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CERTIFIED PUBLIC ACCOUNTANTS

WINTER 2017
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THE NEWSLETTER OF THE BDO INSURANCE PRACTICE

INSURANCE ADVISOR

BDO SPOTLIGHT:
Q&A WITH JAMES EVANS

James Evans recently joined BDO Consulting as a Managing Director and National Practice Leader in the Insurance Advisory Services practice. He has more than 20 years of experience in insurance, portfolio management and international reinsurance, having worked with senior management and boards in the property & casualty insurance sector. Prior to joining BDO, James worked as a Chief Actuary for a Bermuda captive reinsurer, overseeing the projection of more than $3 billion in loss reserves, including presenting analyses to various board committees. In addition, he served in the Advisory Group at a Big Four accounting firm as Actuarial Director, specializing in reinsurance industry engagements, including risk and capital management projects for the European Solvency II regulations. Recently, we sat down with James to discuss his move to BDO, and key trends in the ever-changing insurance industry.

You recently joined BDO Consulting as part of the Insurance Advisory Services practice expansion. What is the overarching goal for that practice in the year ahead?

That's right, I joined BDO Consulting late last year and have taken on the role of national practice leader for Insurance Advisory Services. There is a tremendous amount of change occurring in the industry, and we see a market opportunity to further combine BDO's deep insurance industry knowledge with the data analytics and data visualization capabilities of our Forensic Technology Services practice to provide a truly unique set of services to insurance companies. That approach will inform the full range of insurance services, strategy management, information

DID YOU KNOW...

The U.S. cyber insurance market was worth over $3.25 billion in gross written premiums in 2016, according to the Insurance Information Institute.

The New York-based Kroll Bond Rating Agency recently issued a 2017 outlook report for the property/casualty sector which found that the industry will have a combined ratio of about 100 percent for 2016, breaking even in terms of underwriting profitability.

Global reinsurer Swiss Re recently stated that insured losses in 2016 totaled an estimated $49 billion, up by nearly a third from $37 billion in 2015.

According to BDO's 2016 Board Survey, more than one-quarter (28 percent) of board members say their company has purchased cyber insurance and an additional 1 percent are currently considering purchasing it. One in 10 (11 percent) of directors say they considered cyber insurance in the past, but decided against it.

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Q&A WITH JAMES EVANS

governance, predictive modeling, data analytics and machine learning tools we provide our clients to help them make more informed, data-driven decisions, which is a key value proposition.

From a risk and capital management services perspective, we're offering practical modeling and business transformation solutions to help clients spotlight gaps in their current enterprise risk management plan, predict and plan for future potential risks, and identify variables that will impact overall profitability and growth. The use of predictive modeling in the insurance industry has taken a huge leap in recent years. We see ourselves as especially well-positioned to be a leader in this space as the industry increasingly relies on data-driven models to manage all aspects of the business.

Tell us about your background and areas of focus. What led you to a career in actuarial science in the insurance industry?

I've dedicated more than 20 years to working in the insurance industry, starting out in the risk management practice of Tillinghast, which is now Willis

Towers Watson. My first role was almost exclusively focused on providing risk quantification analyses for corporate and insurance clients. During the course of my career, I've touched nearly every aspect of the industry, from traditional actuarial analysis and insurance company portfolio management to C-level emerging risk and visualization roles.

I spent several years as a partner and portfolio manager at Prime Advisors, Inc., an investment management firm focused on insurance companies. The role offered a unique chance to think about opportunity and risk in a different light, while working very closely with executive management. I was both leading a team of actuaries and data analysts and advising clients on how to use non-traditional predictive data models to inform their investment strategies.

I have always enjoyed advanced problem solving. While I was pursuing a math degree at Georgia Tech, I heard about actuarial science and everything just clicked. I transferred to Georgia State to pursue the field, and I have continued to pursue the most interesting problems to solve.

How have the rise of cyber risk and the Internet of Things changed the role actuaries are playing in helping insurance companies quantify and develop policies to manage risk?

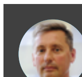
The Internet of Things and cyber risk go hand in hand, and the interplay between the two have broad implications for insurance companies. Pricing in cyber risk is inherently hard to do because risk exposure can grow in unexpected ways if the damage caused by a breach spills over into a company's business partners or clients. So, it has put insurance companies in a predicament.

While data-driven risk management models are providing increased transparency around overall portfolio risk and we're increasingly able to stress test portfolios for cyber risk, that's only a part of managing this challenge. The other key consideration to minimizing cyber risk comes from policy underwriting and emerging risk identification. Cyber risk is both new and unprecedented, and policies that are not explicit about what is and is not covered pose a risk to the organization through unexpected loss aggregations. I'm unsure if the industry has moved as quickly on this issue as they need to (see Silent Cyber risk article on page 3).

What are the key trends and issues that you think will have the biggest impact on the insurance industry in the coming years?

One of the biggest trends we're seeing today that will have far-reaching implications for the industry is the wave of investments being made into the InsureTech space. It seems like there are a lot of industries and sub-industries getting their own tech portmanteaus. But it's important to note that it's been the industries that are both data-intensive and highly regulated that have been most disrupted and revolutionized by technology. We think the insurance industry is primed for that type of change, and so do investors.

Venture capital investment in this space surpassed $1 billion in the first half of 2016 and was well on its way to meeting or surpassing the 2015 investment volume, which was about $2.5 billion. We've seen several industries disrupted by technology in fascinating and unexpected ways, so there is a tremendous amount of opportunity for both technology companies seeking to disrupt and for insurance companies that are willing to transform their business model for a new digital era.



James Evans is a Managing Director and National Practice Leader in the Insurance Advisory Services practice at BDO Consulting. He can be reached at jgevans@bdo.com.

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"SILENT" CYBER RISK MANAGEMENT QUICKLY BECOMING INSURANCE INDUSTRY'S MOST URGENT NEED

By James Evans and Judy Selby

This is an unprecedented time for insurers. As margins associated with conventional lines of coverage continue to tighten, pressure is increasing to offer new forms of coverage to respond to the emerging cyber threats facing insureds in today's digital economy.

At the same time, insurers are compelled to make certain that those risks are effectively excluded from coverage under many other "traditional" policy forms.

Unfortunately for underwriters of both traditional and newer policy forms, emerging cyber threats can be difficult, if not impossible, to predict and factor into underwriting and policy drafting processes. But as we've already seen in the context of cyber incidents, today's unknown cyber threat can become tomorrow's front-page news and unanticipated limits payout.

And if that threat is spread across multiple insureds in an insurer's coverage portfolio, the bottom line effect of the aggregated losses could be devastating. Making matters worse, and as recently recognized by the Bank of England's Prudential Regulation Authority (PRA), these "silent" cyber exposures can simultaneously impact multiple lines of coverage, including casualty, marine, aviation and transport, affecting both direct and facultative coverages.

Imagine this scenario: Company A manufactures components used in the Wi-Fi systems of commercial airliners. Mr. X, a disgruntled employee of Company A, purposely inserts a software coding vulnerability into the components, which were then sold to Company B, a leading manufacturer of commercial jetliners. Company B incorporates Company A's components into its jetliners, and then sold 30 of them to three major U.S. commercial airlines. Company A also sells the affected components to Company C, which manufactures and sells private charter jets. Company C sells 15 jets containing Company A's vulnerable components to various private individuals and corporations.

Once the impacted planes are in operation, Mr. X remotely exploits the vulnerability in the aircraft, causing three in-flight planes to go down in populated areas. Plane 1 crashes into a medical center in a Small Town. Plane 2 destroys an electrical power station in a Mega City, plunging half of the city into darkness. Plane 3, a private corporate jet, causes serious damage to a bridge that is heavily used by a commuter rail service in a Sunny City, rendering it unusable and making it virtually impossible for thousands of commuters to get to work.

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CYBER RISK MANAGEMENT

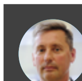
Widespread panic immediately ensues after the crashes. All U.S. air traffic is halted pending an investigation of the cause. There are numerous traffic accidents and looting incidents following the blackout in Mega City, and many organizations are forced to close indefinitely. Mr. X then contacts Company C and the three airlines that purchased the affected jetliners and demands $1 billion in exchange for revealing the vulnerability.

This obviously is an unlikely scenario, but as technology continues to be used in novel ways, it is important to recognize what will be possible. This scenario was created to highlight a complex casualty catastrophe initiated from a technological weakness in an increasingly connected world. While crashing planes are terrifying, the bigger takeaway is that this was not a possible scenario prior to recent technological developments. It isn't difficult to see how the multiple insurance coverages triggered from the above scenario could result in insured losses well in excess of $20 billion. Individual company losses could be disastrous, given the previously uncorrelated nature of individual lines of business that would be affected. While technology forges new connections among businesses and individuals, that interconnectedness has ushered in the new risk of technology-initiated catastrophe scenarios, recently labeled as "Cyber Andrew" scenarios, in reference to Hurricane Andrew, which resulted in losses few insurers previously believed possible.

The continued expansion of loss causes, courtesy of new technology, will have implications for both legacy insurance and new cyber insurance contracts. This means that insurers must proactively assimilate expanding possibilities into risk management processes including Probable Maximum Loss ("PML"), risk aggregations and risk appetites. This is at the core of the silent cyber hurdle: do current risk management systems capture all possible risks today, and will they capture what can happen tomorrow, before a "Cyber Andrew" hits?

This challenge, if the PRA is to be believed, is currently not being met. As the conversations continue to escalate to the C-suite, risk managers need access to a team with specialized skill sets to better understand and calculate the impact of new technology into their enterprise risk management plans. At the same time, this added focus on technology will continue to expand reporting requirements. Providing detailed yet clear reporting to the board that highlights the full impact of current technologies on the comprehensive insurance portfolio will be a minimum standard.

As technology continues to advance, insurers' risk management tools and resources must evolve. Each organization will face its own distinct hurdles based on individual characteristics of its insurance portfolio, and its solution should be just as individualized. There will not be one magic bullet that ends cyber risk. The keys to meeting this challenge will be understanding new and emerging risks and assembling a team of professionals with the prerequisite skills to address the issues.



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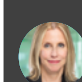

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CASH FLOW BENEFIT FROM 2017 TAX ELECTION

By Tim Kovel

It's hard to believe that it has been this long since we last covered this topic in the *Insurance Advisor* but, once every five years (referred to as a determination year), an insurer has an opportunity to evaluate the benefit from electing to use its own payment pattern to discount losses for tax purposes as opposed to relying on the IRS industry-wide pattern.[1] 2017 is such a determination year, and insurance companies would be well-advised to consider which option will be most beneficial to their bottom line.

This election, which will need to be made with the filing of 2017 tax returns,[2] can reap significant reductions in current taxes payable, effectively increasing cash flow—an important advantage as the insurance landscape grows increasingly competitive. This means that if the benefits are significant for many consecutive years, insurance companies can, in essence, turn a temporary benefit into a long-term benefit.

On the flip side, it is rare but possible that this election could be used as a tax planning strategy in the event a taxpayer needed to generate additional current taxable income (i.e., an unfavorable company payment pattern) to help support its deferred tax assets and validate the lack of a valuation allowance.

Good candidates for this election are able to check the following boxes as true for their organization:

- If you pay claims faster than industry average
- If you have a consistent mix of predominantly long-tail business
- If you have steady payment patterns
- If you are a tax-paying entity

WHAT IS AN ELIGIBLE LINE OF BUSINESS?

There are two scenarios to determine if your lines of business are eligible for this election.

The first scenario is, "A line of business is an eligible line of business in a determination year if, on the most recent annual statement filed by the taxpayer before the beginning of that determination year, the taxpayer reports losses and loss expenses incurred (in Schedule P, part 1, column 28) for at least the number of accident years for which losses and loss expenses incurred for that line of business are required to be separately reported on that annual statement."[3] This is typically 10 years for long-tail lines and two years for short-tail lines.

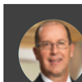
If a line of business does not qualify above, there is a secondary procedure that may allow eligibility: "A business line will be considered an eligible line of business if two conditions are satisfied on the most recent annual statement filed before the beginning of the determination year. First, the insurer must have at least five accident years of loss and loss expenses for the line. Second, the insurer's cumulative fraction of loss and loss expense payments, as a percent of incurred losses, in each of the last two accident years for the line must equal or exceed the cumulative fraction for the earliest accident year shown on the published IRS table."[4]

A few elements to highlight:

1. This election applies to accident years ending with the determination year and four succeeding accident years.[5]
2. A taxpayer making this election must use its own pattern for each eligible line.[6] You cannot cherry-pick only favorable lines.
3. There is a two-year lag in data used to compute your payment pattern. In effect, you are using the 2015 annual statement to compute your 2017 pattern, the 2016 statement for the 2018 pattern, and so on.[7]
4. If a line of business is ineligible in a determination year, it remains ineligible until a subsequent determination year.
5. International and Reinsurance business lines are ineligible.[8]

WHEN SHOULD I PERFORM THIS ANALYSIS?

If your company meets the above conditions for eligibility, the perfect time to perform this analysis would be as soon as your 2017 Schedule P is locked down. This would enable you to evaluate three years out of the five years in the determination period. By that time, the IRS should have released the new industry pattern for comparative purposes. Regardless, being proactive about determining which election is right for your business is a valuable endeavor–and one you'll have to wait until 2020 to see again.



For more information, please contact Tim Kovel, Senior Tax Director, at tkovel@bdo.com.

1 The IRS uses data from *Best's Aggregates & Averages* to calculate consolidated industry loss payment patterns.
2 §846(e)(2)(C).
3 §1.846-2(b)(1).
4 Revenue Procedure 92-76.
5 §846(e)(2)(b).
6 §1. 846-2(a).
7 §§846(e)(1) & 1. 846-2(b).
8 §846(e)(3).

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FASB ENHANCES DISCLOSURES ABOUT SHORT-DURATION INSURANCE CONTRACTS

By Barb Woltjer and Peter Popo

Back in May 2015, the Financial Accounting Standards Board issued ASU 2015-09, which enhances disclosures for short-duration insurance contracts.

The ASU is intended to increase transparency around significant estimates made in measuring liabilities for unpaid claims and claim adjustment expenses, and does not otherwise change the accounting for short-duration insurance contracts. The new standard took effect at the beginning of 2016 for public companies and will take effect at the beginning of 2017 for private companies. Further information regarding the specific requirements is available in the full text of the ASU and a snapshot of the requirements can be found in our FASB Flash Report.

IMPLEMENTATION CONSIDERATIONS

We anticipate that many public companies are already well on their way to complying with the requirements as they finalize the reporting of their 2016 calendar year financial results. As you put the final touches on those disclosures, we've compiled some insights around implementation and other technical issues that have been highlighted by the AICPA, SEC and other leading industry groups.

In considering your specific implementation challenges, it is important to keep in mind the FASB's stated purpose of the required disclosures—***to provide financial statement users with more transparent information about an insurance entity's liability for unpaid claims and claim adjustment expenses, subsequent adjustments to those estimates, methodologies and judgments in estimating claims, as well as the timing, frequency and severity of claims***. Such disclosures should enable financial statement readers to understand the insurance entity's ability to underwrite and anticipate costs associated with claims. One key indicator of an entity's ability to manage claims expenses is its estimate of unpaid claims liabilities. Although disclosures required prior to ASU 2015-09 included the development of this estimate, disclosures were not typically detailed enough to provide meaningful insight into the reasons for the development.

The new disclosure requirements are intended to provide this level of detail and transparency by requiring disaggregated information. The specific presentation format is at the discretion of the entity in an effort to provide the most meaningful information. Since the release of the ASU, however, both the SEC and various industry experts have weighed in on additional guidance to help clarify anticipated questions and challenges. In keeping with the objectives of the FASB in the ASU, industry experts remind entities to keep the following guidelines in mind:

- Ensure the claims development information relates to the liability that exists at the current balance sheet date, not liabilities that existed at earlier balance sheet dates.
- Present information by accident year, which is defined as the year in which a covered event (as defined by the terms of the contract) occurs.
- Present incurred and paid claims activity separately.
- Disaggregate information in a manner that allows users to understand the amount, timing and uncertainty of cash flows and does not distort trends or obscure useful information.

In discussions with the AICPA's Insurance Entities Expert Panel in November, SEC representatives provided their observations on the most appropriate treatment of acquisitions, dispositions and the impact

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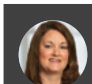
FASB

of foreign currency. For both acquisitions and dispositions, the SEC observed that a retrospective approach to historical information for all periods presented would provide the most meaningful presentation. There may be other presentations, however, that could also be meaningful, such as providing prospective information of the acquiree in a table separate from the acquirer. To eliminate the impact of changes in foreign currency translation rates from the development information, entities should utilize a translation approach that uses the current year-end balance sheet rate for all periods provided (i.e., recast all data in the table at each reporting period to the current period-end rate).

On a positive note, the SEC has updated the SEC Division of Corporation Finance: Financial Reporting Manual, Section 11300: New Disclosures about Short-Duration Contracts for Insurance Entities. In the update, the SEC stated that if the registrant has provided the claims development tables required by the ASU, a separate presentation of the 10-year loss reserve development table identified in Industry Guide 6 is no longer required.

In conclusion, public companies are reminded that interim financial information during 2017 may require some updates as a result of the implementation of the ASU, and private companies are encouraged to get an early start on implementing the new rules for 2017 calendar year-end. Although the NAIC Annual Statement – Schedule P information should prove to be very useful in this process, additional disclosures and considerations will be required to determine the level of disaggregation that is most appropriate for your company.



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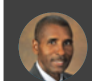

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IRS LABELS MICRO-CAPTIVE TRANSACTIONS AS TRANSACTIONS OF INTEREST IN NOTICE 2016-66

By Marc Rockower

BACKGROUND

On Nov. 1, 2016, the Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) issued Notice 2016-66, 2016-47 IRB (the Notice), in which they identified a transaction involving captive insurance companies (micro-captive transaction) that they believe has the potential for tax avoidance or evasion.

As described in the Notice, in these so-called micro-captive transactions, a taxpayer attempts to reduce the aggregate taxable income of the taxpayer, related persons or both, by using contracts that the parties treat as insurance contracts and a related company that the parties treat as a captive insurance company. Each entity that the parties treat as an insured entity under the contracts claims deductions for premiums for insurance coverage. The related company that the parties treat as a captive insurance company elects, pursuant to Internal Revenue Code (IRC) Section 831(b), to be taxed only on investment income and therefore excludes the payments directly or indirectly received under the contracts from its taxable income. According to the Notice, the manner in which the contracts are interpreted, administered and applied is inconsistent with arm's-length transactions and sound business practices.

WHICH MICRO-CAPTIVE TRANSACTIONS ARE NOW "TRANSACTIONS OF INTEREST?"

With the Notice, the Treasury Department and the IRS acknowledge that related parties may use captive insurance companies that make elections under IRC Section 831(b) for risk management purposes that do not involve tax avoidance, but it believes that there are cases in which the use of such arrangements is improper. Therefore, the Treasury Department and the IRS decided to identify certain transactions described in the Notice (and similar transactions) as transactions of interest for purposes of Treas. Reg.

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MICRO-CAPTIVE TRANSACTIONS

Section 1.6011-4(b)(6) and IRC Sections 6111 and 6112.

Section 2.01 of the Notice identifies the following as a transaction of interest:

a. A, a person, directly or indirectly owns an interest in an entity (or entities) (Insured) conducting a trade or business;

b. An entity (or entities) directly or indirectly owned by A, Insured or persons related to A or Insured (Captive) enters into a contract (or contracts) (the Contracts) with Insured that Captive and Insured treat as insurance, or reinsures risks that Insured has initially insured with an intermediary, Company C;

c. Captive makes an election under IRC Section 831(b) to be taxed only on taxable investment income;

d. A, Insured, or one or more persons related (within the meaning of IRC Section 267(b) or 707(b)) to A or Insured directly or indirectly own at least 20 percent of the voting power or value of the outstanding stock of Captive; and

e. One or both of the following apply:

   1. the amount of the liabilities incurred by Captive for insured losses and claim administration expenses during the Computation Period (defined in IRC Section 2.02 of the notice) is less than 70 percent of the following:

      A. premiums earned by Captive during the Computation Period, less

      B. policyholder dividends paid by Captive during the Computation Period; or

   2. Captive has at any time during the Computation Period directly or indirectly made available as financing or otherwise conveyed or agreed to make available or convey to A, Insured or a person related (within the meaning of IRC Sections 267(b) or 707(b)) to A or Insured (collectively, the Recipient) in a transaction that did not result in taxable income or gain to Recipient, any portion of the payments under the Contract, such as through a guarantee, a loan or other transfer of Captive's capital.

The Computation Period is (A) the most recent five taxable years of Captive or (B) if Captive has been in existence for less than five taxable years, the entire period of Captive's existence. For purposes of the preceding sentence, if Captive has been in existence for less than five taxable years and Captive is a successor to one or more Captives created or availed of in connection with a transaction described in this notice, taxable years of such predecessor entities are treated as taxable years of Captive. For purposes of this provision, a short taxable year is treated as a taxable year.

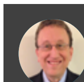
IMPLICATIONS FOR INSURERS

Transactions that are the same as, or substantially similar to, the transaction described in IRC Section 2.01 are identified in the Notice as "transactions of interest" as of Nov. 1, 2016. Persons entering into these transactions on or after Nov. 2, 2006, must disclose the transaction as described in Treas. Reg. Section 1.6011-4. Material advisors who make a tax statement on or after Nov. 2, 2006, with respect to transactions entered into on or after Nov. 2, 2006, have disclosure and list maintenance obligations of their own under IRC Sections 6111 and 6112.

Independent of their classification as transactions of interest, transactions that are the same as, or similar to, the transaction described in Section 2.01 of the notice may already be subject to the requirements of IRC Sections 6011, 6111, or 6112, or the regulations thereunder. When the Treasury Department and the IRS have gathered enough information regarding potentially abusive IRC Section 831(b) arrangements, they may take one or more actions, including removing the transaction from the transactions of interest category in published guidance, designating the transaction as a listed transaction or providing a new category of reportable transactions. In the interim, the IRS may challenge a position taken as part of a transaction under other provisions of the Code or judicial doctrines such as sham transaction, substance over form or economic substance.

HOW SHOULD INSURERS REACT?

For insurers, the first step will be determining if this designation will impact their businesses. Because of the issuance of Notice 2016-66, those taxpayers (and material advisors) affected by the designation of the micro-captive transaction as a transaction of interest will need to meet significant disclosure requirements to avoid penalties. The original deadline for the disclosures was set for Jan. 30, 2017, but has been extended to May 1, 2017, by IRS Notice 2017-08, 2017-03 IRB. The disclosures must identify and describe the transaction in sufficient detail for the IRS to be able to understand the tax structure of the transaction and identify all parties involved in the transaction. Furthermore, many practitioners, including BDO, will not develop, market, sell or implement these types of transactions.



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PErspective in INSURANCE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE INSURANCE INDUSTRY.

Institutional investors, including insurers, are increasingly investing in alternative assets like derivatives, real estate, hedge funds and PE funds as a way to increase returns after government bonds and other safer investments have failed to perform in the prolonged low-interest-rate environment.

According to consultancy firm Willis Tower Watson, such assets are increasingly embedded in pension fund and insurance group portfolios, with total assets managed by the 100 largest alternative investment managers hitting $3.6 trillion in 2016, up 3 percent year on year, *The Financial Times* reports.

In a bid to expand its alternative offerings, and meet the income generation needs of its investor base, New York Life Investments, the global asset management arm of New York Life, announced plans in January to acquire a majority stake in Credit Value Partners, a boutique investor in distressed debt and high yield corporate credit investing.

A Fidelity Global Institutional Investor Survey published at the end of 2016 showed that 72 percent of institutional investors said they would increase their exposure to a variety of illiquid alternatives over the next two years, citing concerns over the low-return environment and public market volatility. Despite concerns over potential hidden volatility in illiquid markets, 96 percent of the 933 institutions surveyed across 25 countries said they expected to achieve returns of 8 percent in the coming years, *Reuters* reports.

Another survey conducted in the U.K. by Collier Capital found that half of 110 limited partners questioned plan to grow their allocations to PE in 2017, with three quarters of respondents expecting to achieve double digit returns or more. Some 40 percent of the insurers and pension plans questioned said they would increase internal resources to focus on direct PE and co-investments, while a similar number said they would reduce or end hedge fund investing over the next three to five years, *Investment and Pensions Europe* reports.

In the low-yield environment, institutional investors have little choice but to turn to alternatives to increase returns. Their investment horizons are long term, enabling them to benefit from the illiquidity premium associated with PE investing. However, there are concerns over PE's ability to continue to generate double-digit returns. PE is already struggling with an excess of dry powder that it faces increasing pressure to deploy, despite high valuations. High entry prices for assets could have a negative impact on future returns. As institutional investors search for yields that may no longer be achievable, they could face an increased threat of insolvency due to their growing exposure to riskier assets, warned an OECD report published in 2015.

Systemic risk is also currently elevated, thanks to concerns over the fallout of Britain's exit from the European Union, the future of the EU as a whole, a hard landing in China and the impact of U.S. interest rate increases. But insurance companies cannot achieve yields—of any size—without taking on some risk. Investors need to manage systemic risk carefully and allocate investments carefully, according to *The Financial Times*.

FUTURE PERSPECTIVES: WHAT'S NEXT FOR INSURANCE INVESTORS?

Insurance companies stand to benefit from the 0.25 percent interest rate hike announced by the U.S. Federal Reserve in December, and the prospect of three potential further increases over the next three years, which will help improve investment yields. But there is significant uncertainty in the industry over its ability to manage global risks, faced with the uncertain impact of the next U.S. presidency, especially with regard to regulation, and the looming negotiations over Brexit. A survey by Natixis Global Asset Management found that volatility was institutional investors' top concern for 2017. This uncertainty could hold PE firms back from making investments in the sector in the immediate future.

As they expand their investment focus, insurers are increasingly turning to external asset managers, according to a survey by SS&C Technology Holdings. More than one in five respondents said they would increase their use of external managers over the next few years, seeking to leverage their specialist skills and deeper subject matter expertise, *LifeHealthPro* reports.

Sources: Business Insider, The Financial Times, Investments & Pension Europe, LifeHealthPro, New York Life, NASDAQ, Reuters

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MARK YOUR CALENDAR...

FEBRUARY

Feb. 7-9, 2017
2017 NAMIC Claims Conference
La Cantera Hill Country Resort
San Antonio, Texas

Feb. 26-28
SIFMA's Insurance and Risk Linked Securities Conference
Eden Roc
Miami

Feb. 27-28
ACI's 13th National Forum on Insurance Regulation
Millennium Broadway Hotel
New York

MARCH

March 30–31
ACI's 15th National Advanced Forum on Cyber & Data Risk Insurance
InterContinental Chicago Magnificent Mile
Chicago

BDO INSURANCE PRACTICE

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