

Session 006 - Investment Section Hot Breakfast

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2017 SOA Annual Meeting

Risks in Insurance Asset Management Conventions
An Incomplete List

William J Poutsiaka

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Risks in Insurance Asset Management Conventions

An Incomplete List

- Financial cost of *competing functional agendas*
- *Use of LDI* - rather than Enterprise Driven Investing (EDI) - for management of
- *"Herding"*: Decisions that track those of "L" peers
- Driving investment decisions based, exclusively, on *financial reporting*
- Absence of systematic monitoring of shadow prices - brief case study on economic *cost of*
- Reliance on *traditional capital market taxonomy* for strategy development, and
- Absence of *skill-based performance measures* as companies move out on the investment
- Bifurcation of portfolio based on balance sheet leverage (*liability and surplus*)
- Driving investment decisions based, exclusively, on *tail event capital charges*.
- Over- or Under-utilization of *quantitative "models"* (including AI, machine learning,
- *ALM limited to interest rate risk*

Competing Functional Agendas

9:00 AM Meeting: CEO's office, The Who's-This-Ship? Insurance Company

CIO: "We need to sell some high-grade more equities!"

CEO: "Why?"

CIO: "The relative values and gap in return trajectories will be historically

CEO: "Set up a meeting."

CIO: "OK." To herself on the way out... this guy is running the company with a We're in deep trouble."

9:30 AM Meeting:

CRO: "We need to sell some equities and grade bonds!"

CEO: "Why?"

CRO: "The expected return on capital grade is substantially higher than for to improve our RBC and debt ratings."

CEO: "Set up a meeting."

CRO: "OK." To himself on the way out... believe this guy is running the company like that?"

10:00 AM Meeting:

CFO: "We need to sell anything at a

CEO: "Why?"

CFO: "Our underwriting results this and we need earnings to keep our shares hammered."

CEO: "Set up a meeting."

CFO: "OK." To herself on the way out..."I running this company."

10:30 AM Meeting:

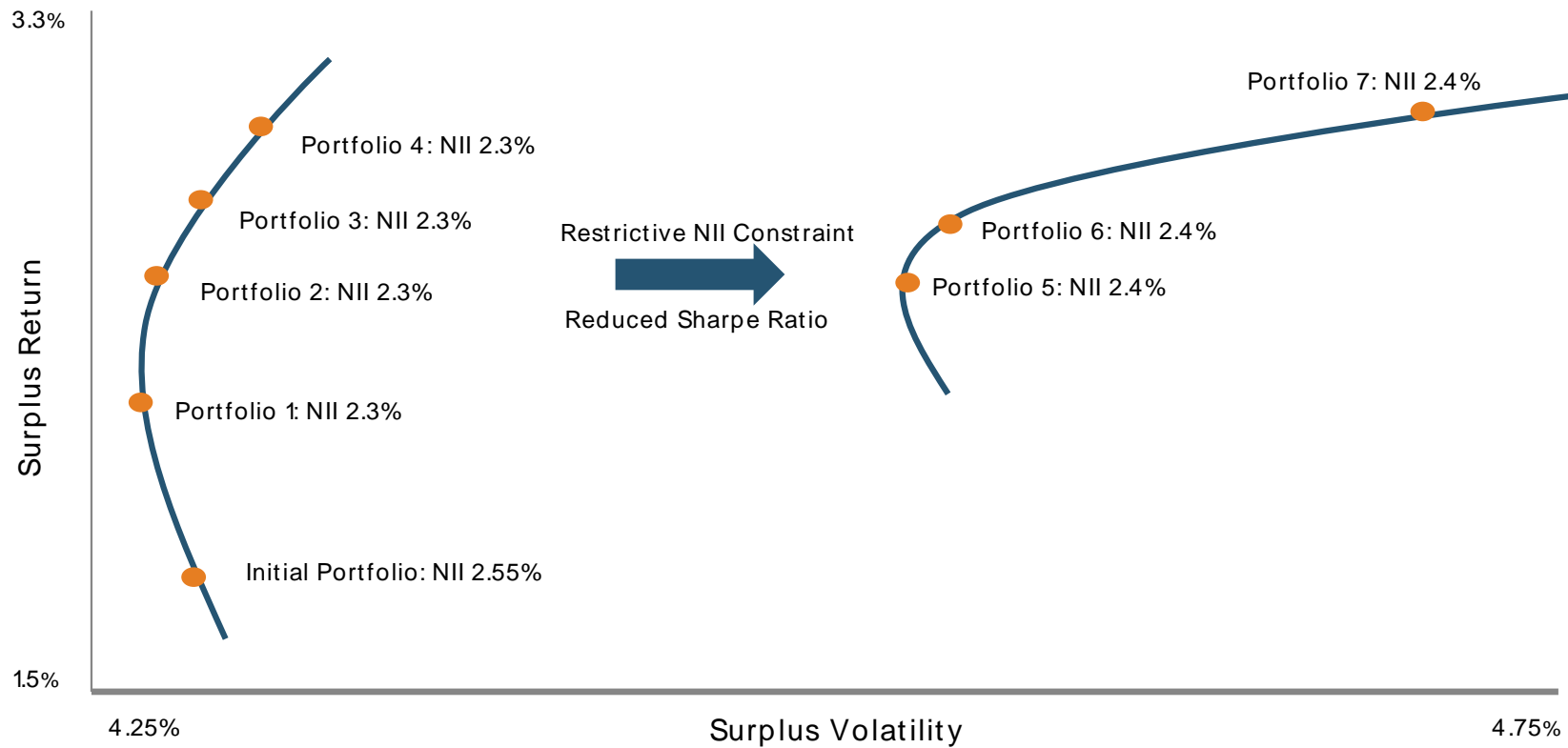
CEO: "Let me guess. We need to sell and buy tax-exempts because of the AMT

Director of Tax: "Exactly! How did you know?"

CEO: "Pure luck. Set up a meeting, with senior management team."

Director of Tax: "Sure thing." To himself on out..."Guy's a genius. No wonder he's

Economic Cost of NII Constraint



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