Why Insurance Companies Outsource

Summary Based Upon Past EDH and Exchange Research

Gain a fact-based perspective

The Insurance Asset Outsourcing Exchange promotes knowledge about third party insurance asset management to benefit both insurance companies and investment managers. The Exchange gathers information from insurance companies and investment managers on a confidential basis, aggregates and analyzes information, and shares back with Exchange participants.

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Introduction

What is Insurance Asset Tracker?
Insurance Asset Tracker gathers detailed information about specific insurance general account mandates that are outsourced to third party investment managers.

- Insurance companies and investment managers submit information to the database about the new investment mandates they have outsourced or won.
- The data is gathered through the Insurance Asset Outsourcing Exchange website. Entries are verified, edited and duplicates are removed before inclusion in the database.
- The database is updated quarterly and can be downloaded from the Exchange website.

How is Insurance Asset Tracker Used?
Insurance Asset Tracker provides unprecedented insightful detail about insurance general account outsourcing activity. Exchange members can access the database to gain more detailed information about:

1. Investment management firms winning mandates similar to those an insurance company seeks to outsource
2. Asset class and investment style trends specific to insurance company type, size, etc.
3. Consultant firms involved in manager selection
4. Investment management firms winning mandates that include the support services that an insurance company may be seeking

Other Research Available Through the Exchange on http://www.assetoutsourcingexchange.com/:

- Periodic research on emerging insurance asset management outsourcing issues
- Insurance companies’ investment goals and practices
- Insurance companies’ manager selection and evaluation practices
- Fee levels for third party insurance asset management specific to asset class and style
Why Insurance Companies Outsource Investment Management

Perceived Benefits of Outsourcing

- Need for investment expertise not available internally: 78%
- Need for specialized strategies and expertise: 63%
- Need access to resources not available internally: 41%
- Increasing challenge of meeting investment performance goals: 34%
- Increasing complexity of investment management issues: 29%
- External management will reduce costs: 15%
- Difficult to find/retain qualified internal staff: 14%
- Retirement of key internal staff: 9%

Few outsource for cost reasons.
Historically, most outsourced assets come from cash flow (not terminations)

Source of Assets for Future Mandates

- Future cash flow: 62%
- Splitting assets from current outsourced money: 38%
- Terminating existing external manager: 28%
- Reallocating assets: 23%
- Rebalancing: 15%
- Internally managed assets: 13%
- Acquisition of another company: 4%

Related historical data:
- Insurance asset managers lose only 3.7% of their assets/year, on average
- Insurance asset managers gain about 7 new clients per year net (gain 14.2 new clients and lose 7.3)
Growth typically comes from firms who already outsource their general account assets to others, versus firms making the leap to outsourcing.

Percentage of All Insurers – Broken Out By Third Party Manager Use/Intentions

- Currently use outsourcing: 69%
- Definitely/likely to use (but not using now): 1%
- May use (but not using now): 7%
- Don't use/no intention of using: 77%

Key reasons why firms' don't outsource:
- Lower cost in-house
- More control in-house
- Internal core competency or
- Comparable/better in-house management