

MERCER AND OLIVER WYMAN 2024 GLOBAL INSURANCE INVESTMENT SURVEY

A delicate balance: Enhancing
yield while optimizing the core

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INTRODUCTION

We ended 2023 in a very different place than where we started as economies continued to defy recession expectations. Over the course of the year, the S&P 500 rose from 3,800 to 4,800 even as rates continued to tighten. The US 10-year yield went from 3.5% to 4%, reflecting a broader coalescence around higher long-term policy rates and persistently high interest rate volatility. The geopolitical environment grew increasingly complex through the latter part of the year and remains in that state, with markets looking ahead to a bumper year of elections.

The market experience of the past year has reinforced the need for insurers to build robust, agile portfolios that support the primary business while also positioning firms to respond to and capitalize on evolving market risks and opportunities.

The overarching takeaway from our survey this year is the degree to which current and potential market volatility is impacting the investment outlook for insurers across segments and business lines.

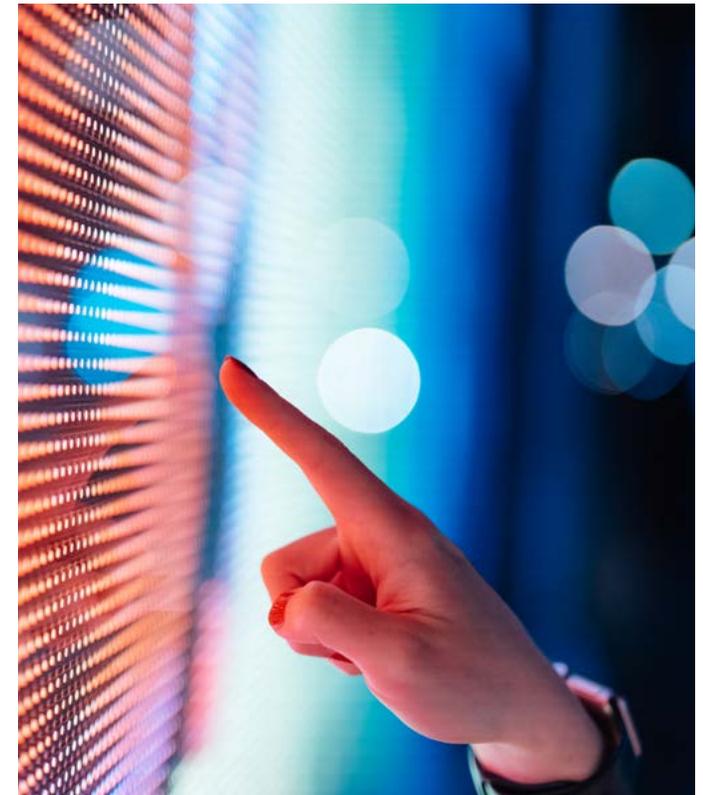
Furthermore, the uncertain inflation, interest rate and growth outlook remain front of mind for insurers, prompting many to reevaluate their investment frameworks and seek ways to put excess cash to work.



Amit Popat
Global Head of Financial Institutions, Mercer



Joshua Zwick
Head of Asset Management, Oliver Wyman



KEY FINDINGS

Regarding the outlook for 2024, insurers are mindful of market volatility and are ready to put excess cash and liquidity to work, whether through optimizing all fixed income allocations, increasing exposure to private debt or continuing the push into private markets more broadly.



Section 1: Opportunities and challenges for insurers in 2024

With market volatility at the forefront of insurers' concerns regarding the year ahead, many insurers are reevaluating their fixed income strategies:

- Market volatility is the primary investment challenge for insurers, cited by 61% of firms, and is a persistent concern across insurer types and regions.
- Sixty percent of insurers cite optimizing the core fixed income portfolio as a top investment opportunity for the year ahead.
- Across portfolios more broadly, 51% view continued diversification away from traditional asset classes as a priority in 2024, whereas 40% cite cash management.

Section 2: Advancing into private markets

Almost three-quarters (73%) of insurers currently invest in private markets or plan to do so in 2024:

- Nearly four in 10 insurers (39%) intend to increase their private markets allocations this year.
- An inability to tolerate increased illiquidity, a lack of resources to assess investment opportunities and the complexity of investment instruments are the primary reasons given for not investing in private markets.
- Among those already invested, cost and complexity (of both investment instruments and manager selection) are the most prevalent headwinds to increasing allocations.

Section 3: Operational challenges

Regulation is the primary operational challenge for insurers this year:

- Sixty-one percent regard evolving regulatory requirements and adapting to regulatory changes as the key operational challenge for 2024.
- Other prominent operational challenges for insurers include the timeliness (45%) and ongoing management of asset-level data (39%). Regulation and expected regulatory change continue to focus insurers on reporting and clean data regarding assets, accounting, and ESG.

Section 4: Evolution of sustainable investment approaches

Integration of sustainability factors is on the increase, but net-zero target-setting remains more limited:

- Among insurers already incorporating sustainability considerations into investment decisions, 70% plan to increase exposure to sustainable investments in the next 12 months, although concerns surrounding data standardization and transparency endure.
- Stakeholder preferences and regulatory/political expectations are the most cited reasons for incorporating sustainability considerations into investment decision-making. The most cited reason for not integrating these factors is that sustainability is not a priority at the board/investment-committee level.
- Thirty-seven percent of insurers (48% of life insurers and 29% of non-life insurers) have set net-zero targets across their investment portfolios, with US- and Asia-based organizations lagging European peers.



1 OPPORTUNITIES AND CHALLENGES FOR INSURERS IN 2024

Insurers are reevaluating their fixed income strategies as interest rate volatility remains high from a historical perspective. Optimizing the core fixed income portfolio is the most cited opportunity over the coming year, whereas market volatility is the most cited concern.



Opportunities

Top investment opportunities over the next 12 months

| | Percentage of organizations (2022) | Life | Non-life | US | UK | Europe | Canada | Asia |
|--|------------------------------------|------|----------|-----|-----|--------|--------|------|
| Optimizing the core (fixed income) portfolio | 60% | 47% | 67% | 71% | 25% | 63% | 50% | 63% |
| Diversifying portfolios away from traditional asset classes (i.e., domestic fixed income and equities) | 51% | 57% | 48% | 53% | 75% | 30% | 58% | 50% |
| Enhanced cash management | 40% | 33% | 44% | 59% | 25% | 47% | 25% | 25% |
| Increasing private markets allocation | 39% | 43% | 37% | 41% | 50% | 37% | 50% | 38% |
| Utilizing illiquidity as a return driver | 37% | 50% | 30% | 41% | 38% | 30% | 50% | 38% |
| Further embedding ESG criteria | 25% | 20% | 28% | 6% | 25% | 40% | 8% | 13% |
| Diversifying credit exposure to include high yield, emerging market debt, structured credit, etc. | 20% | 27% | 17% | 18% | 25% | 17% | 25% | 50% |
| Sustainability, impact and climate solutions | 18% | 3% | 15% | 6% | 25% | 20% | 25% | 25% |
| Other | 8% | 0% | 13% | 6% | 0% | 17% | 8% | 0% |

Note: More than one answer could be selected, therefore the total may exceed 100%.

In our 2023 survey, insurers made clear their intention to capitalize on two-decade highs in bond yields and the prospect of fixed income returns, with 68% citing core fixed income portfolio optimization as a top priority over the coming year.

Respondents this year reiterated this focus, with 60% citing core optimization as a top-three opportunity over the coming year, rising to 67% among non-life insurers.

What does optimization mean for insurers in the current environment?

For many insurers, the increase in rates will have had an impact on asset values on the balance sheet. Some will not have reallocated to avoid making losses, while others will have been strategic about loss harvesting, assessing the mix of their fixed income exposure and where they could take losses to improve portfolio yield.

Beyond the focus on core optimization, more than half of insurers (51%) cite diversifying portfolios away from traditional asset classes into private markets and alternatives as a key opportunity. Nearly four in 10 (39%) cite increasing private markets allocations, and 37% identify utilizing illiquidity as a driver of returns. These are three highly interconnected areas of focus.

Perceived opportunities in these areas correspond directly with insurers' plans to increase allocations to private debt, private equity and infrastructure equity over the year ahead, which we explore in greater depth in Section 2.

Four in 10 (40%) insurers view enhanced cash management as a key opportunity for the year ahead, which we attribute to more attractive yields in money markets relative to checking or savings accounts. This opportunity plays out prominently in insurers' cash allocation plans for the year ahead as it did throughout 2023.



Challenges

Assessing challenges

Market volatility, inflation and capital management considerations are at the forefront of insurers' concerns for 2024 across insurer types and regions.

Over the next 12 months, market volatility is the primary investment challenge for insurers, cited by 61% of firms, and is a consistent concern across insurer types and regions.

Inflation risk is cited by 52% of respondents, reflecting the sensitivity of insurance businesses to the forward trajectory of both inflation and interest rates — and the range of potential scenarios over the year ahead.

Almost one-third (32%) of insurers have concerns about constraints on their ability to adjust portfolios due to capital losses or insufficient cash flow. These concerns may reflect the impacts of unrealized losses, payback periods, and broader reassessment of liquidity needs and positioning.

Top investment challenges over the next 12 months

| | Percentage of organizations | Life | Non-life | US | UK | Europe | Canada | Asia |
|---|-----------------------------|------|----------|-----|-----|--------|--------|------|
| Market volatility | 61% | 57% | 63% | 41% | 63% | 63% | 58% | 88% |
| Inflation | 51% | 43% | 57% | 59% | 75% | 43% | 42% | 25% |
| Limited ability to modify portfolios due to capital losses or insufficient cash flow | 32% | 40% | 28% | 53% | 38% | 30% | 8% | 38% |
| Lack of internal resources (e.g., team, budget, systems) | 26% | 30% | 24% | 24% | 13% | 30% | 42% | 25% |
| Operational challenges (e.g., data management, data aggregation, reporting) | 24% | 27% | 22% | 18% | 25% | 33% | 17% | 38% |
| Increased regulation | 24% | 27% | 22% | 12% | 25% | 23% | 58% | 13% |
| Capital constraints | 23% | 20% | 24% | 24% | 13% | 23% | 25% | 25% |
| Having the information to be able to invest in accordance with my organization's ESG and sustainability policy and objectives | 19% | 17% | 20% | 6% | 25% | 20% | 17% | 25% |
| Geopolitical tensions | 19% | 20% | 19% | 24% | 13% | 23% | 8% | 13% |
| Liquidity | 14% | 13% | 15% | 35% | 13% | 7% | 17% | 0% |
| Insufficient size/expertise to access private assets | 4% | 7% | 2% | 0% | 0% | 0% | 8% | 13% |

Note: More than one answer could be selected, therefore the total may exceed 100%.

What changed in 2023?

Over the course of 2023, many insurers trimmed their equity exposure and made a relative value trade in favor of increasing core fixed income and private debt.

During a year in which insurers were not as reliant on equity risk to hit desired return targets, nearly one-third dialed down exposure to domestic (31%) and international (29%) equities in favor of increased fixed income, private debt and cash allocations.



Capitalizing on an efficiency trade

With risk premia for equities at the lowest levels relative to bonds in 20 years, we see opportunity for an ongoing efficiency trade as insurers continue to assess risk–reward trade-offs across portfolios.

Andrew Berwick
Senior Investment Consultant,
Canada, Mercer



Among respondents to last year’s survey, 38% indicated that they had reduced fixed income holdings during 2022.

Over this period, insurers opportunistically and strategically raised cash, with 35% reporting increased cash allocations.

In 2023, this shift reversed: 38% of insurers increased allocations to core fixed income against a backdrop of monetary tightening and higher rates.

The longer-term trend into private markets and alternatives continued throughout 2023 — albeit at a moderated level compared to 2022 — with private debt a particular focal point. Twenty-seven percent of insurers reported increased allocations to investment-grade and 23% to sub-investment-grade private debt.

Infrastructure equity has also been an area of interest. Twenty-four percent reported increased allocations through 2023.

How has the asset allocation of your portfolio changed over the past 12 months?

| | Increase | Decrease |
|--|----------|----------|
| Domestic equities | 11% | 31% |
| International equities | 13% | 29% |
| Emerging market equity | 6% | 17% |
| Core fixed income (government/corporate bonds) | 38% | 29% |
| High-yield/bank loans | 12% | 14% |
| Multi-asset credit | 5% | 4% |
| Investment-grade private debt | 27% | 7% |
| Sub-investment-grade private debt | 23% | 4% |
| Structured credit | 18% | 5% |
| Private equity | 20% | 2% |
| Real estate equity | 17% | 20% |
| Real estate debt | 10% | 7% |
| Infrastructure equity | 24% | 1% |
| Infrastructure debt | 12% | 1% |
| Hedge funds | 4% | 6% |
| Non-core fixed income | 5% | 0% |
| Cash | 35% | 20% |

What will change in 2024?

Over the next 12 months, insurers plan to invest cash built up in 2023, primarily in core fixed income and private debt.

How do you expect the asset allocation of your portfolio to change over the next 12 months?

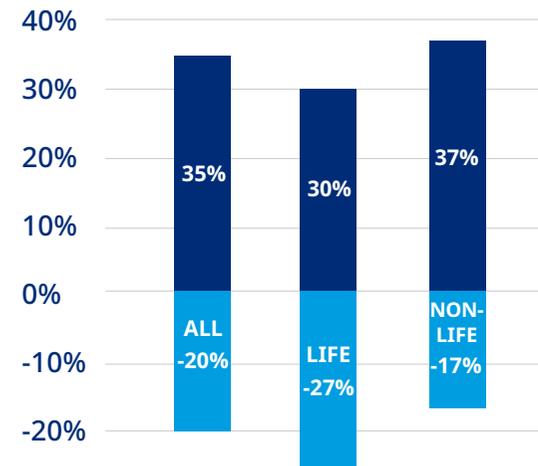
| | Increase | Decrease |
|--|----------|----------|
| Domestic equities | 13% | 15% |
| International equities | 17% | 10% |
| Emerging market equity | 6% | 6% |
| Core fixed income (government/corporate bonds) | 37% | 21% |
| High-yield/bank loans | 12% | 12% |
| Multi-asset credit | 7% | 1% |
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| Sub-investment-grade private debt | 21% | 1% |
| Structured credit | 12% | 5% |
| Private equity | 20% | 6% |
| Real estate equity | 18% | 15% |
| Real estate debt | 12% | 6% |
| Infrastructure equity | 20% | 2% |
| Infrastructure debt | 12% | 2% |
| Hedge funds | 4% | 2% |
| Non-core fixed income | 5% | 1% |
| Cash | 7% | 27% |

Cash allocations

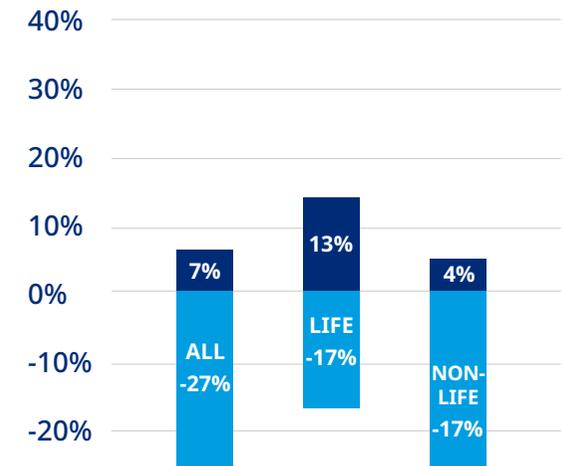
Steps taken to increase cash allocations in 2023 are set to pull back this year. Just 7% of insurers plan to increase cash in 2024, whereas 27% plan to reduce exposure.

Cash allocations in 2023 versus plans for 2024

How has the asset allocation of your portfolio changed over the past 12 months?



How do you expect the asset allocation of your portfolio to change over the next 12 months?



Source: Mercer.



Putting cash to work

After a year of strategically sourcing liquidity, insurers are now focused on redeploying cash in support of their primary objectives. To achieve this, many insurers are planning to reduce their liquidity and deploy cash into both public fixed income and private debt investments.

Eryn Bacewicz
US Senior Insurance Investment
Consultant, Mercer



Snapshot of insurers' plans for risk and liquidity

Nearly half (49%) of respondents believe they have excess liquidity in their portfolios.

Over the coming year, more than one-third (38%) of respondents plan to decrease liquidity, with four in 10 (42%) planning no change.

Only one-third of respondents (33%) plan to increase their overall risk positions, with nearly half (49%) planning no changes.

Insurers' intention to take on more illiquidity risk is evident in their plans to increase allocations to private markets over the year ahead.

Do you believe you have excess liquidity in your portfolio?

| | Percentage of organizations | Life | Non-life |
|---|-----------------------------|------|----------|
| Yes, we have excess liquidity in our portfolio. | 49% | 40% | 54% |
| No, we have the right amount of liquidity in our portfolio. | 44% | 50% | 41% |
| No, we do not have enough liquidity in our portfolio. | 7% | 10% | 6% |



2 ADVANCING INTO PRIVATE MARKETS

Nearly four in 10 (39%) insurers view increasing their private markets allocations as a key opportunity over the coming year. Allocation decisions through 2023 and plans over the year ahead speak to insurers' continued appetite for exposure across these asset classes.

Private markets allocations are increasingly prevalent across insurance portfolios. Almost three-quarters (73%) of insurers already invest in private markets or plan to do so in the next 12 months. A year ago, 67% of insurers reported allocations to private markets.

Among this group, four in 10 (40%) have reached or exceeded their target private markets allocations; 60% still have further to go.

Have you reached/exceeded your target of private markets allocation?

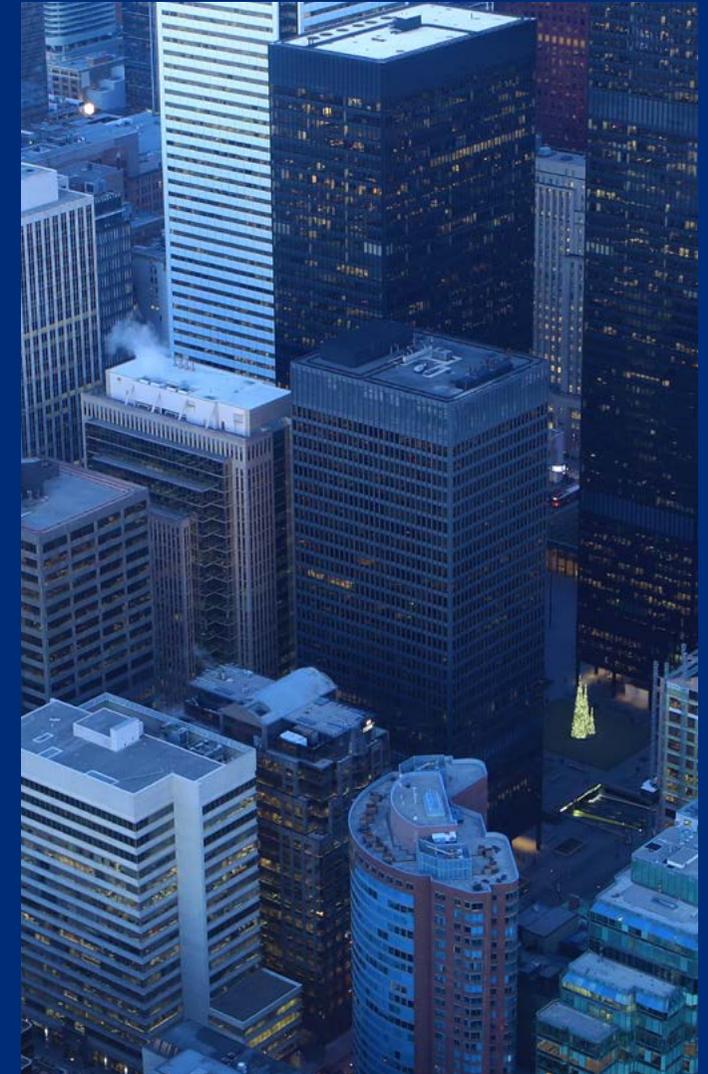
| | Percentage of organizations | Life | Non-life |
|--|-----------------------------|------|----------|
| Yes, we have reached our target private markets allocation. | 33% | 45% | 26% |
| Yes, we have exceeded our target private markets allocation. | 7% | 9% | 5% |
| No, we have not reached our target private markets allocation. | 60% | 45% | 68% |

Considerations regarding capital-efficient vehicles

As insurance companies continue increasing allocations to private markets, some firms will opt to execute these investments through various vehicles with more favorable cost-adjusted yields (capital-efficient vehicles) — particularly US-based insurers. These vehicles can provide a range of benefits, including the potential to reduce administrative costs, engage efficiently with specialist managers, seek material downside risk protection through structural protections and benefit from lower capital charges. Yet insurers must also consider the potential trade-offs of these structures, including more limited fundraising periods and possible redemption restrictions. The regulatory backdrop to capital-efficient structures is explored in greater detail in Section 3.

Among insurers invested in private markets, 27% invest in capital-efficient vehicles.

Across all respondents, these instruments are most prevalent among insurers based in the US (41%) and Canada (33%), compared to just 25% based in Asia and 13% in the UK. No Europe-based insurers report use of these vehicles.



Private debt in focus

The significant appetite for private debt evident in last year's survey endures into 2024.

These intentions translated to more than one-quarter (27%) of insurers increasing allocations to investment-grade private debt last year.

In 2024, almost one-third (32%) of insurers intend to increase allocations, seeking to access the enhanced income, diversification and structural protection benefits afforded by the asset class.

How has the asset allocation of your portfolio changed over the past 12 months?

| | Increase | Decrease | No change |
|-----------------------------------|----------|----------|-----------|
| Investment-grade private debt | 27% | 7% | 21% |
| Sub-investment-grade private debt | 23% | 4% | 20% |
| Private equity | 20% | 2% | 31% |
| Real estate equity | 17% | 20% | 29% |
| Real estate debt | 10% | 7% | 31% |
| Infrastructure equity | 24% | 1% | 18% |
| Infrastructure debt | 12% | 1% | 21% |
| Hedge funds | 4% | 6% | 23% |

How do you expect the asset allocation of your portfolio to change over the next 12 months?

| | Increase | Decrease | No change |
|-----------------------------------|----------|----------|-----------|
| Investment-grade private debt | 32% | 1% | 26% |
| Sub-investment-grade private debt | 21% | 1% | 26% |
| Private equity | 20% | 6% | 30% |
| Real estate equity | 18% | 15% | 33% |
| Real estate debt | 12% | 6% | 31% |
| Infrastructure equity | 20% | 2% | 21% |
| Infrastructure debt | 12% | 2% | 24% |
| Hedge funds | 4% | 2% | 29% |



Private debt in demand

On the one hand, higher cash returns raise the bar for investing in private debt. On the other hand, private debt spreads continue to be meaningful, and all-in yields are typically well above those of high-yield bonds and leveraged loans.

Denis Walsh

Head of Insurance Australia, Mercer



Resourcing private markets allocations

Increasing private markets allocations typically decreases portfolio liquidity. It also requires the expertise and resources to research, identify and access the most compelling investment opportunities.

Just over one-quarter (26%) of our respondents do not invest in private markets and have no plans to do so. Liquidity factors (59%), constraints on resources to adequately assess opportunities (50%) and the complexity of investment instruments (32%) are the most cited reasons for not investing in private markets.

Other frequently cited barriers include the complexity of the manager selection process (27%) and an inability to adequately review operational due diligence factors (27%).

Among those already invested in private markets, cost and complexity (of both investment instruments and manager selection) are the most cited challenges to investing in these asset classes.

Main reasons organizations are not invested in private markets

| | Percentage of organizations | Life | Non-life |
|---|-----------------------------|------|----------|
| Unable to tolerate the level of illiquidity | 59% | 43% | 67% |
| A lack of resources to assess investment opportunities | 50% | 57% | 47% |
| The investment instruments are too complex | 32% | 57% | 20% |
| The manager selection process is too complex | 27% | 43% | 20% |
| Unable to adequately review operational due diligence factors | 27% | 0% | 40% |
| Concerns over prospective returns | 23% | 14% | 27% |
| Concerns over ongoing cash-flow management | 18% | 29% | 13% |
| The fees are too high | 14% | 14% | 13% |
| A lack of sustainability data | 14% | 14% | 13% |
| Regulatory reasons | 14% | 14% | 13% |
| A lack of resources to review subscription agreements | 5% | 0% | 7% |

What are the main challenges your organization faces with regard to investing in private markets?

| | Percentage of organizations | Life | Non-life |
|---|-----------------------------|------|----------|
| High fees | 58% | 61% | 56% |
| Complexity of the investment instruments | 48% | 48% | 49% |
| Complexity of the manager selection process | 39% | 35% | 41% |
| A lack of resources to assess investment opportunities | 35% | 30% | 38% |
| Concerns over ongoing cash-flow management | 27% | 26% | 28% |
| Concerns over prospective returns | 26% | 22% | 28% |
| Unable to tolerate the level of illiquidity | 19% | 26% | 15% |
| Unable to adequately review operational due diligence factors | 18% | 9% | 23% |
| A lack of resources to review subscription agreements | 13% | 13% | 13% |
| Other | 15% | 26% | 8% |

Note: More than one answer could be selected, therefore the total may exceed 100%.



Mitigating cost impacts

Insurers rotating out of public fixed income into private debt are likely to have experienced a significant increase in costs. Private debt investments will mean higher fees, but insurers' net-of-fees returns are likely to be higher, as are their returns on regulatory capital. We also anticipate the market for co-investments to continue to develop, which will provide larger insurers the opportunity to invest alongside a manager with no management fees.

Chris Tschida
US Head of Insurance, Mercer



Insurers' approach to implementing private markets allocations reinforces the resource-intensive nature of investing in these asset classes.

Nearly half (47%) of insurers outsource to third-party managers, which is perhaps unsurprising given the limited size of many investment teams.

However, insurers are gearing up internal teams as private markets allocations become a more significant component of portfolios, particularly in the life space.

Nearly one-third (31%) report existing in-house capabilities, and almost one-fifth (18%) are building out internal teams.

Which of the following statements best describes your organization's approach to implementing its private markets exposure?

| | Percentage of organizations | Life | Non-life |
|---|-----------------------------|------|----------|
| We are using, or planning to use, a third-party asset manager | 47% | 43% | 49% |
| We have existing in-house resources | 31% | 43% | 23% |
| Building these capabilities in-house | 18% | 4% | 26% |
| Acquiring these capabilities | 5% | 9% | 3% |



3 OPERATIONAL CHALLENGES

Meeting evolving regulatory requirements is the most cited operational challenge for insurers (61%) over the year ahead, although data management is also a concern across multiple fronts.

Keeping up with evolving regulation across regions

We anticipate that significant global regulatory changes will emerge in 2024 and into 2025, which will present uncertainty, compliance challenges and investment opportunities for insurers around the world. Mercer outlines these considerations in greater detail in our recent paper *Top Considerations for Insurers in 2024*.

What are your organization's top operational challenges over the next 12 months?

| | |
|---|-----|
| Meeting regulatory requirements and adapting to regulatory change | 61% |
| Receiving relevant asset data within required timeframes | 45% |
| Investment accounting/statutory reporting | 44% |
| Sustainable investment policy formulation and implementation | 42% |
| Asset data management | 39% |
| Manager selection and/or oversight | 36% |
| Sustainable investment data gaps (such as with private markets) | 25% |
| Other | 6% |

Note: More than one answer could be selected, therefore the total may exceed 100%.

Data challenges

Insurers' focus on the timeliness (45%) and ongoing management of asset-level data (39%) reflects the prominence and burden of data processing and analysis in day-to-day operations. Continued advances into the private markets arena, along with ongoing work on sustainable transition, will be significant contributors in this regard.

Four in 10 (42%) cite sustainable investment policy formation and implementation as a key operational challenge. The data burden is prominent here too, with one-quarter (25%) of insurers identifying gaps in sustainability data as a key concern.

More than one-third (36%) of insurers identify the selection and oversight of third-party investment managers as a challenge for operations. For the 31% of insurers expecting to hire more third-party investment managers over the next 12 months, the scope of this challenge is set to increase.



Accelerated changes to the global economy and insurers' transition to IFRS 17 have made it more challenging than ever for executives to explain and manage income and capital volatility. Insurers with outdated processes and ALM practices are at risk of poor capital allocation and losing ground against competitors.

Na Ta

Actuarial Consulting, Oliver Wyman



Governance and resourcing

Although more than half (52%) of insurers have fewer than five external managers running assets across their portfolios, one-third (33%) report more than 10.

How many external, third-party investment managers do you have in your investment portfolio?

| | Percentage of organizations | Life | Non-life |
|--------------|-----------------------------|------|----------|
| None | 6% | 10% | 4% |
| 1-5 | 46% | 57% | 41% |
| 6-10 | 15% | 10% | 19% |
| 11-20 | 17% | 13% | 19% |
| 21-50 | 12% | 3% | 17% |
| More than 50 | 4% | 7% | 2% |

Insurers report small teams dedicated to managing outsourced investment managers. More than six in 10 (62%) have fewer than five individuals overseeing their outsourced asset allocation, manager selection, oversight, engagement and investment operations.

For assets managed internally, more than six in 10 (64%) insurers report fewer than five employees dedicated to managing investments on a full-time basis.

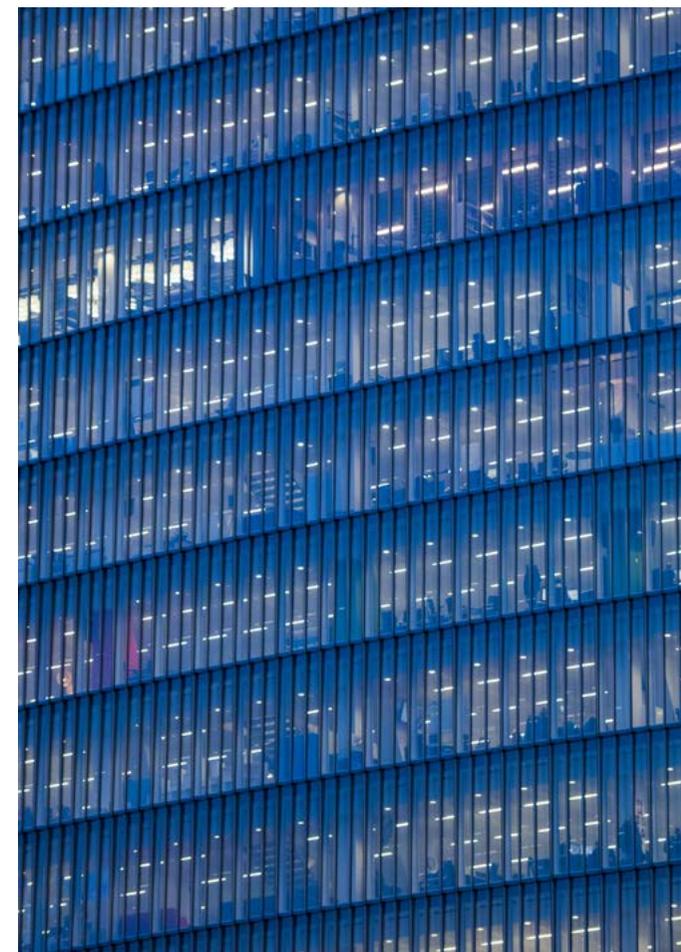
Note: More than one answer could be selected, therefore the total may exceed 100%.

For assets that are outsourced, how many professionals are engaged, on a full-time basis, in managing your organization's investments (for example, asset allocation, asset manager selection/oversight/engagement and investment operations)?

| | Percentage of organizations | Life | Non-life |
|--------------|-----------------------------|------|----------|
| None | 18% | 17% | 19% |
| 1-5 | 44% | 30% | 52% |
| 6-10 | 14% | 17% | 13% |
| 11-20 | 7% | 10% | 6% |
| 21-50 | 10% | 17% | 6% |
| More than 50 | 7% | 10% | 6% |

What percentage of your portfolio is externally managed?

| | Percentage of organizations | Life | Non-life |
|--------------------------|-----------------------------|------|----------|
| Up to 25% | 33% | 47% | 26% |
| More than 25%, up to 50% | 10% | 7% | 22% |
| More than 50%, up to 75% | 5% | 7% | 4% |
| More than 75% | 52% | 40% | 59% |



Managing portfolios and implementing decisions

While nearly nine in 10 insurers (88%) have an investment committee, less than two-thirds (64%) have a chief investment officer.

Investment policy statements (IPS) require board-level approval for more than six in 10 (62%) insurers, and just over one-third (37%) require a board sign-off on strategic asset allocation (SAA) decisions.

SAA calls are made by the investment committee for a similar proportion of insurers (38%), whereas authority for more tactical dynamic asset allocation (DAA) and rebalancing decisions are split between the investment committee and management teams.

Which party carries the authority to make the following investment decisions?

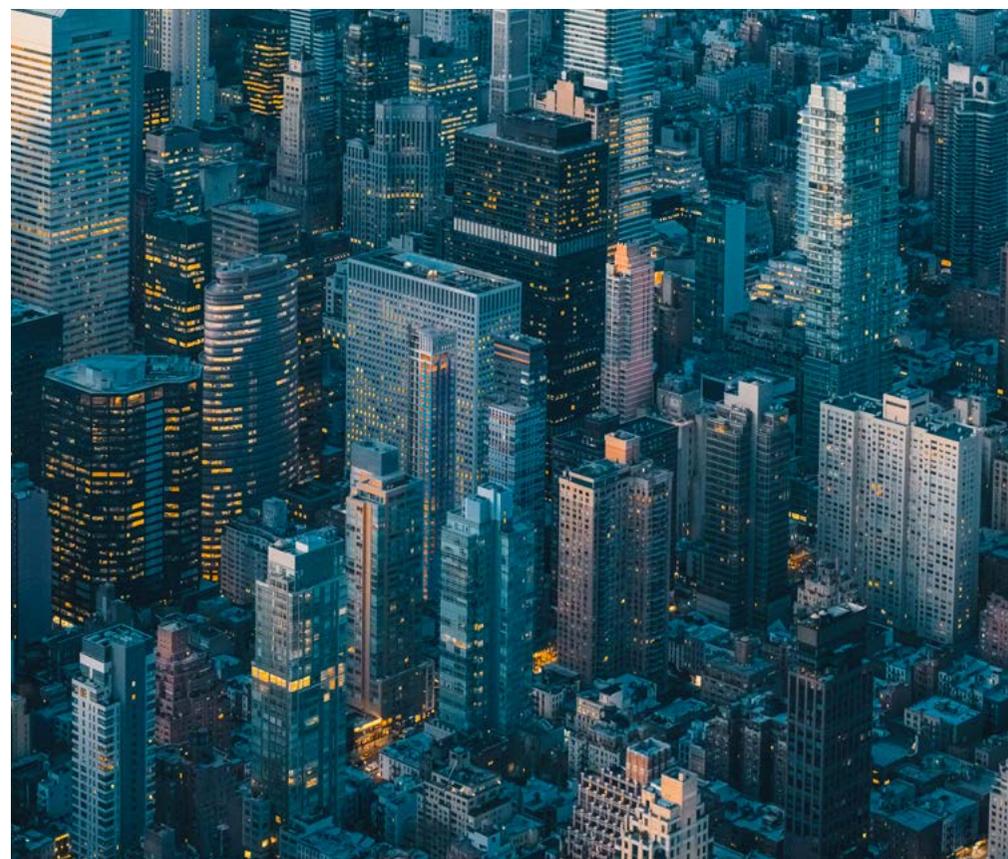
| | In-house | Board | Investment/ finance committee | Management | Investment consultant | Other |
|--|----------|-------|----------------------------------|------------|--------------------------|-------|
| IPS approval | 5% | 62% | 31% | 1% | 0% | 1% |
| SAA | 11% | 37% | 38% | 10% | 4% | 1% |
| DAA | 26% | 8% | 29% | 27% | 5% | 5% |
| Rebalancing | 29% | 4% | 23% | 37% | 6% | 2% |
| Selecting and deselecting third-party managers | 23% | 17% | 38% | 18% | 2% | 2% |



Insurers regard accounting and regulatory intrusion as the greatest challenge to implementing investment decisions across portfolios. The significant proportion of firms citing the limitations on both their strategic and tactical asset allocations — particularly in the US, where a greater proportion of respondents mention resourcing as a challenge — speaks to the constraints on time and resourcing evident in this year’s survey and highlights the potential benefits of delegated investment solutions.

| What are the biggest implementation challenges your organization faces as it relates to your portfolio? | Percentage of organizations | Life | Non-life |
|---|-----------------------------|------|----------|
| Accounting and regulatory intrusion | 39% | 34% | 42% |
| Reporting | 38% | 41% | 36% |
| Sustainable-investment-related challenges (e.g., carbon neutrality) | 34% | 31% | 36% |
| Limited SAA optimization opportunities | 30% | 34% | 28% |
| Cost | 23% | 21% | 25% |
| Operational (e.g., pricing and securities lending) | 22% | 34% | 15% |
| Resourcing (e.g., too many mandates and managers) | 22% | 21% | 23% |
| Limited ability to implement tactical asset allocation | 22% | 17% | 25% |
| Lack of portfolio transparency and portfolio updates | 6% | 7% | 6% |
| Other | 4% | 3% | 4% |

Note: More than one answer could be selected, therefore the total may exceed 100%.



4 EVOLUTION OF SUSTAINABLE INVESTMENT APPROACHES

Sustainable investment and engagement remain higher in the UK, Europe and Asia compared to US and Canadian peers. Net-zero target-setting is not yet widespread, although life insurers are leading the way.

Consideration of sustainable investment factors has moderated since last year.

More than two-thirds (68%) of insurers incorporate sustainable investment factors in their investment decision-making — although this level has fallen from the 83% that reported doing so in last year’s survey.

Again, significant regional divergence underpins this headline level. A far greater proportion of insurers in the UK (100%), Europe (80%) and Asia (75%) are incorporating sustainability considerations into their investment processes compared to peers in the US (41%, down from 71% 12 months ago) and Canada (42%).

Stakeholder preferences and regulatory/political expectations are the most cited reasons for incorporating sustainability factors into investment decision-making, although risk reduction — both across portfolios and reputationally — is also a prominent driver behind organizations’ adoption.

Top reasons for considering sustainability factors in investments

| | |
|--|-----|
| To reflect stakeholder views or preferences | 71% |
| In response to regulatory or political expectations | 69% |
| In response to societal sentiment and/or to reduce reputational risk | 62% |
| To reduce portfolio risk | 43% |
| To align our investments with those of our peers | 22% |
| To enhance opportunities to generate active return on investment | 15% |
| To avoid double exposure to a company’s underwriting risks (e.g., holding real estate that is susceptible to flooding) | 8% |
| In preparation for potential changes to rating agencies’ approach to sustainability | 5% |
| Other | 5% |

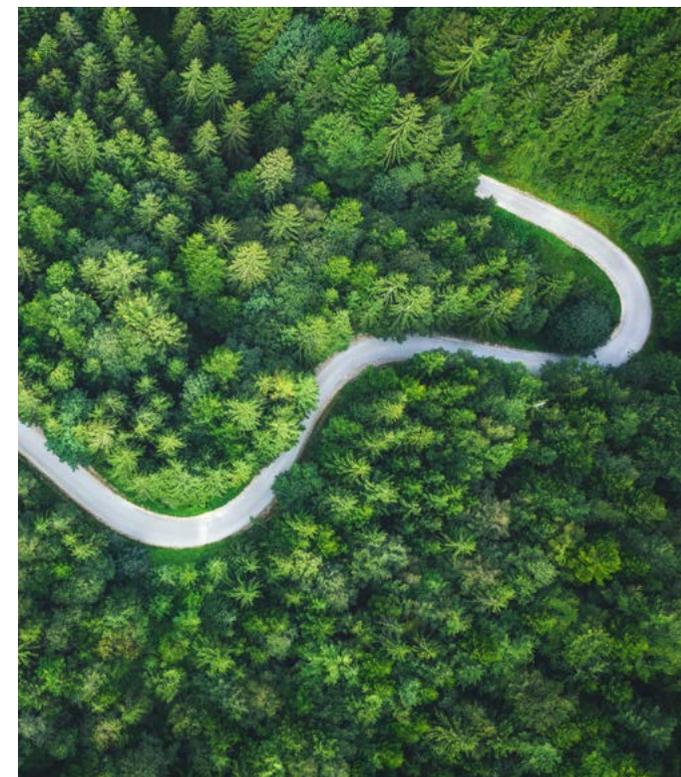


Among organizations not incorporating sustainability factors, 63% say it isn't a board-level priority, and more than half (53%) cite a lack of transparency and standardized data regarding sustainable investment analysis and reporting.

What are the top reasons your organization does not plan to integrate sustainability factors into its investment decisions?

| | Percentage of organizations | Life | Non-life |
|---|-----------------------------|------|----------|
| Not a priority at board/investment committee level | 63% | 60% | 64% |
| Lack of transparency and standardization of data and reporting | 53% | 40% | 57% |
| Lack of demand from stakeholders | 42% | 60% | 36% |
| We are concerned about potential impact on investment performance | 37% | 60% | 29% |
| Lack of resources to assess and implement investment ideas | 32% | 20% | 36% |
| Lack of investment options | 26% | 20% | 29% |
| Lack of demand from regulators | 26% | 0% | 36% |
| Investment options do not align with our investment strategy | 16% | 20% | 14% |
| Too costly to implement | 5% | 20% | 0% |
| Other | 0% | 0% | 0% |

Note: More than one answer could be selected, therefore the total may exceed 100%.



At the same time, there is continuing momentum behind sustainable investment among those already invested.

Among insurers incorporating sustainability into investment decisions, most plan to increase sustainable investment allocations over the coming year, although concerns surrounding data standardization and transparency endure.

Among insurers with existing sustainable investment allocations, 70% plan to increase their exposure to sustainable investments over the next 12 months, 21% plan to maintain it and 9% remain undecided on their future plans.

On a regional basis, 29% of US insurers plan to increase exposure to sustainable investments over the coming 12 months, compared to 63% of insurers in the UK, 87% in Europe, 60% in Canada and 100% in Asia.

Net-zero pathways are not yet well trodden by insurers

Although many insurers are looking to increase sustainable investment allocations over the coming year, the proportion of insurers that have set net-zero targets remains more limited, at just over one-third (37%). That said, the proportion of insurers adopting a net-zero pathway has risen from one in four (25%) year on year. Life insurers are leading the way on net-zero target-setting, with nearly half (48%) having set a target, compared to only 29% of non-life firms. Among those to have established a net-zero pathway, the vast majority have set a 2050 target.

On a regional basis, US- and Asia-based insurers lag European peers. Just 14% of US-based and 17% of Asia-based insurers have set net-zero targets, compared to 38% in Europe, 50% in the UK and 80% in Canada.

In relation to your investment portfolio, have you set a net-zero target?

| | Percentage of organizations | US | UK | Europe | Canada | Asia |
|----------------------------|-----------------------------|-----|-----|--------|--------|------|
| Yes | 37% | 14% | 50% | 38% | 80% | 17% |
| No, but we are planning to | 30% | 0% | 13% | 46% | 20% | 50% |
| No | 33% | 88% | 38% | 17% | 0% | 33% |

Lack of resources — whether knowledge and experience or the teams to implement targets — is the reason cited most by insurers that haven't implemented net-zero targets and have no plans to do so. It's clear, however, that a range of factors are in play, with one in six insurers (16%) citing a lack of prioritization at the board level, a lack of transparency, concern surrounding potential impacts on returns and a lack of sufficient data.

What is the primary reason your organization has not set, and does not plan to set, a net-zero target?

| | Percentage of organizations |
|--|-----------------------------|
| Lack of knowledge and/or resource to implement such targets | 21% |
| It is not a board-level priority | 16% |
| Lack of transparency, inadequate data and non-standardized reporting | 16% |
| Concern about compromising potential investment returns | 16% |
| Lack of sufficient data | 16% |
| Cost for an organization of our size | 5% |
| Lack of investment opportunities | 5% |
| Other | 5% |

Note: More than one answer could be selected, therefore the total may exceed 100%.



Advancing sustainable transition

At an organizational level, insurers are grappling with the impacts of sustainable transition and climate change across both their commercial strategies in business lines and the transformation of their investment portfolios and balance sheets. On this second aspect, we see an increasing number of insurers seeking to gain a better understanding of holistic impacts from a risk, capital and investment perspective.

Andrew Epsom
 Director, UK Insurance Solutions, Mercer



CONCLUSION

Staying balanced in the dance

Market volatility, inflation and a shifting interest rate environment will keep insurers on their toes this year.

After a year of strategically sourcing liquidity, insurers are now focused on redeploying cash in support of their primary objectives. To achieve this, many insurers are planning to reduce their liquidity and deploy cash into both public fixed income and private debt investments.

While insurers continue to diversify into private markets, they face challenges such as cost, complexity, and the allure of higher cash rates and more attractive public bond yields. Over the year ahead, we see an opportunity for investors to enhance diversification across hard-to-access managers but expect wider divergence of performance. Research and selection will be critical in identifying the best opportunities.

Insurers are concerned about keeping pace with regulatory changes in the year ahead.

Regulatory developments remain an important consideration for most regions, with reviews of existing frameworks at varying stages. Expert insight and advice will be essential to stay abreast of upcoming changes and the cumulative effects for investments.

Many insurers continue to explore what sustainable investment means to their organizations and how they would like to approach quantifying and monitoring these factors within their portfolios. However, some insurers are clearly taking more significant steps, such as integrating climate and sustainability considerations across their investment processes or setting net-zero targets.

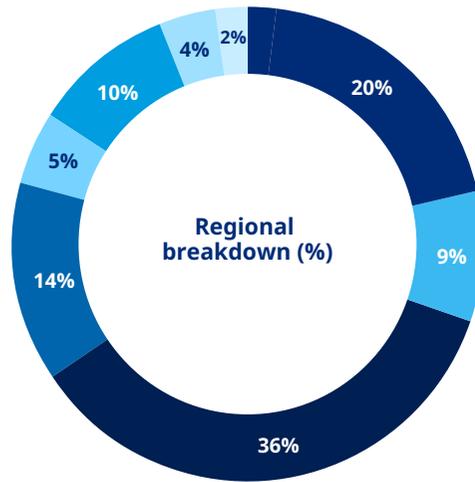
We hope this snapshot of peers investing across the global insurance industry will provide a useful context for insurers planning their key moves throughout the year ahead.



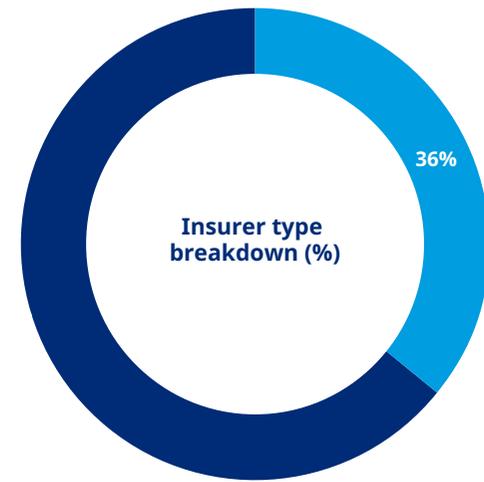
Context to our 2024 Global Insurance Survey

We conducted a survey of insurers across business lines in Q4 last year, seeking to ensure a broad distribution of respondents by insurer type, investment portfolio size and geography.

84 respondents across 22 markets



- United States
- United Kingdom
- Europe
- Canada
- Pacific
- Asia
- LATAM
- IMETA



- Life
- Non-life

CONTACT US

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