TD Global
Investment Solutions

Investment Knowledge 10 Minutes

Investment Considerations for Member-Owned Insurers

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Nowadays, member-owned insurance companies, including mutual and reciprocal insurers, have more investment options available to them than ever. To meet their investment needs, these insurers can take a more customized approach with their investments. By building efficient portfolios, they could contribute towards their financial resiliency, capital positioning and ability to return profit or surplus back to policyholders and subscribers.

Long-term objectives and a focus on members

Managing insurance assets requires a tailored approach – particularly for member-owned or member-controlled organizations. Unlike share-ownership-based insurers, mutual and reciprocal insurers are guided by a different set of objectives, priorities and constraints:

- Greater focus on long-term financial resiliency, benefit security and attractive pricing
- Limited access to funding through capital markets
- Limited access to non-traditional asset classes and investment strategies

In the absence of a share ownership structure, mutual and reciprocal insurers can maintain a long-term focus, prioritizing benefit security and long-term solvency over short-term financial performance.

This structure supports a going-concern approach that emphasizes the longer-term impact of their investment decisions, instead of focusing on the near-term fluctuations in financial reporting or income metrics. As a result, the investment portfolio is often structured in a way that is better aligned with the insurer's extended time horizon rather than quarterly earnings targets.

Additionally, the member-owned nature can bring an increased sensitivity to downside risk. Many mutual and reciprocal insurers take a more conservative stance in their investment portfolios – focusing on securing benefits, offering more competitive pricing for their subscribers or policyholders and maintaining long-term financial resilience. When designing portfolio solutions, it's important to be mindful of the insurers' risk appetite and the trade-offs between long-term returns and potential for downside risk.

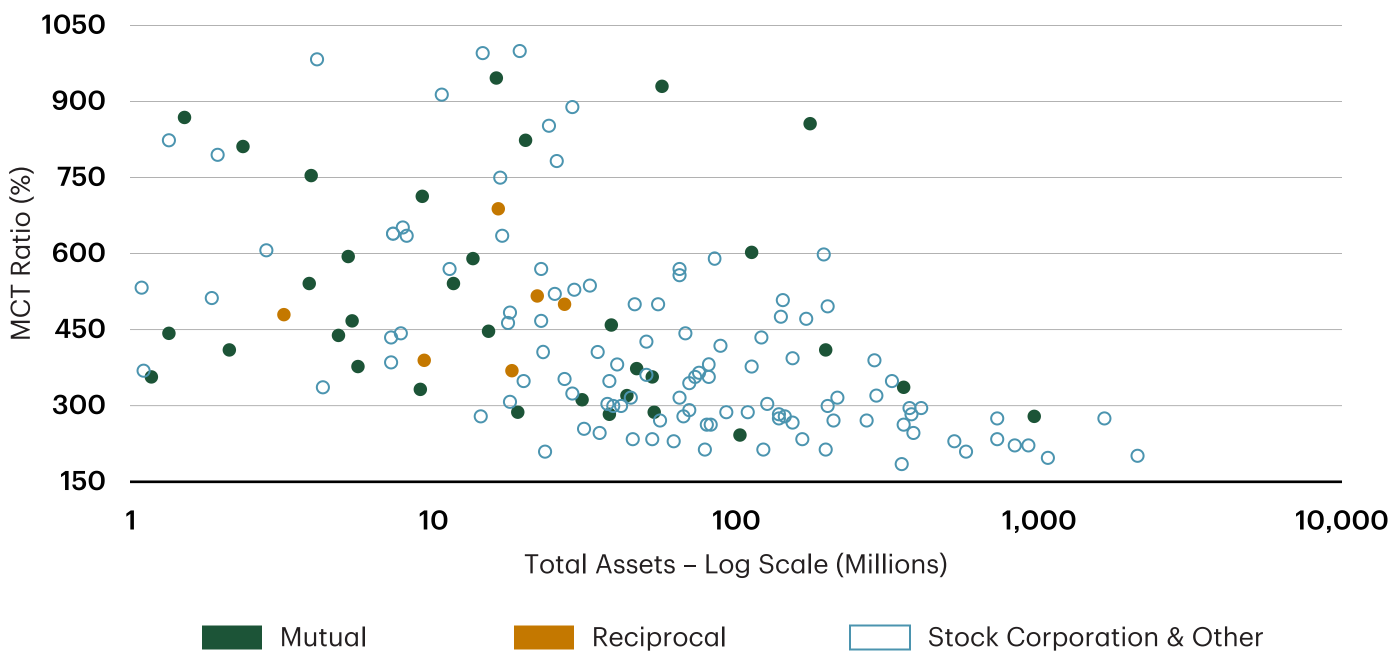
Funding availability and access to capital markets

Mutual and reciprocal insurers operate with constrained access to capital markets – specifically, no access to equity markets and only limited access to debt capital. As a result, they rely primarily on retained earnings to build and maintain capital adequacy. Access to capital is important for supporting regulatory capital requirements, such as the Minimum Capital Test (MCT) ratio, which is typically maintained above both internal targets and regulatory thresholds to ensure solvency under stress.

Mutual and reciprocal insurers often maintain higher capital ratios than share-ownership-based insurers. This is due to two important factors:

1. Limited ability to raise additional capital to manage capital ratios outside of retained earnings
2. Lower cost of capital, since return expectations from policyholders and subscribers differ from those of shareholders and debtholders

Figure 1: MCT ratio comparison by asset size and ownership structure



Source: Office of the Superintendent of Financial Institutions, MSA Research. As of December 31, 2024.

Considerations around this unique ownership structure should be a core part of an asset manager's investment approach to member-owned insurers. Regulatory capital requirements and downside risk in an insurer's investment portfolio are two sides of the same coin – building capital-efficient portfolios can enhance downside risk protection. This allows member-owned insurers to worry less about market-driven volatility on their capital positioning. Instead, they can focus on delivering benefit security to policyholders and subscribers, and managing their core insurance operations.

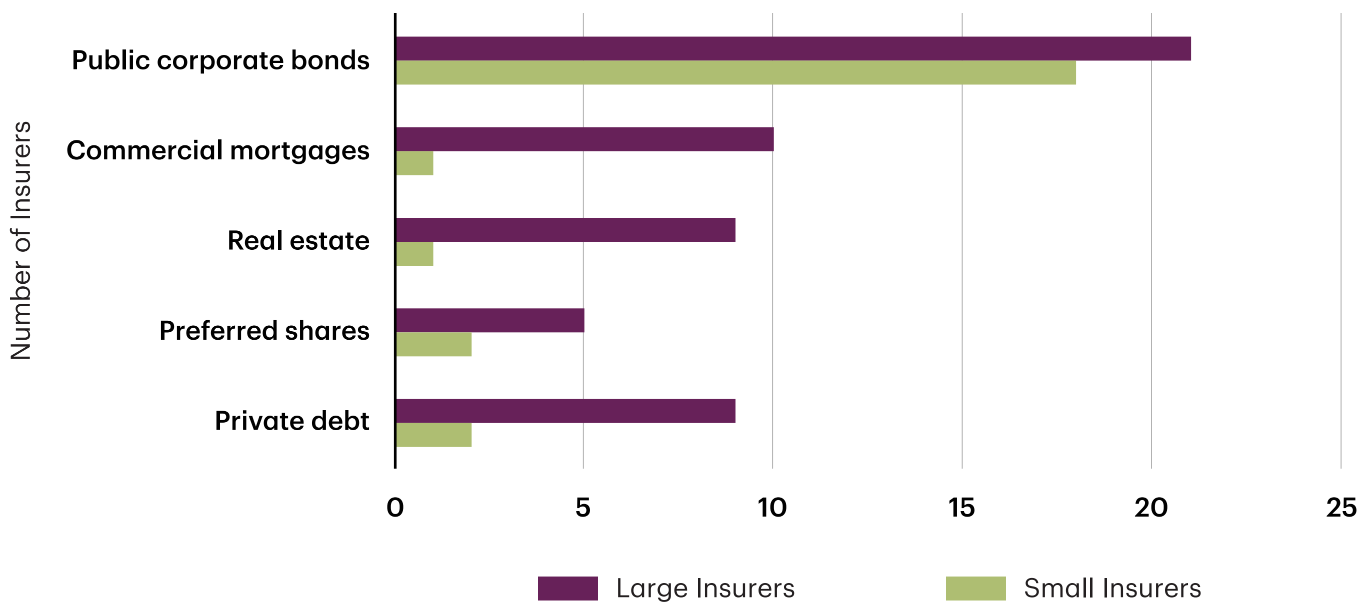
Access to asset classes and investment strategies

Many mutual and reciprocal insurers face structural challenges when expanding their investment opportunity set beyond traditional public market asset classes. These challenges often stem from two things:

1. Member-owned insurers have limited internal resources and smaller asset bases, which has historically restricted their access to private market participation and more complex investment strategies.
2. These insurers are potentially less familiar with implementing advanced investment frameworks, such as asset-liability management (ALM) and portfolio segmentation.

While many larger, stock-owned insurers have built in-house teams and infrastructure to access private market investments, smaller insurers haven't always had the same opportunity set. At TD Asset Management Inc. (TDAM), we provide our smaller institutional clients access to the same set of investment opportunities as their larger counterparts, including private fixed income (private debt and commercial mortgages) and alternative assets (real estate and infrastructure equity).

Figure 2: Access to private market investments by asset size



Source: Canadian Institute of Actuaries. As of 2020 fiscal year-end for survey participants.

Note: Larger insurers are those reporting total actuarial liabilities (Canadian business only) over CDN $500 million, while smaller insurers are those reporting total actuarial liabilities (Canadian business only) of less than or equal to CDN $500 million.

Our clients can also benefit from the TDAM's expertise through our Insurance Centre of Excellence, which consists of investment professionals dedicated to serving insurance clients. Many of our insurance portfolio managers have actuarial designations as well as experience working at and servicing insurance companies. We often serve as an extension of clients' internal teams, offering support in a collaborative and consultative fashion so they don't have to build in-house capabilities.

Conclusion

Over the past three decades, TDAM has cultivated extensive experience in managing assets for insurance companies, offering one of the broadest suites of investment products and portfolio management services across Canada. Recently, TDAM also created a portfolio management platform to manage insurance and other institutional portfolios – the **TD Portfolio Navigator >** platform.

In the current complex regulatory landscape and volatile market environment, TDAM stands ready to support insurance clients. Across different teams, we have numerous professionals with investment and actuarial experience. We are committed to delivering relevant insights and addressing our clients' most important challenges. ■

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