



**Setting the Stage – How Risk Pools Invest:**  
Balancing Opportunities & Risks to Support Surplus

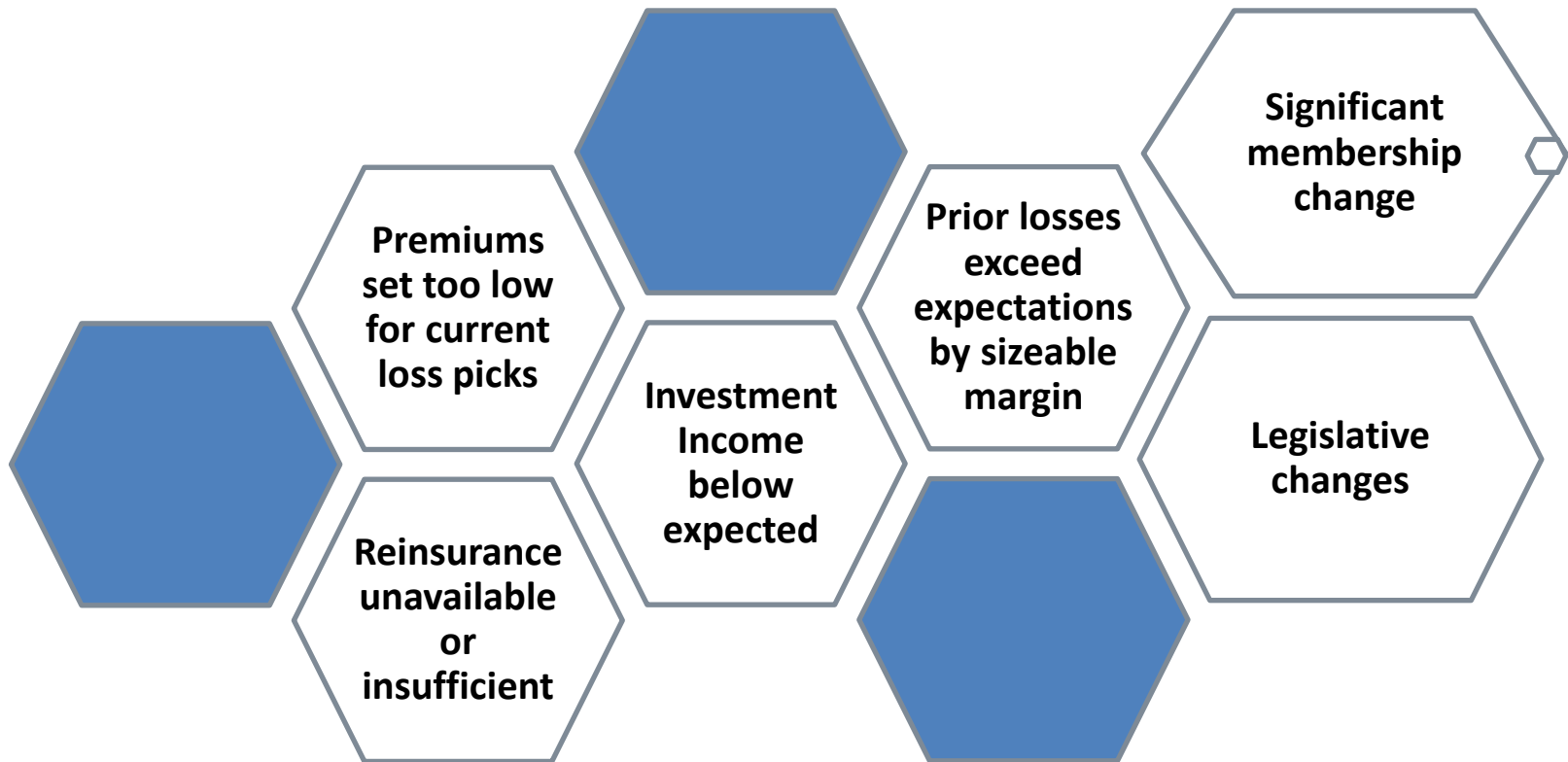
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**Presented by:** Strategic Asset Alliance



STRATEGIC ASSET ALLIANCE  
THE INSURANCE INVESTMENT SPECIALIST

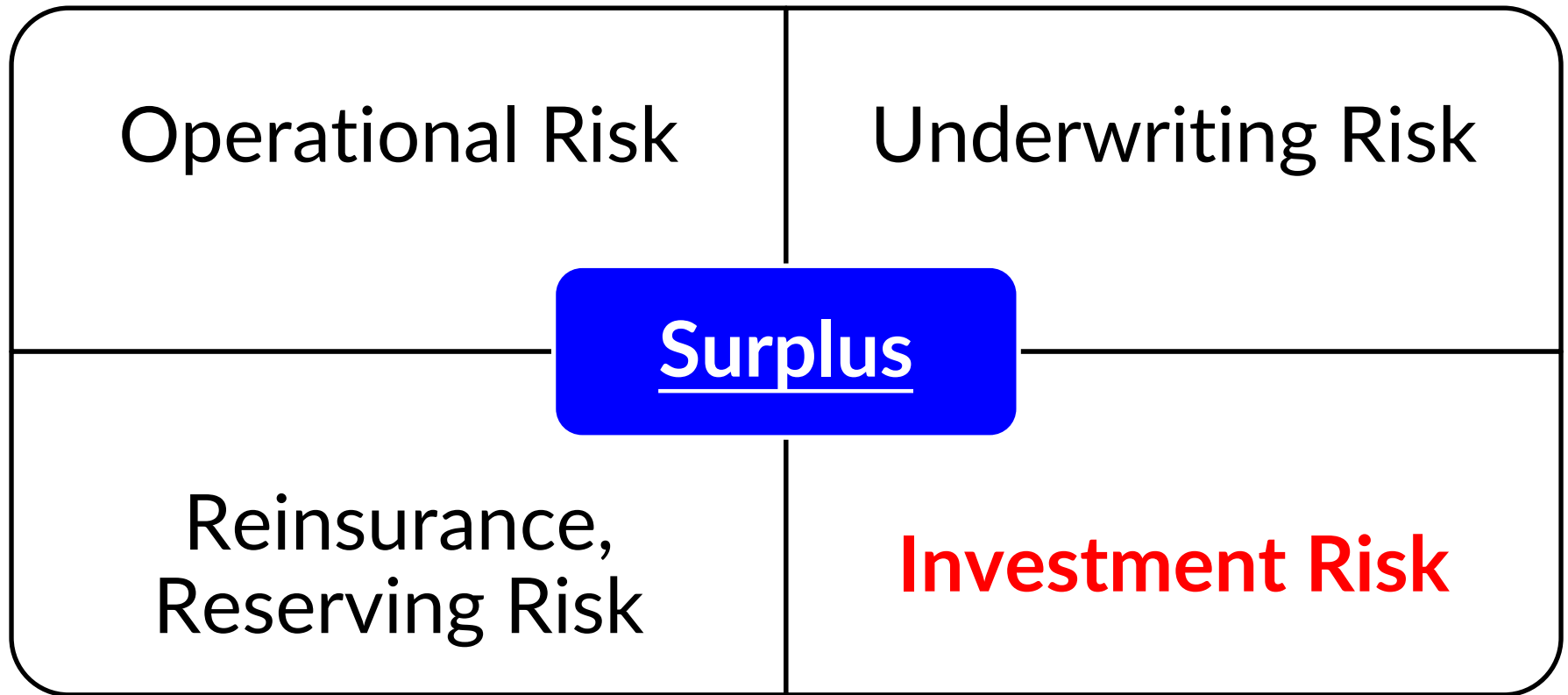
## Key Business Risks to Your Risk Pool:



**...are addressed by Surplus - How much is needed to:**

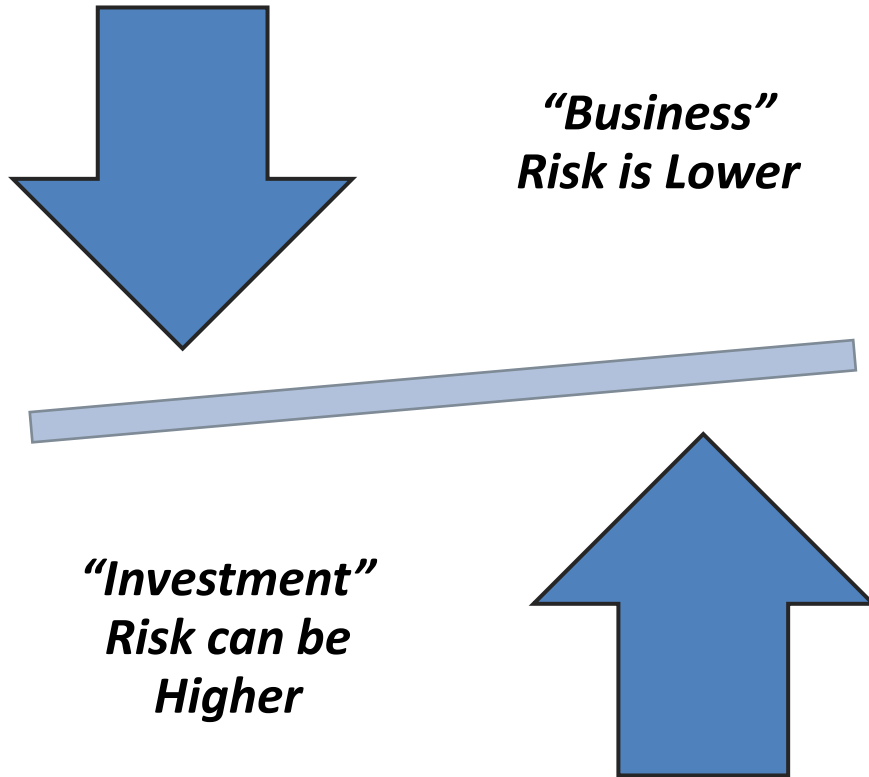
- Meet its members' needs;
- Manage the risk exposures it is comfortable taking;
- Maintain a cushion for contingencies

## Investments – Complements the Business Risk



- ❖ How much surplus does your organization need to:
  - **Meet its members' needs;**
  - **Manage the risk exposures it is comfortable taking;**
  - **Maintain a cushion for contingencies.**

## Investments – Only One Risk of Several...



### Measures for Business Risk:

- ❖ **Operations:**
  - Premium Levels
  - Forecasting
- ❖ **Financials:**
  - Strength of Balance Sheet
  - Income Statement
  - Premiums to Surplus Ratio
  - Risk Based Capital
- ❖ **Underwriting:**
  - Member claims estimates
- ❖ **Reinsurance:**
  - Costs Rising Quickly!
- ❖ **Reserving Risk:**
  - Confidence level that ultimate payout will be as anticipated.

# The Role of Investment Income

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## Investment Income

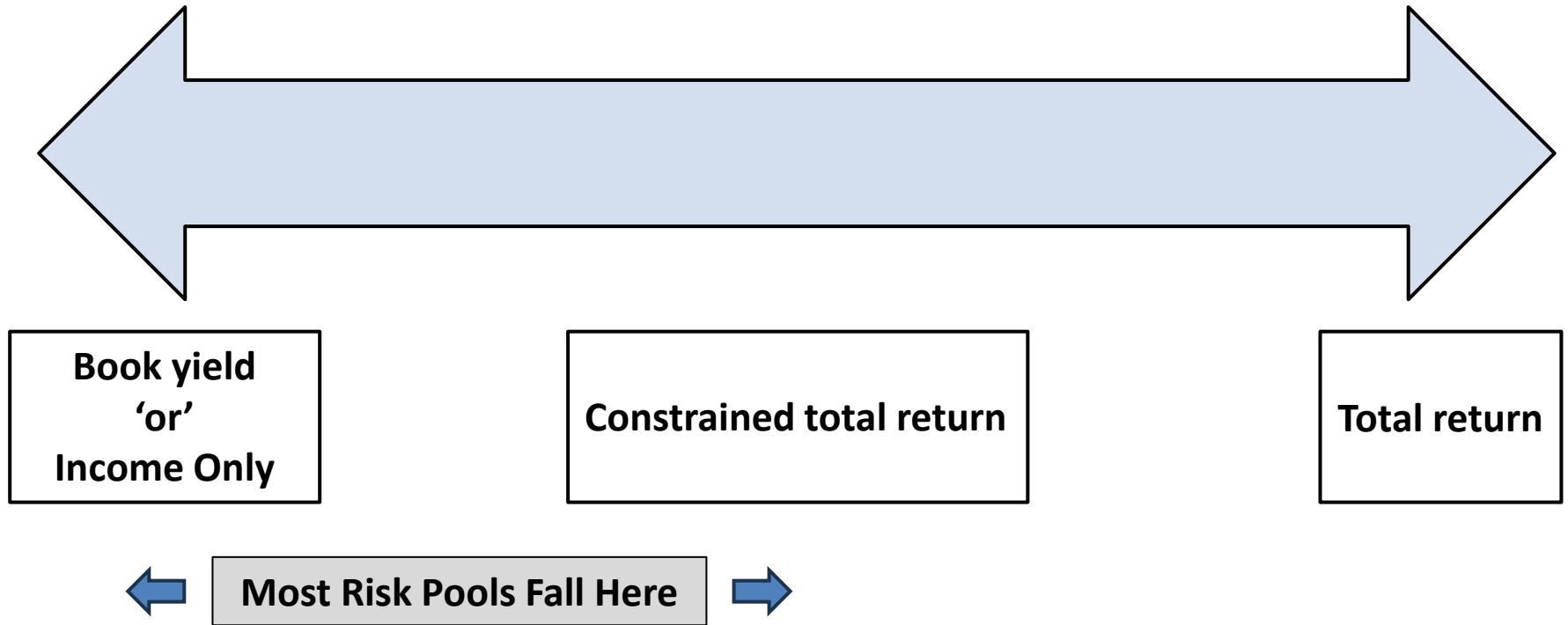
- Cornerstone to the Risk Transfer Business Model
- Maximizing Investment Income Can Mean the Difference Between:
  - **Competitive Pricing and Member Retention;** or
  - **Member Attrition Due to 'Hard Market' Pricing**

 How Much Can You Expect to Earn?

 How Much Risk Are Your Willing to Prudently Take?

# Investment Performance Objectives

## Where Do You Fall On This Objective Continuum and Why?





## Investment Flexibility for Risk Pools

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### ***Restrictive***

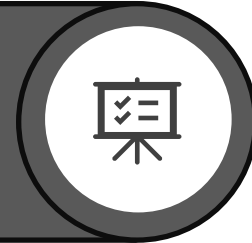
- U.S. Treasury Bonds/Notes
- U.S. Agency Bonds
- FDIC-Insured  
Certificates of Deposit

### ***Flexible***

- U.S. Treasury Bonds/Notes
- U.S. Agency Bonds
- FDIC-Insured  
Certificates of Deposit
- Corporate Bonds
- Mortgage Bonds
- Asset-Backed Bonds
- High Yield Bonds
- Equities
- Bank Loans



# DIVERSIFICATION



- 1. The Only 'Free Lunch' in Investing**
- 2. Diversification is Available Even Under Regulatory Constraints**



# PATIENCE



**1. Balance Short-Term Pain/Gain**

**vs.**

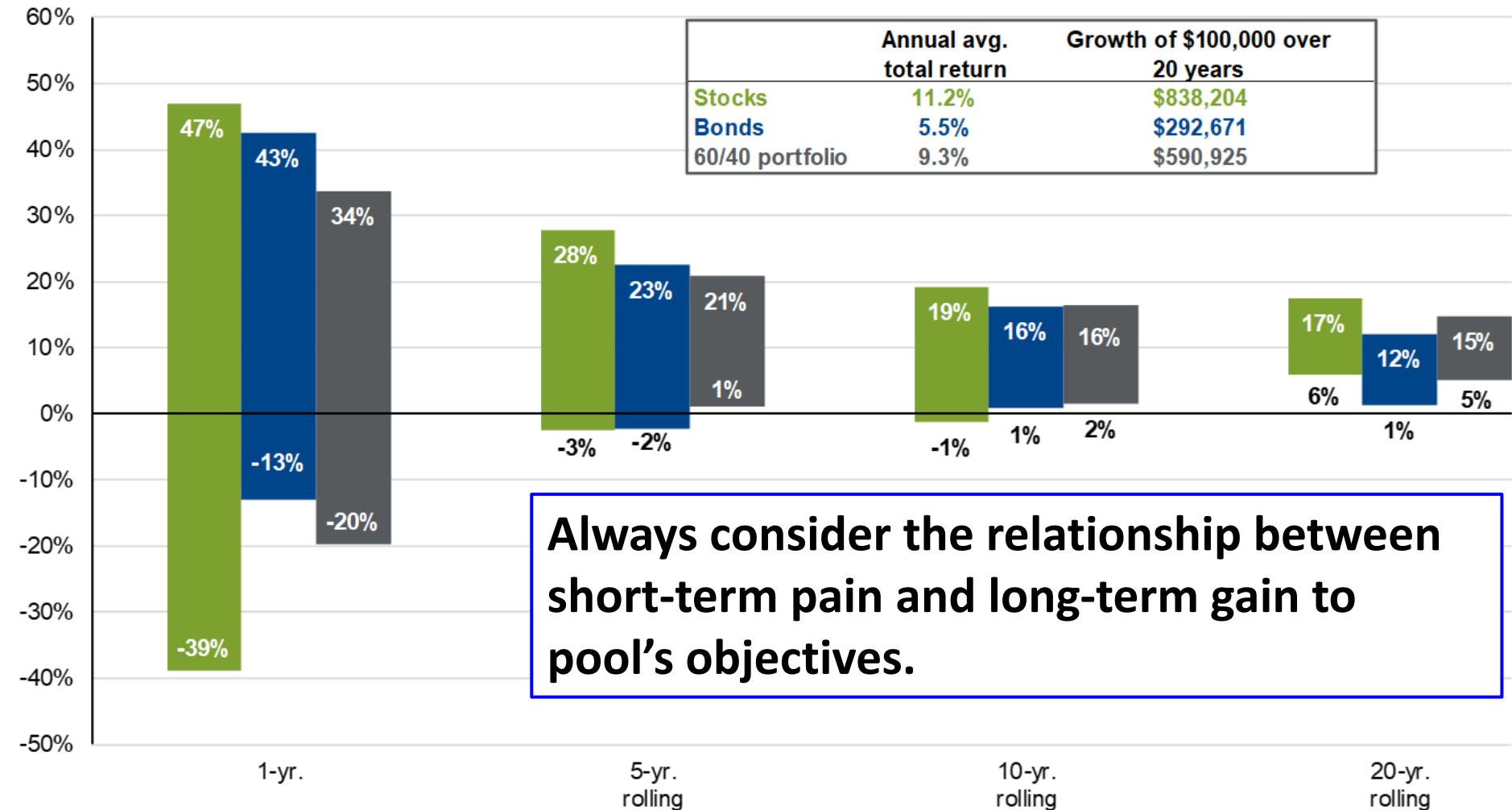
**2. The Pool's Long-Term Goals & Objectives**



# Long Term Perspective: Patience Pays

## Range of stock, bond and blended total returns

Annual total returns, 1950-2023



**Always consider the relationship between short-term pain and long-term gain to pool's objectives.**





# Educational Resources for Staff, Boards, and Trustees

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## Governance:

- Insurer Board Members: Investment Responsibilities – [View Here](#)
- Risk Pool Trustees: Investment Responsibilities – [View Here](#)



## Investment Management:

- Active vs. Passive Overview: [View Here](#)
- Fixed Income Levers Primer: [View Here](#)
- Important Questions to Ask: [View Here](#)
- Glossary of Key Terms: [View Here](#)



## Strategic Asset Allocation:

- Asset Allocation Primer: For [Insurers](#) | [Risk Pools](#)
- Fixed Income Primer: For [Insurers](#) | [Risk Pools](#)
- Risk Assets Primer: For [Insurers](#) | [Risk Pools](#)
- Mortgage-Backed Securities Primer: [View Here](#)
- Efficient Frontier Overview: [View Here](#)
- Portfolio Diversification Overview: [View Here](#)
- Understanding Risk Tolerance: [View Here](#)
- Bank Loans Primer: [View Here](#)



## Investment Policy & Performance/Reporting:

- Best Practices Overview: [View Here](#)
- Credit Rating Overview: [View Here](#)
- Peer Analysis Primer: For [Insurers](#) | [Risk Pools](#)
- Key Exhibits Explainer: [View Here](#)
- Understanding Key Reports: [View Here](#)
- Glossary of Performance Measurement Terms: [View Here](#)

