Beyond the Text Podcast

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TRANSCRIPT

How Insurers Are Adapting Investment Strategies in a Shifting Economic Environment

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[Opening Music]

[Alyssa Gittleman (AG)]

Hello and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department. I'm your host, Alyssa Gittleman, a Director and Head of Marketing and Communications here at Conning. Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends. Today, I'm here with Matt Reilly, a Managing Director and Head of Insurance Solutions here at Conning. Thanks, Matt, for joining me here today.

[Matt Reilly (MR)] (00:36)

Thank you for having me, Alyssa. It's great to be here.

[AG] (00:38)

So today I wanted to dive into some of the findings of Conning's latest investment risk survey.

The survey results are available on conning.com in an interactive graphic form as well as a report form. And this is just worth noting that this was Conning's fourth year surveying the investment professionals in the US insurance industry. So Matt, let's get into some of the results. Could we start with the big picture? What's the general sentiment among insurers when it comes to investment risk in 2025?

[MR] (1:09)

Our survey is a good way for us to double-check based off of all of our engagement and all of our conversations with our clients and just with insurers generally.

And we know over the past few years, there's been different operational pressures. There's been increased volatility both in the markets as well as in their business. And while insurers have generally remained optimistic, it seems like there's been a little bit of a slight reversal of that trend. And so that bore out in terms of our survey results with insurers remaining overall optimistic, 77%, but slightly down from where we've been in the past. And so increased levels of uncertainty and pessimism mixed in as well. That really hasn't changed how insurers are thinking about what they're looking to achieve with their investment programs, though.

They're still looking for new ideas, new ways to get diversified streams of income into their portfolios. And again, our survey findings supported that with insurers looking to continue to take on more investment risk in their portfolios.

[AG] (2:10)

Thank you, that's an interesting trend. So even though confidence has dipped a little, insurers are still willing to increase their risk exposure?

[MR] (2:18)

Yeah, exactly. This is the third consecutive year where respondents have said that they're looking to take on more investment risk. And I think this has to do a lot more with insurers looking to expand their overall investment risk tolerance as a reaction to years of lower interest rates that we faced in the past.

So if you go back, insurers were really pressed to get competitive yields on their fixed income portfolios and really had to start to expand their overall investment tools. So this is really, I think, a reflection of just being more comfortable with taking investment risk as a part of their business and growing that core competency. And a lot of the time that we've been spending engaging with insurers is thinking through adding on different risks and returns that complement not just the rest of their portfolio, but overall what they're trying to achieve as a business.

[AG] (3:02)

That's great. So inflation has been a top concern in prior surveys among both P&C and life annuity insurers, but it has fallen down in the list. What's driving this shift?

[MR] (3:13)

So inflation, #1 concern over the past three years in this survey, now it's 7th. So what I think is really driving that, to get to your question, is inflationary trends. If you look back for years, we had inflation that was well below the [US Federal Reserve] Fed's targets coming out of COVID and some of the fiscal and monetary expansion that we saw. We saw inflation continue to push up and became a much more present concern and challenge operationally for insurers as they were dealing not just with their investment portfolios, but on the operational side of their business.

Now I think that it's dropped down to 7th place, this seems to suggest that insurers are feeling a little bit more stabilization in terms of inflation. It's definitely above longer-term trends, but I think what we've seen is our focus has moved on to other risks, to the markets more broadly as well as political concerns both domestically and globally.

[AG] (4:12)

Interesting, that's definitely a big shift. And from the sounds of it, it sounds like the political landscape is still creating uncertainty. And I think it's just worth noting here that this survey was conducted two weeks after the presidential election.

[MR] (4:27)

We weren't going to do it the day after the presidential election just in case there was still some uncertainty sitting out there. But what we did see were political concerns have been rising. So I think domestically, at the time of the survey where the presidential election results, but still a lot of uncertainty, much on what policy would look like, who cabinet members would be and the impact that that might have for insurers, their portfolios, et cetera. And then geopolitics and global conflicts over the past couple years have obviously been an ever-present concern.

And then rounding out the rest of that has been just more general market risk, volatility yields, which are really just ever-present concerns for insurers when they think about their portfolios.

[AG] (5:10)

Let's shift gears a little bit and talk about private assets. We've seen a steady increase in insurer allocations to private markets. What did the survey reveal about this trend?

[MR] (5:21)

We started to ask about this I think maybe two years ago, maybe three now, where insurers have been growing their allocations to private assets and they remain highly interested in looking at these parts of their portfolios.

We don't explicitly define that in the survey of; this could include private placements, private credit assets, real estate, debt and equity strategies, infrastructure and the list goes on and on and on. As I was speaking about earlier, years of lower interest rates and portfolio yields, insurers really started to look into alternative ways to drive their portfolio strategy and make it perform. And private assets have been a big part of that strategy. In our conversations with insurers, there is more of an acceptance that this is going to be a growing part of their portfolio and that's going to mean maybe a little bit less liquidity, but it also creates diversification, new risk-return drivers, yield premiums relative to public counterparts.

And our survey results bear that out. So 60% of survey respondents expected to have over 15% of their portfolio invested in private assets, which was up significantly from where respondents were today.

[AG] (6:35)

Thanks, and that's consistent with what we're hearing in the industry. But private assets come with liquidity concerns, right?

[MR] (6:41)

Yeah, liquidity is definitely one critical consideration. When you think about private assets, you're not able to go out there and necessarily transact in these securities immediately, but those markets do continue to evolve. So while these investments are becoming more broadly accepted, they're concerned about managing it within the overall liquidity of their portfolio.

While for some this has been a significant allocation for a long time, interestingly enough, I thought concerns over sourcing private assets seems to have abated year over year. And insurers are educating themselves and finding more strategies and becoming more confident in their ability to source and fill their private asset allocations. And in our conversations that we have with our clients and prospects in the industry, we're spending a lot more time helping to educate them about the trade-offs from a risk and a liquidity perspective and how growing their private asset allocation can be supportive of meeting their overall firm goals.

[AG] (7:41)

That's great. So even though they're adding private assets, they still feel confident in their ability to meet liquidity demands?

[MR] (7:48)

Yeah, exactly. And that confidence in liquidity management was present in our results. We asked about that this year and the majority of our respondents felt that they had either too much liquidity actually in their organization or an adequate amount. So I think from a liquidity perspective, just through that one lens, you'll probably continue to see a continued increase in private asset allocations.

[AG] (8:12)

Thank you. Another topic that stood out was duration and floating rate strategies. Could you break that down for us?

[MR] (8:18)

Sure. Many investment ideas over the past couple of years that have been more interesting for insurers have been shorter or intermediate duration in terms of yield-curve positioning and a lot of that includes floating-rate assets as well. With Federal Reserve policy, we've seen higher short-term interest rates than we have historically and that's created a really interesting area of the yield curve for insurers to invest in. So over half of our respondents expect to increase their exposure to floating-rate assets over the next period of time.

And at the same time, two-thirds of respondents actually expected to increase their overall portfolio duration. So, what we're seeing is many companies who are looking to continue to increase exposure at the front end of the yield curve and further out the yield curve. So really an interest rate barbell and we've had many conversations with insurers who are looking at the yield curve environment, are looking at their higher income levels in their portfolios and are trying to think about "How do I lock in this yield and extend duration for a longer period of time to increase my portfolio stability." So, I think all of those results seem to make a lot of sense to us based off of our experience.

[AG] (9:35)

Thanks, that seems like a nuanced approach, balancing interest rate risk while still positioning for long-term stability. Were there any surprises in how insurers are allocating their investments?

[MR] (9:46)

I think the biggest thing that we saw was really a lack of conviction. We saw similar long-term trends as we've seen in prior surveys, so higher allocations to private asset classes. But when we started to drill in on specific sectors and sub sectors, in the past we'd maybe see one or two winners. In this case, we didn't see a single asset class that really stood above the rest in terms of where respondents were looking to increase exposures.

I think generally you're seeing insurers that are maybe just being a little bit more cautious, a little bit more selective, and maybe a little less conviction in terms of where to invest that next marginal dollar compared to years past.

[AG] (10:26)

That makes sense, especially given the current market environment. Now before we wrap up, I was just hoping you could spend a little bit of time on what your key takeaways were from this year's survey.

[MR] (10:38)

The main takeaways – overall, insurers remain optimistic. They're a little bit more cautious in terms of how they're going to position their portfolios maybe than they were a year ago.

And then I think from a risk and concern standpoint, we're seeing those concerns of inflation really abate, while maybe some of those other concerns around both [the] domestic and global political environment, as well as just general market concerns around volatility and interest rates, continuing to be present. When we think about that, we think about our conversations, we look at the rest of the results. It looks like insurers are still looking for partners who can help them to navigate the complexities of managing their portfolios in this dynamic world and help to think about investments in a holistic fashion as opposed to just looking at one strategy in isolation.

[AG] (11:32)

Thank you, those are some great insights. Thank you so much for breaking this down for us today.

[MR] (11:36)

Yeah, thanks for having us, Alyssa.

[AG] (11:38)

And that's a wrap for today's episode of Beyond the Text. Thank you, Matt, for joining me, and thank you all for listening to today's episode. If you're interested in learning more about what you heard today, you can access this report at conning.com. We hope you will subscribe to this podcast and join us for our next episode as we stay up to date on industry trends. Thank you!

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