generating market insights and forecasting expectations.

A.I. Use Cases:
Most firms developing internal A.I. tools are focusing on high-level use cases, such as:

- Reviewing Earnings Calls
- Generating Presentations
- Summarizing Documents
- Custom Modeling



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How Firms are Testing & Training A.I.:

A third of firms said they are not currently training any of the A.I. tools used by the firm, instead focusing on testing their capabilities for the time-being.

Two-thirds of participating firms are evaluating the results produced by A.I. tools by implementing of the following:

Output Review - Quality Assurance:

Firms 'training' their A.I. tools are doing so within an isolated, private environment, where computer code can be tested without effecting or being connected to any part of the firm's network.

Results are analyzed and reviewed for accuracy and adherence to the firm's policies, before being utilized in any capacity outside of this isolated environment.

Dedicated Supervisory A.I. Team:

In addition to reviewing outputs, firms training their A.I. tools have formed internal groups of A.I. or IT related experts to oversee the training and production of all A.I. products utilized or considered by the firm.

Additionally, one firm also hired a third-party auditing team to assist in overseeing their training of A.I.

Policy Implementation: A.I. Use, Restrictions & Limitations

Most firms (73%) said they have an A.I.-focused 'acceptable use' policy currently in place. These policies primarily focus on a short list of A.I. tools that can be accessed by firm staff. Firms also prohibit the use of tools not on the approved list.

For the most part, tools and platforms on the approved list can only be accessed on private company networks and with internal permission. Only one firm stated that staff must complete specialized training prior to accessing approved A.I.-related tools and platforms.

Close to a quarter of firms (27%) said they do not currently have an implemented policy specific to the use of A.I., with one of these firms stating that their policy is still in development.

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Protecting Data & Preventing Violations

Every firm institutes a policy to ensure the protection of firm and client data, and to prevent potential privacy or security violations. Most firms (60%) had a dedicated policy related to protecting data when utilizing A.I. products.

The most common inclusion within these policies related to the use of any proprietary or non-public data, with most firms stating such data could not be used in any A.I.-related tool in any capacity. A couple firms noted that the use of weekly reports use to verify and document compliance and/or violations.

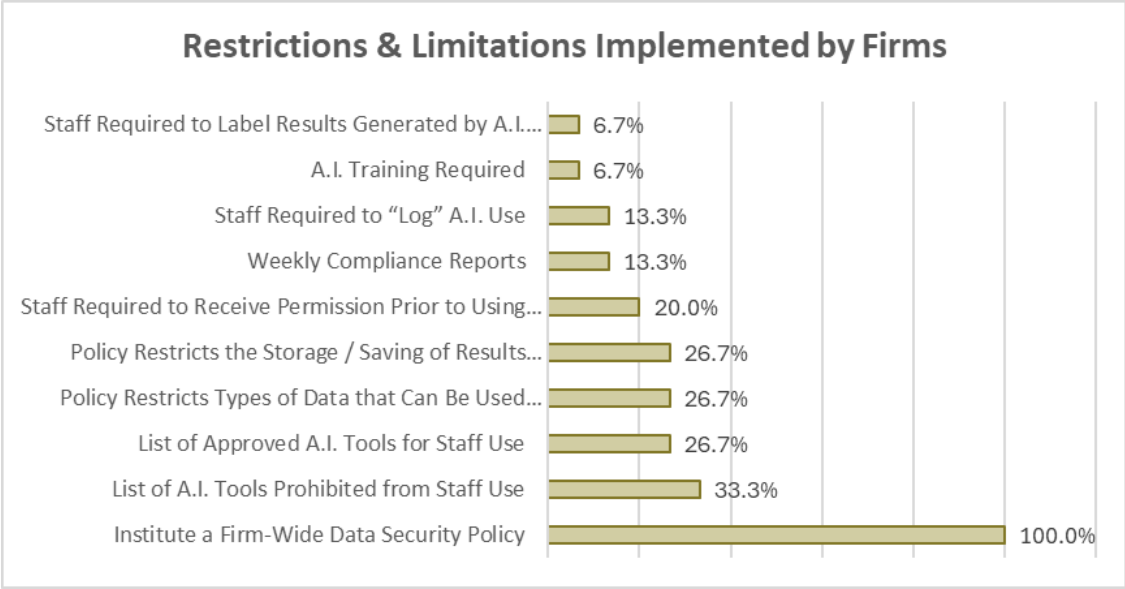
The firms without an A.I.-specific policy (40%) instead tied all staffs' use of A.I. to the firm's overall cybersecurity and data protection policies.

Client Perception of the Firm's Current A.I. Use

Most firms (67%) were unsure how clients perceived their use and/or development of A.I. products.

The minority of firms that have received feedback from clients have mostly received positive feedback. The most common comments shared by clients has focused on the 'practical' approach to exploring the topic of A.I. Only one firm mentioned receiving 'neutral' feedback from a client, noting some clients are 'more reserved' about the topic of A.I.

Additionally, nearly every firm stated that clients do not receive any access to any A.I. tools developed or utilized by the firm (internal or external).



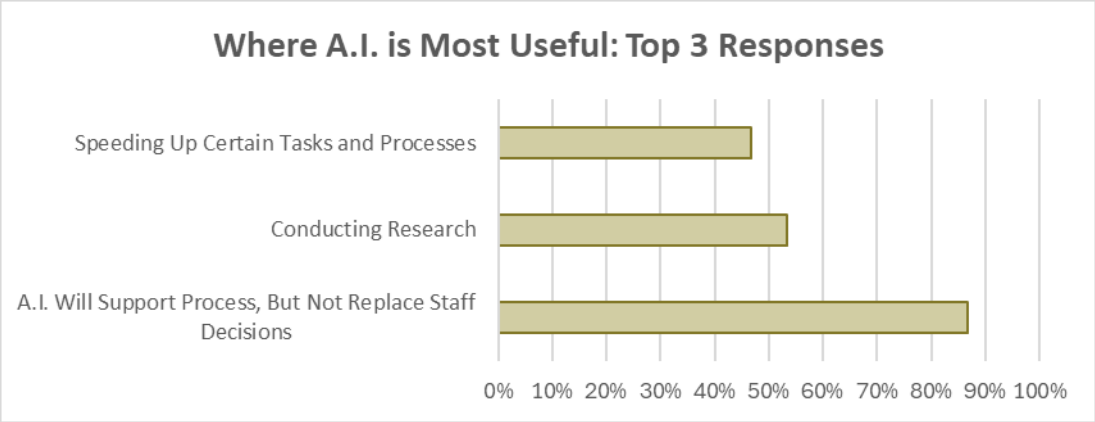
Where Firms See A.I. Being Most Useful in Portfolio Management

Almost every firm (87%) said, to varying degrees, that A.I. can support the firm's processes and staff, but wouldn't ever take the place of the decisions made by the firm's staff and committees.

// **87% of Firms Believe A.I. Will Support the Process, But Never Replace Staff's Decision-Making** //

The most common area firms said A.I. would be most useful is in screening potential trades based on the firm's philosophy. Other than trading, most firms believe A.I. will be useful in screening data and freeing up time for their firm's analysts and traders.

A small number of firms (13%) said they are unsure or still considering where A.I. will be most useful in the portfolio management process.



How A.I. Has Influenced the Firm's Investment Philosophy & Process:

None of the firms that participated in this survey have changed or adjusted their firm's investment process or philosophy since exploring the integration of A.I. into their decision-making process.

A couple firms mentioned that it's too early to tell if A.I. will eventually influence their firm's overall philosophy. However, most firms shared the belief that A.I. is solely a tool to enhance and empower the firm's leadership, portfolio managers, traders, and analysts.

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About Strategic Asset Alliance:

SAA is an independent investment consulting firm that works exclusively with insurance companies and insurance-oriented public entities. Founded in 1994, our experience and focus enable us to help clients improve their investment process and enhance the value added by their portfolios; critical components of their business.

We provide insurers and risk pools with independent investment advisory services (we do not manage assets) to aid their board members and staff in meeting fiduciary responsibilities, along with strengthening their investment program.

For more information, please visit www.saai.com

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