

Consultant Insights

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Consulting Opportunities Rise as Insurers Increase Investment Outsourcing

Conning Consultant Relations Team

David Motill, Managing Director and Head of Consultant Relations

Robert Fitzpatrick, Director and Senior Consultant Relations Manager

Nicholas Tan, Assistant Vice President and Senior Consultant Relations Analyst

Summary

Insurance companies around the world continue to outsource their investment management needs to third-party asset managers, creating a growing opportunity for investment consultants to assist in these efforts. Insurers also are expressing greater interest in non-traditional asset classes where consultant experience in these asset managers may be at a premium.

Conning's analysis of data from Eager, Davis and Holmes' Insurance Asset Outstanding Exchange suggests that consultants may find significant opportunities in the insurance outsourcing market. Insurers remain under pressure to grow their companies, improve profitability and enhance investment performance as competition continues to grow and interest rates are expected to remain low for an extended period.

Insurance Outsourcing Picks up Speed

Insurance General Account (GA) investments outsourced to non-affiliated third-party investment managers totaled \$2.9 trillion at 2019 year-end, up from \$2.3 trillion a year ago, a 27% increase (see Figure 1).

North America's higher AUM growth was partly due to some very large mandates outsourced to large investment managers, who offer an investment and operations scale advantage for large insurers. In addition to scale, insurance companies' need for specialist investment solutions is also a key driver of outsourcing in all regions. Specialists offer investment expertise and/or exposure to asset classes that insurance companies are not otherwise able to access (e.g. high yield, bank loans, CLOs, emerging market debt, etc.).

In addition, insurance companies often use multiple non-affiliated investment management firms. Larger insurance companies outsource their assets with more managers, on average (see Figure 2). This estimate does not include the largest insurers who may get access through affiliated investment firms.

Figure 1 - Growth in Outsourced AUM

Region	2019 AUM Outsourced (\$ Bil)	Outsourced AUM Growth (%)	
		2019	2017-2019
North America	\$1,531	30%	13%
UK/Europe	\$924	21%	6%
APAC	\$277	31%	24%
Offshore	\$118	0.30%	-5%

Source: Insurance Asset Outsourcing Exchange, Size and Growth Assessment August 2020 - used by permission.

Figure 2 - Larger Insurers Use More Asset Managers

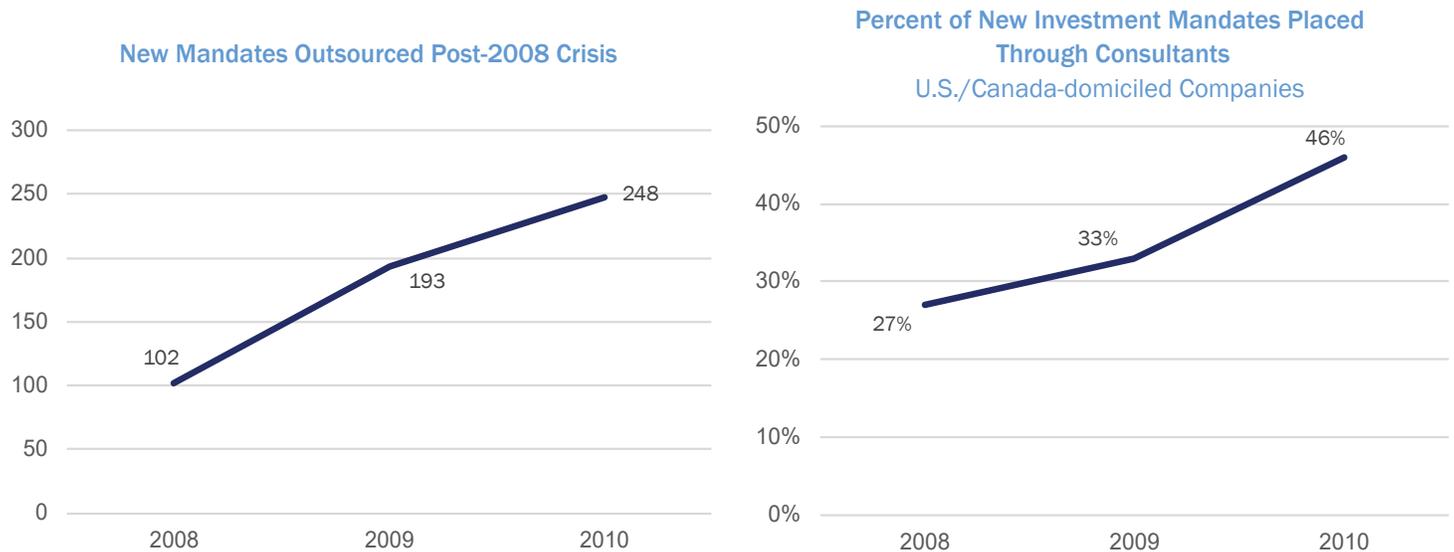
Company Size	Average Managers per Company
Over \$5 Billion	4.3
\$1.1 Billion to \$5 Billion	2.6
\$200 Million to \$1 Billion	2.0
Below \$200 Million	1.1
All Companies	1.8

Source: Insurance Asset Outsourcing Size and Growth Assessment August 2020 - used by permission.

COVID-19 Impact May Add to Outsourcing Trend

Outsourcing is expected to increase during the post-COVID-19 era given the experience during the 2008-2009 financial crisis, as demonstrated in Figure 3. From 2008 through 2010, the number of new mandates outsourced to third-party managers increased 143% on a global basis. Consultant-assisted mandates outsourced to third-party managers increased to 46% from 27% during the same period.

Figure 3 - Increase in New Mandates, Consultant Usage, 2008-2020



Source: Insurance Asset Outsourcing Exchange, The Outsourcing Monitor June 2020, Size and Growth Assessment August 2020 – used by permission

The data suggests that third-party investment managers and insurance-focused investment consultants have become a proven source of investment solutions and advice since the 2008 financial crisis. While the COVID-19 crisis is different, third-party AUM is projected to grow to \$4 trillion globally by 2024 year-end and comprise 12.5% of GA insurance assets (see Figure 4).

Figure 4 - Outsourced Insurance Assets 2019, 2024 (proj.)

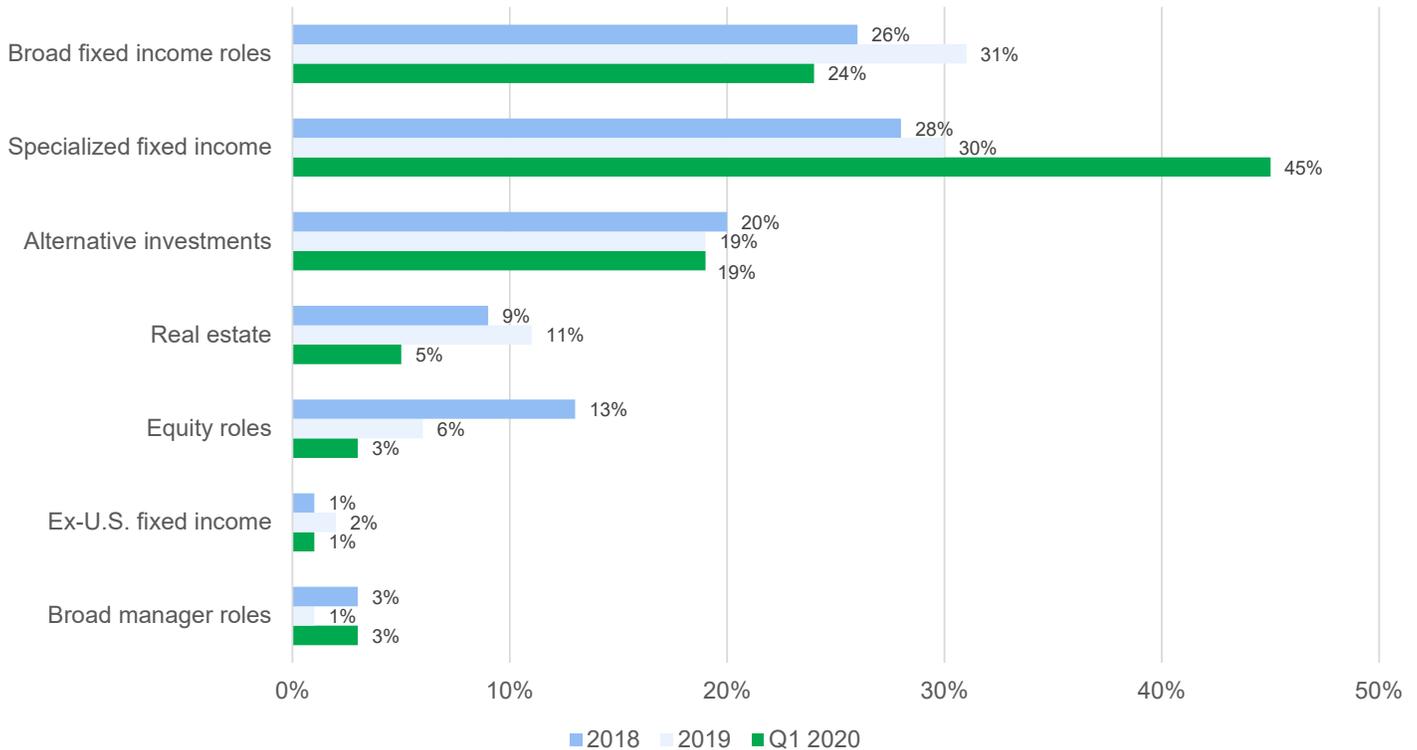
Region	2019 Year-End (\$Billion)			2024 Year-End (\$Billion)		
	Insurance GA Assets	Outsourced Assets	%	Insurance GA Assets	Outsourced Assets	%
North America	\$7,809	\$1,531	19.6%	\$9,053	\$2,250	24.9%
UK/Europe	\$7,714	\$924	12.0%	\$8,517	\$1,237	14.5%
APAC	\$10,439	\$277	2.7%	\$13,970	\$446	3.2%
Offshore	\$1,031	\$118	11.4%	\$1,138	\$130	11.4%
Total	\$27,706	\$2,864	10.6%	\$32,779	\$4,083	12.5%

Source: Insurance Asset Outsourcing Exchange, The Outsourcing Monitor June 2020, Size and Growth Assessment August 2020 - used by permission.

High Interest in Specialty Asset Classes

The number of new specialized fixed income mandates increased to 45% in Q1 2020 from 28% in 2018, while demand for broad fixed income and alternative mandates has remained consistent (see Figure 5). The number of equity mandates decreased to 3% in Q1 2020 from 13% in 2018.

Figure 5 - Outsourced Mandates by Asset Class, 2018-2020



Source: Insurance Asset Outsourcing Exchange, The Outsourcing Monitor June 2020 – used by permission

Opportunities appear to be growing for consultants to assist insurance companies of all sizes in outsourcing investment management duties and expanding their access to specialty asset classes to help improve portfolio returns. Please reach out to Conning’s consultant relations team to learn more about our insurance asset management solutions.

How can insurance companies find insurance-focused investment consultants?

The insurance-focused Investment Consultant Compendium, published by the Insurance Asset Outsourcing Exchange, is a resource for insurance companies considering the assistance offered by investment consulting firms. The Sixth Annual Edition is currently in progress. For more information, please contact David Holmes (david.holmes@assetoutsourcingexchange.com).

Conning's Consultant Relations Team:



David D. Motill is a Managing Director and Head of Consultant Relations at Conning. Prior to joining the firm in 2010, Mr. Motill was a partner and chief marketing officer at Alpha Equity Management. He previously headed consultant relations groups with Fischer Francis Trees & Watts, Citigroup Asset Management and GE Asset Management. Mr. Motill earned a degree from Temple University and an MBA from the University of Notre Dame and holds Series 7 and 63 licenses.



Robert B. Fitzpatrick is a Director and Senior Consultant Relations Manager. Prior to joining Conning in 2018, Mr. Fitzpatrick was an Executive Director at UBS Global Asset Management. Previous to that role, he was Managing Director of North America at Harmonic Capital Partners, and Director of Global Consultant Relations at First Quadrant, LP. Mr. Fitzpatrick graduated from the University of Notre Dame and holds the Series 7 and Series 63 securities licenses.



Nicholas Tan, CFA, CAIA is an Assistant Vice President and Senior Consultant Relations Analyst at Conning. Prior to joining Conning in 2018, Mr. Tan was an Institutional Sales Associate at Aegon Asset Management. Previously, he was a Senior Investment Analyst at Willis Towers Watson. Mr. Tan graduated from the University of Michigan with High Honors, is a CFA and CAIA charter holder, and holds Series 3, Series 7, and Series 63 securities licenses.

About David Holmes & the Insurance Asset Outsourcing Exchange:



David F. Holmes is a Partner and Research Director at Eager, Davis & Holmes. Mr. Holmes founded the Insurance Asset Outsourcing Exchange in 2008 to promote knowledge about insurance asset outsourcing. Previously, Mr. Holmes was Director of Research for Mercer Manager Advisory Services (formerly Eager & Associates) and Mercer's Global Investment Forum. Mr. Holmes graduated with honors from University of Kentucky with B.S and M.S degrees in Economics.

ABOUT CONNING

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