Survey focuses on rising use of alternative assets by insurers

By Editorial Staff *Thu, Oct 28, 2021*

'The search for yield amid low interest rates has driven insurers into non-traditional asset classes and away from traditional safe havens,' said Sandeep Sahai, CEO, Clearwater Analytics. He urges caution.

Insurers' continue their shift toward using non-traditional assets, external managers, and new technologies to provide transparency and reliable accounting data, among other findings, according to the findings of Clearwater Analytics' 2021 Insurance Investment Survey **Report**.

Clearwater Analytics, a provider of SaaS-based investment accounting, reporting, and analytics solutions, has over $5.6 trillion in total assets on its SaaS platform, according to a release. It serves hundreds of insurers and asset managers as two of its key client market segments.

"The search for yield amid low interest rates has driven insurers into non-traditional asset classes and away from traditional safe havens," said Sandeep Sahai, CEO, Clearwater Analytics.

"This creates significant challenges because non-traditional asset class data is often extremely complex and deciphering it requires multiple systems and manual processes, which brings serious risk for misinterpretation or misguided action. This report demonstrates the urgency of working with trusted partners to ensure accurate and timely accounting."

The survey polled insurance investment and accounting professionals as well as C-level executives at hundreds of insurers worldwide. The key takeaways and data revelations were

Insurers focus on non-traditional assets

Clearwater's Insurance Investment Survey results show the growing use of non-traditional asset classes.

Top 4 non-traditional asset classes. Fifty-five percent or more of insurers indicate some level of allocation to private placements, private funds (LPs), mortgage loans, and ETFs. More than one-third of respondents said they will increase exposures with non-traditional assets.

Other emerging asset classes. There is a growing use of bank loans and other complex asset classes. Insurers also reported increased investment in derivatives.

Regulator concerns. Despite the rise of non-traditional assets, some insurers hesitate to use them due to investment guidelines, regulatory constraints or concerns, and lack of expertise.

Reliance on external managers' expertise is here to stay

External asset manager usage. The vast majority of respondents use external managers, ranging from 20% to 80% or more of their total portfolio. Insurers whose external managers manage at least half of their portfolio expect to increase or maintain their dependence on external managers.

Insurers' requirements for asset managers. External managers are most commonly rated performance (62%) and insurance client expertise (46%).

Insurers are ramping up tech stack and risk analysis

Non-traditional asset classes often create technology challenges for insurers. More than half of the survey respondents use multiple technologies for investment accounting.

Risk and related analysis such as benchmark comparison, exposure analysis, scenario testing, VaR, and ex-post risk are required. Half of surveyed insurers say that manual processes often slow down their monthly close process.

"Insurers who deploy an advanced cloud-based singular platform, designed to deliver on any asset class, no matter the complexity, will benefit from actionable intelligence and as a result their investments will outpace those failing without trusted visibility," added Sahai.

The full 2021 Clearwater Insurance Investment Survey Report is accessible here. Additionally, Clearwater Analytics held a webinar to discuss the findings with its subject matter experts. The recording can be accessed here.

For two months in 2021, Clearwater Analytics surveyed insurers worldwide as part of the 2021 Insurance Investment Survey Report. Respondents came from the Americas, EMEA, APAC, and offshore. More than 1,000 insurance professionals participated, comprising all types and sizes of insurers. Half of respondents identified as working in investment accounting, and the other half were split between operations and investment management. Respondents are anonymous.