

Headings & Horizons: Enterprise Based Asset Allocation Framework

William Rotatori:

Insurance companies are confronting a very difficult environment and that environment's putting pressure on their ability to produce an acceptable return on capital. Those pressures are coming from both sides of their balance sheet, from their ability to generate underwriting income, and with historically low yields, their ability to produce financial return.

Managing in this environment is a large, interconnected puzzle. Moving one-piece impacts all of the other pieces. As an insurance company goes to improve its investment return, it's got to be mindful of the impact on all other aspects of their business because they have a lot of constituencies they've got to keep in mind. They have regulators, rating agencies, policyholders, shareholders, and all of those constituencies have different objectives, and sometimes competing objectives.

Chris Myers:

These challenges aren't going away anytime soon. So as companies are trying to find ways to enhance return on equity or enhance overall risk-adjusted returns for their enterprise, doing that in light of the things that they're facing, you have to find creative ways to meet those objectives that you may not have had to consider in the past.

Mark Yu:

For a company to make a sufficient return on equity, they need to understand how much risk they are taking. That's the concept of risk capacity.

{GRAPHIC} TYPES OF RISKS AND OPPORTUNITIES

Chris:

It's not simply taking on more risk, but different types of risk, and understanding how different opportunities interact with each other, which may create a solution that might not be as obvious as just simply taking on more risk for the sake of additional return.

{GRAPHIC} WE TAKE A HOLISTIC APPROACH

We look at a broad approach considering assets and liabilities jointly to understand what's driving their risk and return profile in a collective way and finding appropriate solutions. Things need to be tailored to the nuances and needs of different insurance organizations. So the approach that we take is recognizing that you're different, recognizing that you have stakeholder considerations, that you have challenges that are unique to you. Certain insurance companies are going to be more capital-prone or more sensitive to whatever a rating agency is looking at. Others might be more concerned about volatility in their underwriting result. Others might be more sensitive to legacy book yields and how do we replace that income that we're used to on our investment portfolio. The EBAA™ framework is a way to do that.

{GRAPHIC} OUR EBAA™ FRAMEWORK IS INSURANCE FOCUSED

Mark:

NEAM's Enterprise Based Asset Allocation™ is an insurance-focused asset allocation framework where we take into account insurance company's liability profile and also multiple stakeholders' consideration into this evaluation process. And then this EBAA™ is an iterative process where we work with our clients to understand their concerns and considerations and translate those concerns and considerations into this evaluation optimization process to help insurance executives, to understand the potential financial impact of all these regulatory or rating agency changes such that they can make an informed decision or strategy to cope with these additional or upcoming changes.

Chris:

I kind of equate to if you think about a jigsaw puzzle where you've got maybe hundreds of pieces. The more pieces you have and the smaller those pieces are, the harder it is to put that puzzle together. But if you have a way to compartmentalize, say, "These 10 pieces go to this corner, these five go to this area." Suddenly that 100-piece puzzle becomes maybe a 10-piece puzzle. That's much more digestible. That's a lot easier to work with. As we work with clients with an EBAA™ framework, it's doing exactly that with all the information that they're trying to decipher on a day-to-day basis.

Mark:

And then we quantify, share with our clients, and help them make that trade-off or decision in terms of what type of asset allocation will be the best fit for our client.

Chris:

Insurance company executives are asked to make decisions, tough decisions, on a daily basis. Sometimes they have limited information to do that. If you're able to get through that and have an advisor such as NEAM to help you along the way, you can start navigating through that noise to get to a solution that's going to be feasible for what you're looking to do long-term.

{GRAPHIC} WE PROVIDE INFORMATION TO HELP EXECUTIVES MAKE DECISIONS

William:

Insurance companies are just dealing with a reduced margin for error, and they need to maintain an optimal asset allocation to produce an acceptable return on equity. To learn more about NEAM's Enterprise Capital Strategy Services, visit our website.

www.neamgroup.com/ECS

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