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FIVE ADVANTAGES TO UNIFYING DATA: WHAT INSURANCE LEADERS NEED TO KNOW

Inside:

Insurance Asset Management Grows More Complex Amid Market Challenges

The insurance industry continues to face significant challenges stemming from macroeconomic concerns, geopolitical uncertainty and an evolving regulatory environment.

While there are signs that the sector is starting to emerge from the recent hard market, persistent inflation, volatility and climate-change-related events have heavily impacted property and casualty carriers.[1] Some property and casualty insurers have been reeling from above-100% combined ratios over consecutive years.[2]

In addition, insurers' claim costs are increasing beyond the standard measures of economic inflation, further impacting costs. According to The National Association of Insurance Commissioners (NAIC), this stems from "increasing litigation costs brought by plaintiffs seeking large monetary relief for their injuries."[3] This phenomenon appears to be hitting both commercial and personal lines, particularly auto coverage.

Meanwhile, the surge in climate-driven natural disasters, including severe convective storms, has resulted in recent record-breaking losses and complex operational challenges for insurers.[4]

Global insurance losses in 2023 totaled an estimated $123 billion, with thunderstorms accounting for 58% of them in 2023, according to the 2023 Natural Catastrophe & Climate Report by global reinsurance broker Gallagher Re.[5]

Evolving regulatory and accounting changes are also impacting insurers' investments, including pending initiatives in the U.S., Europe, the UK and Asia regarding solvency and investment transparency.

According to the 2023 BlackRock Global Insurance Report, 65% of insurers surveyed indicated that they would need to reallocate assets in response to these regulatory and accounting changes.[6]

Amid these major operational and market challenges, portfolios have grown more complex as insurers move into private investments and other alternative asset classes.[7] BlackRock's 2023 Report also revealed that 44% of insurers are adjusting their portfolios due to the need for greater flexibility, while 42% are adding new asset classes, such as private credit, to their mix.[8]

That trend is expected to continue: 62% of insurers are planning to increase their risk tolerance and keep shifting toward private equity and private credit.[9]

As the landscape shifts, firms are faced with the new challenge of having sufficient, reliable information to navigate these changes.

"Data quality, data cohesion and fragmented data are at the center of operating challenges for many insurers' investment teams," said Matthew Burger, Managing Director of Business Development in the Aladdin Business, BlackRock's investment technology platform.

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> **MATTHEW BURGER**
> *ALADDIN BY BLACKROCK*

"Insurers are treading into new frontiers that they hadn't gone in historically and are now partnering with asset managers who specialize in distinct asset classes," said Christopher Pickett, Director of Credit and Quantitative Solutions for Aladdin. "These include allocations to more private and potentially complex assets as a result of some of these market forces," he said. As a result, firms need a much deeper understanding of risks through accurate data.

To truly understand portfolio risk, asset managers and risk management teams need greater transparency into their investment holdings. Often, disjointed systems and platforms cannot consistently reconcile investment data from these disparate sources quickly enough to seize a potential investment opportunity.

"Insurers want to be nimble, agile and want to have the ability to react to market changes and volatility."

TARA KODALI
ALADDIN BY BLACKROCK

"When you really dive into the concept of unifying data, it begins with finding efficiency and scale in managing asset class exposure across public and privates, which requires bringing together of the whole portfolio," said Julia Liu, a Vice President of Client Engagement at Aladdin. "On top of that, insurers also have the mandate of managing their assets prudently to satisfy obligations on the liability side of the balance sheet, which requires bringing together of the full balance sheet," she said.

Fragmented data: an underlying problem

Data fragmentation refers to when an organization's data is distributed across multiple systems or environments (on-premises or in the cloud), storage locations, databases or even spreadsheets. Data silos often result when there are collections or repositories of data that are not readily accessible to users or stakeholders.

Without a unified data strategy, organizations are forced to spend significant time, money and resources aggregating and quality checking their data. And without the ability to access consistent and accurate information, organizations can miss out on investment opportunities.

Here's an example: an insurance CEO or COO wants to get a full picture of their portfolio quickly, but they need to go to four or five different platforms or systems to find it. Realistically, how long will that take? It could take two weeks for a team just to pull all the reports together and work through all the data. The process is inefficient, not very intuitive, and by that time, the market may have already moved.

"Insurers want to be nimble, agile and want to have the ability to react to market changes and volatility," said Tara Kodali, a Director of Client Engagement at Aladdin. "But nothing about siloed or fragmented data is either nimble or agile. These inefficiencies are compounding some of their challenges," she noted.

Data can become fragmented for several reasons, including business growth that, over time, brings additional systems or data sources into the enterprise. Mergers, acquisitions or adding new lines of business that use different risk and data management platforms can further silo systems and data.

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Insurers require a complete view of their full portfolios from centralized data to achieve the transparency needed to make informed asset allocation decisions.

Five Advantages to Unified Data

Developing a plan to define and manage data is critical to implementing any robust data strategy. Data management is a key component to achieving more consistency and eliminating data silos.

When asset data is unified, insurers' investment and operational teams can make better and faster decisions while optimizing processes and achieving greater efficiencies. Tech solutions that offer insurers better access to data across asset classes can benefit risk management and help asset management teams make more strategic portfolio decisions.

Explore how unified data can unlock value for insurers:

1. Achieving Better Operating Efficiency

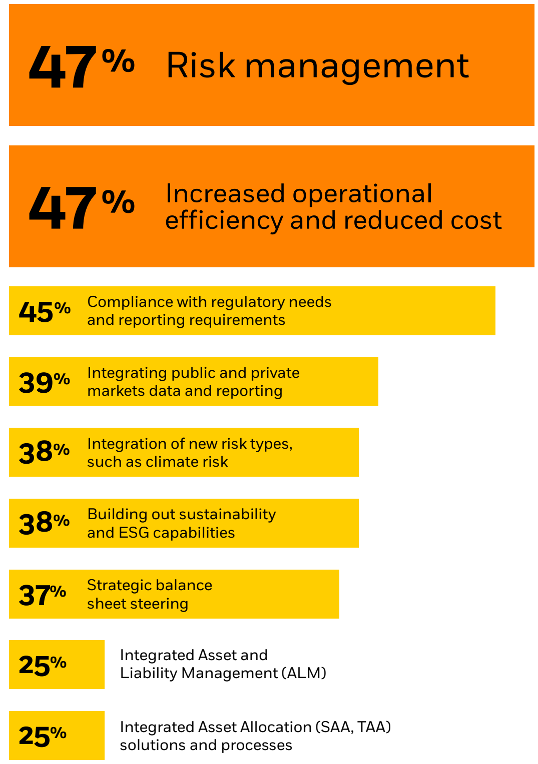
Improving operational efficiency when it comes to data integration is a priority for insurers.

BlackRock's research shows that nearly half of insurers cited operational efficiency as a priority for their tech investments. Insurers also noted the value of tech solutions for both workflow automation and data integration, "across the entire insurance platform."[10]

Maintaining numerous systems, especially if they involve antiquated technology, can become unwieldy and very costly. Over time, enterprise organizations can end up investing and reinvesting in multiple software updates and upgrades. In some cases, highly customized in-house systems can often mean organizations need specialized technology and engineering teams for some updates. Managing multiple investment platforms from various systems or third-party vendors can also be time-consuming and add to costs.

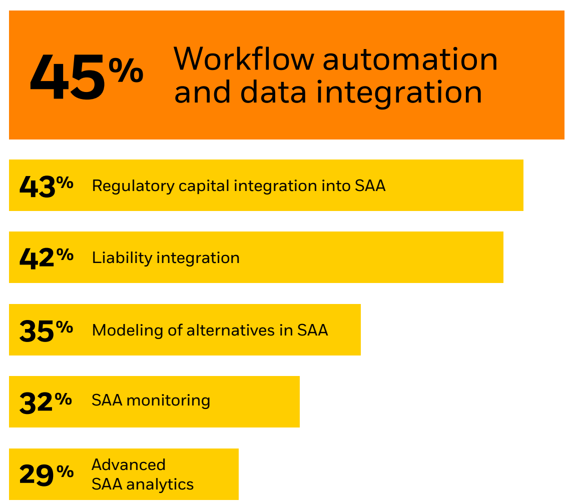
These challenges are compounded as many insurers have reallocated portions of their general asset mix away from public equity and fixed income toward the private markets.[11]

Thinking specifically about investment management over the next 2 years, where will you be prioritizing your tech and infrastructure investments?



Source: BlackRock Global Insurance Survey, June-July 2023.

Looking at the evolution of Strategic Asset Allocation (SAA) where can technology add the most value?



Source: BlackRock Global Insurance Survey, June-July 2023.

Siloed systems often mean that insurance teams don't have an effective way to view their public and private assets together. That means that insurers' teams would have to consult multiple systems and data sources to cobble together all the information they need. It may involve one platform for public asset data plus quarterly reports on PDFs from private asset managers, as well as extensive team-hours manually compiling information. With so many inputs coming from various sources, it can be extremely complicated to merge and unify the data in a way that makes sense.

But a solution that allows multiple processes and platforms to be more seamlessly integrated can generate significant cost savings and workflow efficiencies.

2. Improving Data Quality to Make Better Decisions

"As many insurance companies have expanded globally through major acquisitions, they are often faced with the challenge of aggregating data across multiple legacy systems and across currencies," Kodali said. "Additional asset classes involving multiple asset management companies only adds to the complexity. Architecting a unified view of assets can therefore be extremely difficult."

Fragmented information can make it difficult for organizations to follow data-driven strategies based on analytics. When data is isolated or located in multiple systems that aren't integrated, it's more likely that information can be conflicting, inconsistent, incomplete or even prone to human error. As a result, it's difficult for teams to make quick and informed decisions based on isolated data.

> "With better data quality, teams have a greater understanding of what's driving their investment income ratios."
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> **TARA KODALI**
> *ALADDIN BY BLACKROCK*

With a platform or solution that not only integrates data but also offers a comprehensive, consolidated view of portfolio assets, investment teams can make more informed decisions. "Unified data can make it easier to identify certain nuances of the various asset classes within complex investment portfolios, and then put them together in a better informed, more cohesive way. With better data quality, teams have a greater understanding of what's driving their investment income ratios," Kodali noted.

Seamless and integrated data can also give insurance leaders the speed and agility they need to make other business decisions. For instance, insurers often need an accurate and time-effective way to evaluate and review a block of business or a new portfolio of assets. Without effective underlying technology, insurers may not be able to easily aggregate the information they need to understand how this new business could affect their overall portfolio. But with a fast and unified way to upload and analyze data related to a specific block of business, an insurer can quickly measure how new assets impact their exposures, risk, or asset liability management.

3. Providing Opportunities for Better Financial Health

When all underlying asset data is accessible in one place, insurers can gain more transparency on their core business objectives and financial health, including their ability to meet or exceed their obligations to their policyholders.

"Insurers are trying to achieve greater scale while trying to address challenges associated with market risk, credit risk, and complex exposures and invest across a diverse range of asset classes," Burger said. "As insurers reallocate their general asset mix away from public fixed income and public equity assets into private credit infrastructure, real estate and private equity, they need a complete view of their portfolio so they can understand how their matching their assets and liabilities and meet the responsibilities to their policyholders," he said.

For instance, to make informed asset allocation decisions across the risk and return spectrum, the investment team at an insurer will need to view their public and private asset exposure in a consolidated fashion, often in one system, and that requires public and private asset data to be integrated to one location as a start, according to Liu.

This is applicable to both long term, strategic asset allocation positioning, and tactical asset allocation exercises. Having unified data makes it easier for insurers to assess the current landscape and clearly identify a path to a desired return, risk, liquidity and cost of capital outcome, Liu added.

4. Creating Opportunities to Future-Proof Strategic Asset Management

Data has a key role in the entire investment lifecycle and better data helps insurers elevate their decision-making capabilities. Achieving greater agility through unified data strategies and tech solutions can help insurers navigate an ever-evolving investment landscape.

"Change is everywhere, and it's clear that even the pace of change has gained momentum," said Griff Norquist, U.S. Head of Financial Institutions for Aladdin.

"For insurers around the world, change has always been expressed through data: the liabilities therein, risks and opportunities (both inherent or supposed), as well as insights," Norquist said.

For example, as insurers began shifting their investment allocation mix to private and other alternative assets, data management became more critical than ever.[12] In stressful situations, insurers require visibility into their holdings across asset classes and may not have the time to navigate inconsistent reporting or data structures.

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With a seamless and unified view of data, investment decision makers can have the right information to make informed decisions more quickly and efficiently, even as investments may change.

With the right technology solutions in place throughout their ecosystem, insurers can be more nimble and better prepared for different types of investments in the future.

5. Accelerating Digital Transformation Efforts

A robust data management approach can amplify the organization's related digital transformation efforts throughout the enterprise. Insurers cite risk management and increased operational efficiency as their top priorities

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for tech and infrastructure investments, according to our 2023 research.[13] Meanwhile, from a strategic asset management perspective, more than 40% of senior insurance leaders are looking to technology solutions to achieve better integration of data, regulatory capital and liabilities.[14]

“Insurers need a common data language, from public markets to private markets and from the front office through to operational processes — embedded in a trusted tech ecosystem,” Norquist said. He explains that by replacing outdated legacy systems, companies can enable a more productive investment organization, and ultimately, unify the investment management process.

Eliminating some legacy systems and processes can also streamline operations and help insurers migrate away from relying on CSVs and XML files, for example. A unified data solution can also allow for more seamless integrations with solutions like APIs, third-party tools, or more efficient data clouds, for example. Reducing data silos can also increase innovation and collaboration among departments and between partners, including when making asset management decisions.

Conclusion: Navigating Changing Dynamics

Insurance enterprises need to be able to navigate changing market dynamics, evolving risks, continued severity of climate change, plus economic and global uncertainty. Whether they are managing portfolios in-house or hiring a third-party manager, insurers need to have a solid understanding of what they hold today to be able to understand how to pivot for the future. It can be extremely challenging to obtain a unified view of private and public asset data or multiple asset classes when multiple systems are involved. Insurance management and investment teams gain myriad benefits from having their investment activity in one place.

Our 2023 survey overall revealed that insurers are looking further to tech solutions to provide a system that provides an awareness of not only accounting and regulatory requirements but also levels of analytics, data exercises, capital constraints, right reporting frequencies and other requirements. With a solution that puts all of this data into one place, there is an opportunity to achieve a greater level of transparency to make the most informed asset allocation decisions possible. ■

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Footnotes

[1] Hard Market Softening? Q4 Numbers Suggest Maybe for Some https://www.pandcspecialist.com/c/4453504/580164/hard_market_softening_numbers_suggest_maybe_some?referrer_module=issueHeadline&module_order=3

[2] P&C Industry Combined Ratio Tops 100% for Second-Straight Year, https://www.pandcspecialist.com/c/4448264/578704?referrer_module=searchSubFromPCIS&highlight=combined%20ratio

[3] Social inflation, NAIC, https://content.naic.org/cipr-topics/social-inflation#:~:text=Last%20Updated%3A%208%2F23%2F,monetary%20relief%20for%20their%20injuries.

[4] These states were slammed hardest by thunderstorms in 2023, https://www.pandcspecialist.com/c/4452754/580164?referrer_module=searchSubFromPCIS&highlight=convective%20storms

[5] 2023 National Catastrophe and Climate Report, https://www.ajg.com/gallagherre/news-and-insights/2024/january/2023-natural-catastrophe-and-climate-report/

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[8] BlackRock 2023 Global Insurance Report, https://www.blackrock.com/ch/professionals/en/insights/global-insurance-report

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ABOUT ALADDIN

Aladdin® is a technology platform used by asset managers and owners including banks, financial institutions, pensions, corporations, insurers, and wealth managers. The Aladdin platform unifies the investment management process, providing a common data language within an organization to enable scale, provide insights, and support business transformation. Through eFront® technology, alternative investment data management is covered to meet the needs of alternative investment professionals worldwide and across all major alternative asset classes. From fundraising, fund administration and reporting to data services and analytics, the platform provides capabilities to support decision making and investment oversight.

Aladdin® and eFront® platforms bring together public and private asset class data to create an industry-recognized whole portfolio solution for investment professionals globally. Find out more at www.blackrock.com/aladdin | request@blackrock.com