A Leading Global Investment Management Firm

Viewpoint

January 2024

ASSET MANAGEMENT | WHITE PAPER

Investment Risk Survey: Insurers Optimistic About 2024 Markets, Taking More Risk, and Leveraging AI Tools

By Scott Hawkins, Head of Insurance Research, and Matt Reilly, Head of Insurance Solutions

U.S. insurers appear to be optimistic about investment conditions for 2024 (see Figure 1) and expect to take on more investment risk, according to a recent survey of 300 investment decision makers in the U.S. insurance industry commissioned by Conning.[1]

And while insurers expect their investment risk tolerance may rise, higher yields in traditional public market fixed-income sectors have made those strategies one of the larger areas of expected portfolio increases. Other sectors that insurers expect to allocate more to include private assets such as private equity, private credit and private placements, and real assets including infrastructure and real estate.

Insurers also said that, despite their concerns about use of artificial intelligence (AI) and machine learning (ML) tools in the investment process, they believe the benefits of the technology outweigh the risks (see Figure 2) and have already begun to incorporate the tools into their investment processes.

The responses suggest U.S. insurers remain resilient and ready to embrace new challenges following a year of significant inflation, falling bond portfolio values as interest rates rose, and the rapid growth of AI technologies. (The survey was conducted prior to the U.S. Federal Reserve's December outlook suggesting multiple interest rate cuts in 2024.)

The growing complexity of managing insurance portfolios may also lead more insurers to consider outsourcing some or all investment duties, and the survey probed insurers' considerations in these decisions.

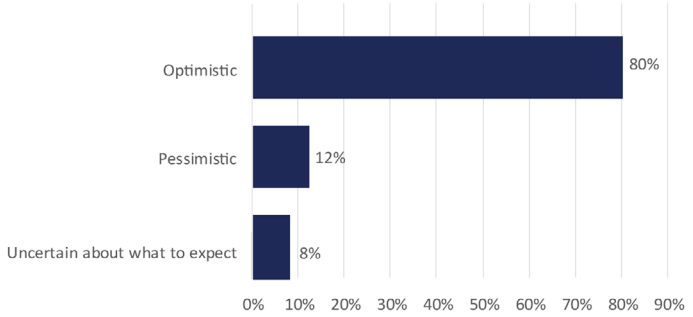
Optimism is High – But Inflation Remains Top Concern

Survey respondents showed significant optimism about the 2024 investment environment.

Across all company sizes and sectors, "optimistic" was the leading sentiment versus "pessimistic" – in most cases by significant margins. Insurers managing assets internally (about half of our respondents) were more optimistic than those that outsourced some or all of their assets (86% to 73%) while those

Figure 1 - Optimistic About 2024 Investment Environment

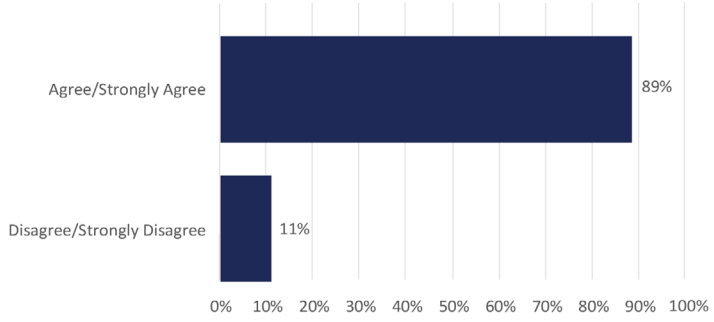
Is your firm optimistic, pessimistic or uncertain about what to expect in terms of the investment climate in 2024?



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

Figure 2 - AI/ML Tools: Worth the Risk

Do the benefits of using Artificial Intelligence (AI) or Machine Learning (ML) in the investment management process outweigh the risks?

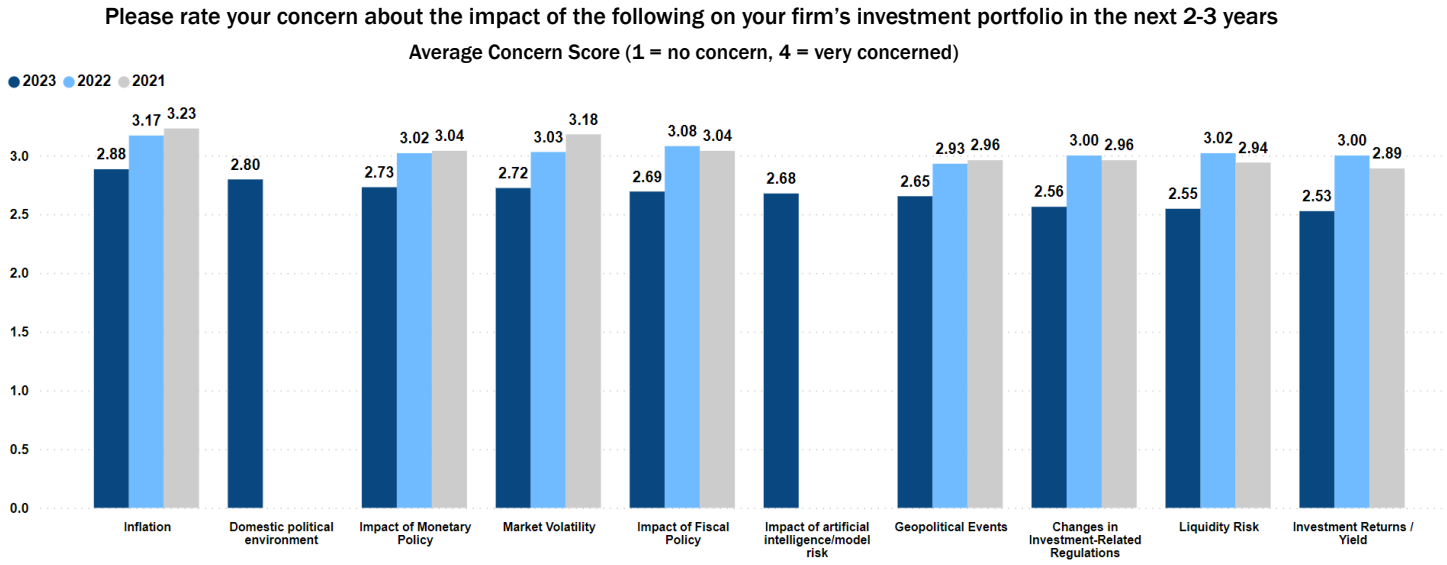


Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

outsourcing were more pessimistic (18% to 7%). Very few respondents were "unsure what to expect"; the largest "unsure" group (20%) was insurers with less than $500 million of assets.

Inflation remained the top portfolio concern in the next two to three years, consistent with our two previous surveys (see Figure 3), but its relative level of concern has been declining. Market volatility remained a leading concern. The impact of monetary policy re-appeared as a top concern in 2023, not surprising given how interest rates rose significantly during the year. It is also a prescient response given the recent news that rates may soon head in the opposite direction. Fiscal policy remains another high-ranking

Figure 3 - Inflation Continues to be Insurers' Top Investment Concern



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

area of concern among insurers, given the significant level of federal and local government spending as well as the potential for policy changes in a presidential election year.

Meanwhile, investment yields, regulatory changes and geopolitical concerns have been consistently among the lowest of insurers' worries during the past three annual surveys. These issues may signal troubles ahead for insurers but appear less of a concern than events with more immediate portfolio impact.

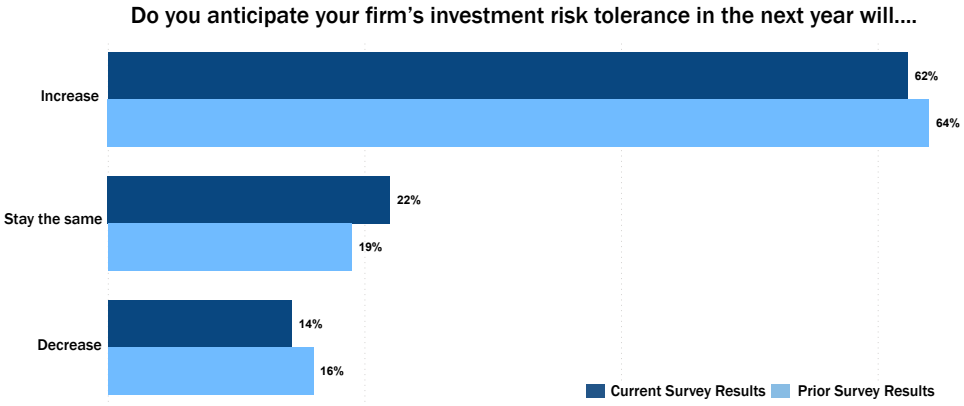
Domestic politics and AI were added to Conning's latest survey as potential concern responses. Domestic politics was the second-most important concern to insurers, while impact of AI was sixth.

Adding to Risk

Insurers also strongly believe their investment risk will rise during 2024 (see Figure 4). Their risk expectations generally rose with the insurer's asset base, although firms with $5 billion to $10 billion in assets were most in agreement with the sentiment.

Firms outsourcing asset management had lower expectations for rising risk in their portfolios versus firms that manage assets internally (57% versus 68%) but as noted previously expressed less optimism about the investment environment (73% versus 86%).

Figure 4 - Risk Tolerance Is Rising



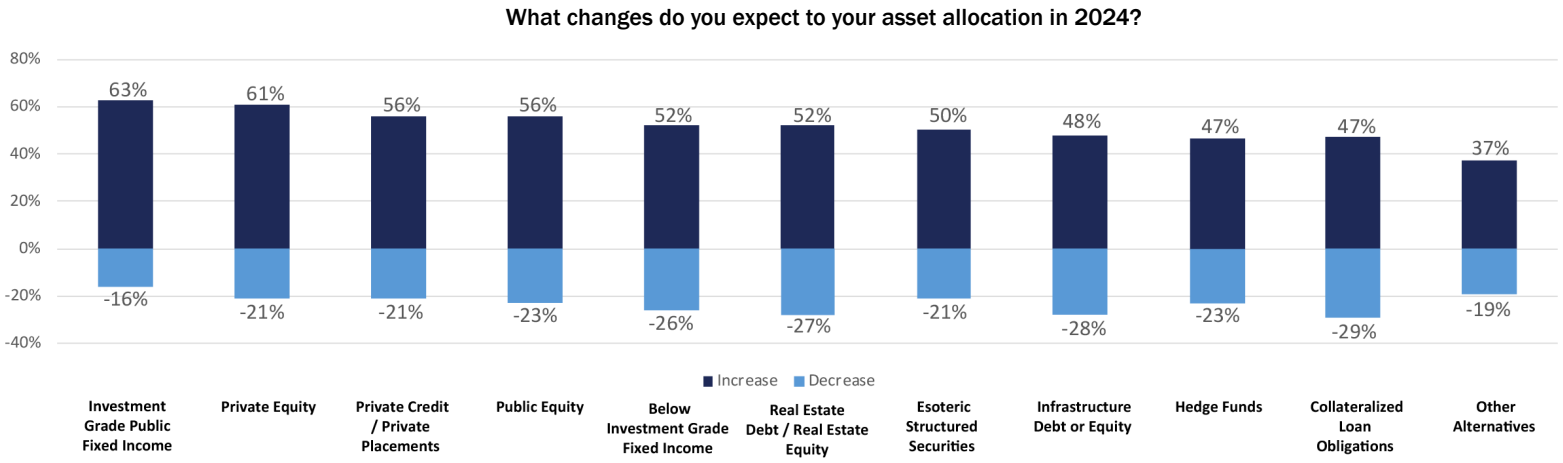
Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

Private Assets: Interest Continues to Grow

Interest in private assets remains for many insurers: 61% of respondents said they expect to increase private equity exposure in 2024 and 56% expect their firms will add to their private credit exposure (see Figure 5).

The trend of private asset growth is expected to continue beyond 2024 among our survey respondents. In our survey, 51% said they currently have between 10% and 20% of their holdings in private assets. However, in two years, a majority of the respondents (51%) said they expect their private asset holdings will reach at least 20%.

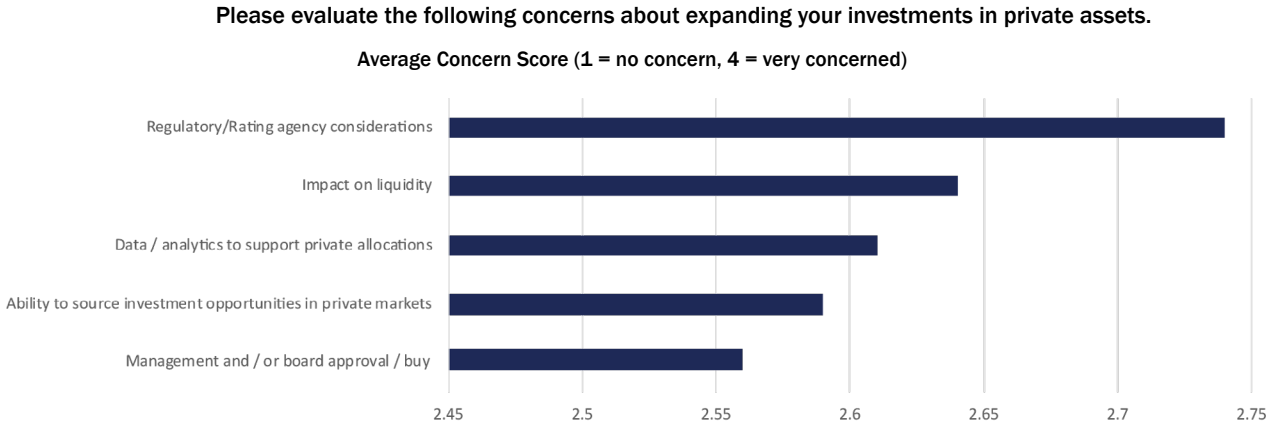
Figure 5 - Private Assets Gaining Ground



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

Private assets pose a number of challenges for insurers who are considering allocating more to the sector. The top concern in our survey was regulatory/rating agency considerations which, given the regulatory environment in 2023, is not a surprise. In addition, insurers communicated a concern around liquidity considerations and having appropriate analytics to support their private asset allocations (see Figure 6). In all of the categories, insurers who managed assets internally were overall somewhat more concerned than those who outsourced. This suggests there are benefits in outsourcing for those investing in private assets, a newer asset class for many insurers.

Figure 6 - Regulatory/Rating Agency Concerns Top Private Asset Challenges



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

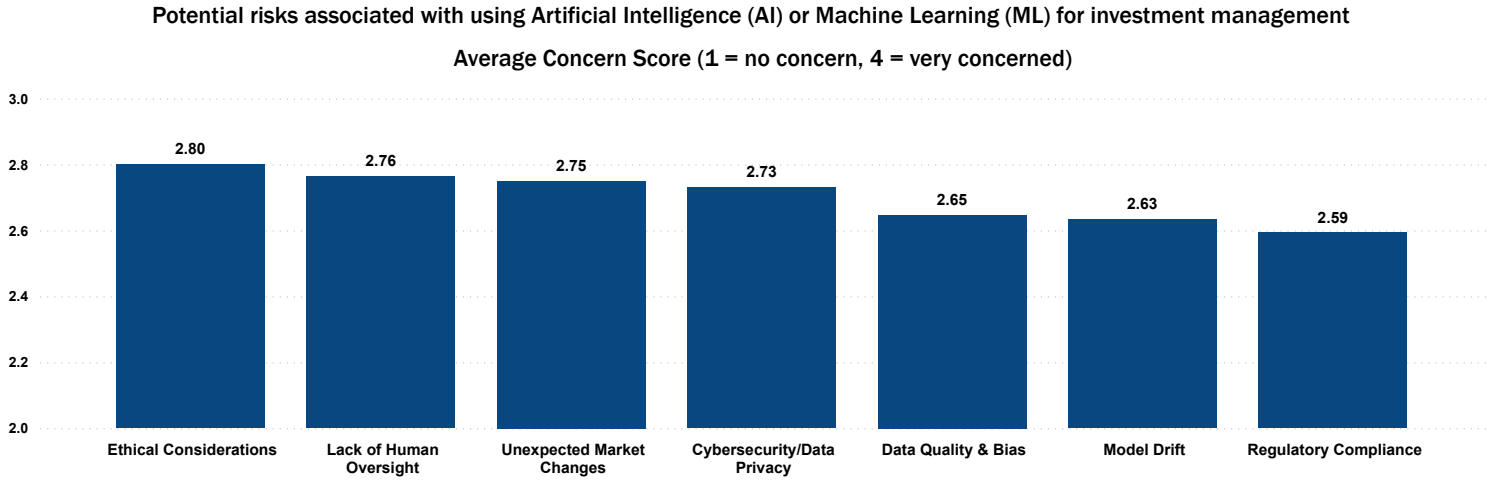
While concerns remain about less traditional asset classes, the rising yields in 2023 have helped make long-time insurance investment staples such as investment-grade fixed income more appealing going forward. Insurers overall said investment-grade credit was the most likely asset they would add to their portfolio allocations in 2024, although the largest insurers – those with more than $10 billion in assets – leaned more toward private credit and real estate debt and equity.

Full Speed Ahead on AI

Challenges also abound for insurance investment professionals in the area of AI, but 89% of respondents think the benefits of implementing it in the investment process outweigh the risks.

Insurers cited a variety of concerns regarding AI and ML. As illustrated in Figure 7, the most prominent are ethical considerations, followed by the lack of human oversight in processes, unexpected market changes and cybersecurity and data privacy.

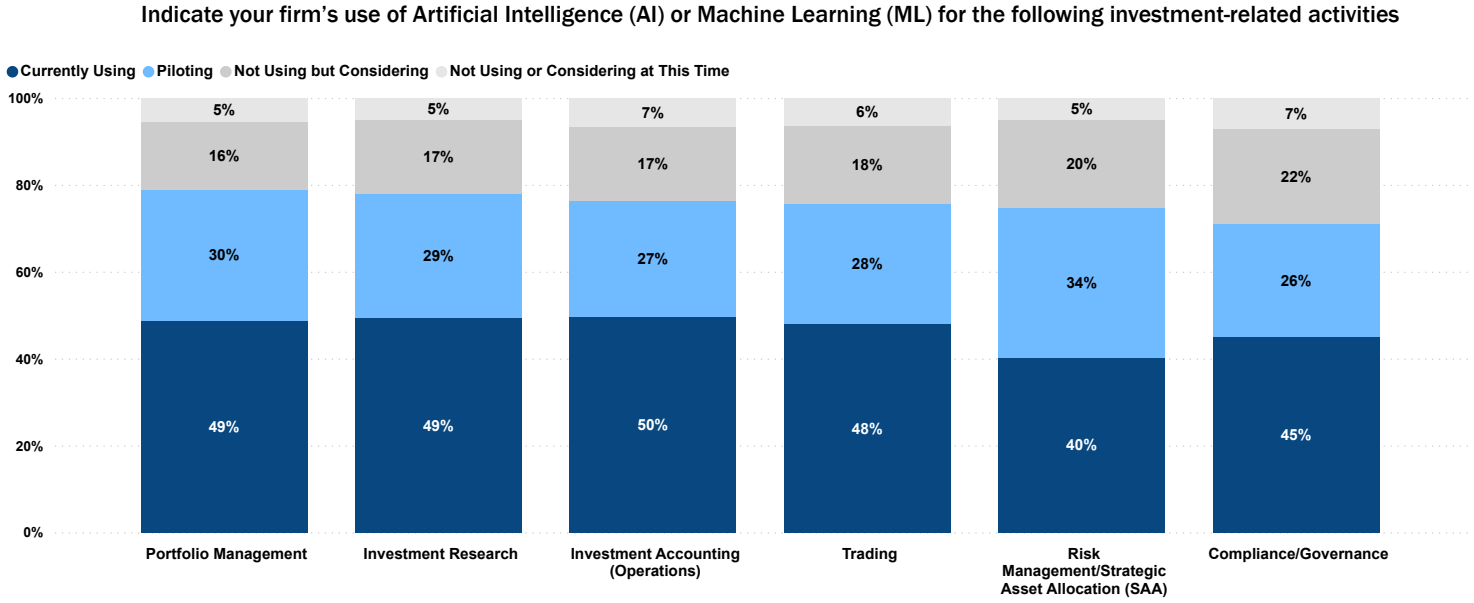
Figure 7 - Ethical Considerations Lead Concerns About Adding AI/ML Tools



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

Nonetheless, more than 3 out of 4 respondents said they were using or piloting AI/ML across several investment-related activities, including portfolio management, investment research, investment accounting, and trading (see Figure 8).

Figure 8 - AI/ML Tools Making Inroads in Investment Process



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

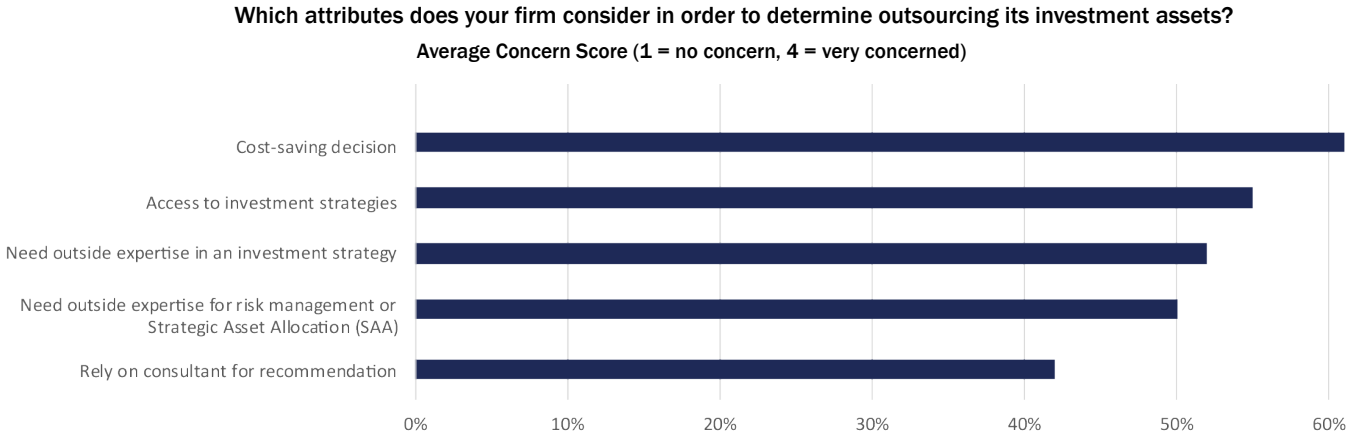
Costs Lead in Outsourcing Decisions

The growth in private assets and portfolio diversification, the rising prominence of AI, and the increasing challenges of staying current with investment markets can be a challenge to any insurance company. Looking for outside expertise – i.e., outsourcing some or all of the investment management duties - can be an answer for many.

As noted, Conning's survey respondents were about even in terms of their firms' outsourcing (half of the respondents' firms managed assets internally, the other half outsourced some or all of the work). There is no strong relationship between insurer size and outsourcing activity: 58% of firms with less than $500 million in assets manage all assets internally as do 66% of firms between $5 and $10 billion; 63% of those between $1 and $5 billion in AUM outsource some or all duties.

Respondents cited several drivers they consider when making a decision to outsource their assets. Cost-saving was the leading driver, followed by the need for access to investment strategies and the need for outside expertise for risk management and asset allocation strategies (see Figure 9). One outlier group - insurers with between $5 billion and $10 billion in assets - said savings was their fourth-most important reason, noting that the needs for outside expertise and access to strategies and guidance were more important.

Figure 9 - Costs Lead But Access to Strategies, Expertise Are Important Outsourcing Concerns



Prepared by Conning, Inc. Source: ©2024 Conning, Inc. The Conning U.S. Insurers Survey – Investment Focus utilized survey technology provided by Qualtrics, LLC.[1] Results may not be representative of any one respondent's experience as they reflect an average of all, or a sample of all, of the experiences of surveyed U.S. insurance company decision makers.

Managing the Growing Complexity

Conning's survey of U.S. insurers suggests they remain clear-eyed about the challenges they face but optimistic about their abilities to keep pace with a changing investment environment.

Years of historically low interest rates demanded that insurers consider unfamiliar asset categories to help improve portfolio yields. The rising rates of 2023 helped make those traditional investments appealing again, and while many insurers appear poised to take advantage of those yields they also remain committed to adding to less traditional assets such as private equity and credit, and real estate. Combined with the fact that a majority of respondents indicated they will take on more investment risk in the year ahead, the diversification lessons of the past several years may be taking root.

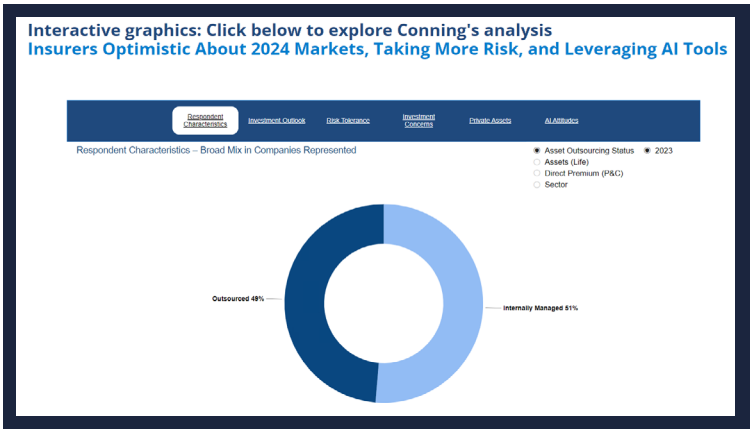
A willingness to take on new challenges is also visible in attitudes towards AI/ML, where the risks of implementing these tools into the investment process are seen as worth the risks. Many respondents are already using AI/ML tools or piloting efforts.

The work of building investment strategies to meet insurers' unique needs is only getting more sophisticated, and for many the challenges may at some point extend beyond their internal capabilities. While insurers continue to impress in learning and developing new skills, outsourcing some or all of these investment responsibilities to a firm deeply experienced in the nuances of the insurance industry may be key in navigating the uncertainty, complexity and new technology in future investment environments.

A Closer Look at Select Findings

View Our Interactive Survey Results

Please visit our website to view some of the survey results in an interactive format.



You may also scan the QR code below to access the interactive charts.

RELATED CONTENT

Uncertainty in 2024: Insurers Search for Growth
This Conning webinar provides our insights and thoughts on the insurance industry's outlook for 2024. Click here to view this Webinar.

2024 Investment Themes To Watch: Navigating Elections, Fed Moves and Fundamentals
Join Conning's experts as they discuss key investment themes for 2024. Click here to view this Webinar.



Matt Reilly, **CFA**, is a Managing Director and Head of Conning's Insurance Solutions group, responsible for the creation of investment strategies and solutions for insurance companies. He joined Conning in 2015 and was a portfolio manager before assuming his current role in 2018. Prior to joining Conning, he was with New England Asset Management. Mr. Reilly earned a degree in economics from Colby College.



Scott Hawkins is a Managing Director and Head of Insurance Research, responsible for producing research and strategic studies related to the insurance industry. Prior to joining Conning in 2006, he was Senior Research Fellow for Networks Financial Institute at Indiana State University. Previously, he spent 16 years at Skandia Insurance Group in the U.S. and Sweden as an analyst and senior researcher, responsible for advising the Group CEO about emerging strategic issues impacting financial services, as well as managing Skandia's research projects with the European Commission. He studied history at Yale, has a Certificate in Information Management Systems from Columbia University and was a board member of the J. M. Huber Institute for Learning in Organizations at Teacher's College.

About Conning

Conning (www.conning.com) is a leading investment management firm with a long history of serving the insurance industry. Conning supports institutional investors, including insurers and pension plans, with investment solutions, risk modeling software, and industry research. Founded in 1912, Conning has investment centers in Asia, Europe and North America.

Footnote:

[1] In 2023, surveys were sent to approximately 2,000 U.S. insurance company investment professionals and yielded 300 responses. In 2022, surveys were sent to approximately 4,000 U.S. insurance company decision makers with 303 qualified responses. 2021 survey was sent to approx. 7,000 U.S. insurance company decision makers with 280 qualified responses. Qualtrics, LLC was paid a fee for services rendered.

Legal Disclaimer

©2024 Conning, Inc. This document and the software described within are copyrighted with all rights reserved. No part of this document may be distributed, reproduced, transcribed, transmitted, stored in an electronic retrieval system, or translated into any language in any form by any means without the prior written permission of Conning. Conning does not make any warranties, express or implied, in this document. In no event shall Conning be liable for damages of any kind arising out of the use of this document or the information contained within it. This document is not intended to be complete, and we do not guarantee its accuracy. Any opinion expressed in this document is subject to change at any time without notice.

This document contains information that is confidential or proprietary to Conning (or their direct or indirect subsidiaries). By accepting this document you agree that: (1) if there is any pre-existing contract containing disclosure and use restrictions between your company and Conning, you and your company will use the information in this document in reliance on and subject to the terms of any such pre-existing contract; or (2) if there is no contractual relationship between you and your company and Conning, you and your company agree to protect the information in this document and not to reproduce, disclose or use the information in any way, except as may be required by law.

ADVISE ®, FIRM ®, GEMS ®, CONNING CLIMATE RISK ANALYZER ® and CONNING ALLOCATION OPTIMIZER ® are registered trademarks of Conning, Inc. in the U.S. Copyright 1990-2024 Conning, Inc. All rights reserved. ADVISE ®, FIRM ®, GEMS ®, CONNING CLIMATE RISK ANALYZER ® and CONNING ALLOCATION OPTIMIZER ® are proprietary software published and owned by Conning, Inc.

This document is for informational purposes only and should not be interpreted as an offer to sell, or a solicitation or recommendation of an offer to buy any security, product or service, or retain Conning for investment advisory services. The information in this document is not intended to be nor should it be used as investment advice.

C# 17808694