

# Research Report: Fiduciary Duties and Best Practices in Insurance Investment Oversight

*For Senior Management, Investment Committees, and Board Members*

## Introduction

Insurance company directors, senior management, and investment committee members are held to a fiduciary standard in the oversight of investment strategy and execution. Their responsibilities must be carried out in alignment with the company's strategic objectives, regulatory obligations, and policyholder commitments. This report outlines key fiduciary duties and best practices across several critical areas of investment governance: the use of Enterprise Risk Management (ERM) to correlate balance sheet risks, the use of Asset-Liability Management (ALM) for reserving and liquidity needs, strategic asset allocation aligned with the company's risk budget, investment oversight including benchmark assessment, and the selection and evaluation of investment managers.

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## 1. Enterprise Risk Management (ERM): Correlating Risks Across the Balance Sheet

### **Fiduciary Duty:**

Directors and senior leadership have a duty to oversee the financial soundness of the company by understanding how risk exposures across underwriting, investment, operational, and other domains interact. A siloed view of risk may result in unintended concentrations and pro-cyclicality.

### **Best Practices:**

- Implement a robust ERM framework that quantifies and aggregates risk exposures across all areas of the company, including investments, underwriting, reinsurance, and credit.
- Evaluate correlation effects among various risks to avoid redundancy in capital allocation or overstated diversification benefits.
- Require periodic reporting that integrates investment risk with broader enterprise risks, highlighting tail risk exposures and stress scenarios.

## 2. Governance Roles and Documentation

Role	Key Responsibilities
Board of Directors	Set risk appetite, approve policies, oversee compliance
Investment Committee	Implement strategy, select managers, oversee ALM/ERM
Senior Management	Day-to-day execution, monitoring, reporting

## **3. Asset-Liability Management (ALM): Correlation Between Reserve Assets and Claim Payments**

### **Fiduciary Duty:**

The alignment of investment maturities, durations, and cash flows with expected claims liabilities is fundamental to solvency. Failure to prudently manage this alignment may expose the company to liquidity shortfalls or forced sales during stressed markets.

### **Best Practices:**

- Utilize ALM analysis to match the duration and liquidity of “reserve” or “claims-supporting” investments with the liability profile derived from actuarial analysis.
- Incorporate scenario and sensitivity testing to evaluate how changes in interest rates, credit spreads, and claims experience affect asset-liability matching.
- Ensure reserve portfolios are composed of high-quality, liquid, and marketable securities with a low probability of impairment or downgrade.

## **4. Strategic Asset Allocation Aligned with Risk Budget and Portfolio Segmentation**

### **Fiduciary Duty:**

Management and boards must prudently allocate capital across asset classes in a way that aligns with the insurer’s risk appetite, statutory requirements, and capital preservation obligations. Strategic asset allocation decisions directly impact the company’s ability to meet policyholder obligations and grow surplus.

**Best Practices:**

- Define a formal investment policy statement (IPS) that outlines objectives, constraints, and asset class parameters for each segment of the portfolio (reserves, liquidity, and surplus).
- Ensure that the allocation reflects regulatory capital charges, liquidity needs, and the insurer's business cycle sensitivity.
- Periodically reassess the allocation as surplus levels change, new product lines are introduced, or macroeconomic conditions evolve.

**5. Investment Oversight: Benchmark Appropriateness and Return Sufficiency****Fiduciary Duty:**

Oversight committees must ensure that investment results are evaluated against relevant and fair benchmarks, and that the risk taken by managers is justified by return outcomes. Inappropriate benchmarks can obscure underperformance or misaligned strategies.

**Best Practices:**

- Review and approve benchmarks that accurately reflect the risk, duration, quality, and structure of the assigned mandate. For constrained portfolios (e.g., statutory reserve accounts), custom or blended benchmarks may be necessary.
- Monitor both absolute and risk-adjusted returns, including metrics such as Sharpe ratio, information ratio, and downside deviation.
- Regularly assess whether the manager is generating value-add (alpha) net of fees, or merely capturing beta exposure to a market index.
- Require attribution analysis to deconstruct sources of return and evaluate strategy consistency.

**6. Investment Manager Due Diligence: Quantitative and Qualitative Assessment****Fiduciary Duty:**

Selecting and monitoring external managers requires diligence that extends beyond past performance. Boards and committees must vet strategies, processes, and organizational strength to ensure consistency, transparency, and alignment with institutional standards.

**Best Practices:**

- Conduct quantitative screening to compare managers within peer universes on risk-adjusted returns, volatility, drawdown, tracking error, style consistency, and benchmark-relative performance over multiple market cycles.
- Perform qualitative assessments of manager stability (e.g., ownership, turnover), depth of investment team, clarity of investment philosophy, and strength of operational infrastructure.
- Verify alignment of interests through transparency of fees, portfolio turnover discipline, and conflict of interest management.
- Maintain detailed documentation of due diligence reviews, quantitative and qualitative analyses, and performance evaluations to support audit trails and governance.

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**CapVisor Conclusions**

The fiduciary role of insurance company leadership in investment governance extends well beyond periodic performance review. It requires a proactive, structured, and transparent approach that integrates risk management disciplines, asset-liability alignment, strategic capital deployment, and rigorous manager oversight. In fulfilling these responsibilities, senior management, boards, and investment committees uphold their duty to policyholders and regulators while positioning the enterprise for long-term financial strength and resilience.