



RISK MANAGEMENT IS THE KEY CHALLENGE AS INSURER RISK PROFILES INCREASE

A report for Ortec Finance

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Introduction

Risk management remains a key challenge for investment managers in the insurance sector. This year, they have faced heightened volatility across investment markets, fueled by US tariffs and a series of macroeconomic and geopolitical issues.

Insurers are well versed in managing such pressures, with rising inflation and interest rates in recent years adding to ongoing concerns around currency and liquidity. In addition to these challenges, climate risk continues to cast a shadow over all investment decisions.

This context underpins the global research conducted by PureProfile on behalf of Ortec Finance, the leading global provider of risk and return management solutions for insurers, pensions and investment managers. The study questioned senior executives working in insurance asset management across the UK, France, Germany, Switzerland, Hong Kong, Malaysia, Singapore and the Nordics. Collectively the organisations they work for manage around \$10.48 trillion of assets.

Ortec Finance's motivation for commissioning the research was to provide insights that will help them to enhance the services they provide to insurers, including asset liability management, asset allocation, risk management, economic and climate change scenario testing and performance measurement and attribution.

The study found a major shift in attitudes to risk and optimism about investment opportunities as well as finding that insurers having more capital to invest.

It also looked at the impact this is having on asset allocations and how risk is being managed as well as looking at views on climate risk and the growing use of AI to drive investment strategy. The results provide valuable insights into how insurers are evolving their investment strategies.

RISK PROFILES WILL INCREASE IN THE YEAR AHEAD

The research found insurance investment managers expect the risk profiles of their investment portfolios to increase over the next 12 months, despite having remained relatively cautious over the past year.

A clear majority (83%) believe risk profiles will increase in the year ahead, with 20% anticipating a dramatic rise.

In the past 12 months just 36% said portfolio risk had increased. More than half (54%) said risk profiles had stayed the same, while 10% said risk profiles had decreased. The vast majority (91%) questioned said risks facing their investment portfolios were currently within agreed risk parameters.

Liquidity risk dominates concerns: 55% cite long-term liquidity as the greatest threat, 31% point to short-term liquidity, and 14% see both as equally significant. They rank the prospect of a recession as the biggest macroeconomic risk portfolios face, ahead of a deterioration in liquidity conditions, with inflation ranked as the third biggest risk.

Credit market volatility is viewed as the fourth greatest threat, ahead of tariffs and potential trade wars. Monetary loosening and deflation ranked as the next biggest risks with equity market volatility and geopolitical tensions rating as the eighth and ninth biggest macroeconomic risks.

INVESTMENT OPPORTUNITIES ARE INCREASING

The study reveals that insurers are expecting more attractive investment opportunities across the board this year compared to last year but are concerned that risk levels will increase.

Fixed income, equities, and private markets are seen as the most promising areas. Around 83% of respondents believe the attractiveness of investment opportunities in fixed income will increase this year compared with last year, including 46% who expect a substantial improvement.

In private markets, 80% forecast better investment opportunities, with 17% anticipating a dramatic improvement. In equity markets, 74% expect an improvement although only 3% think it will be substantial.

This outlook is reflected in expectations for equity risk in the insurance portfolios they manage, with 75% expecting an increase over the next 12 months. That includes 16% expecting a dramatic rise while 23% foresee no change and just 2% expect a decrease.

For credit risk, nearly all respondents foresee higher exposure: 45% expect a dramatic increase, another 45% a moderate rise, while 10% believe it will remain unchanged. None expect credit risk to decline.

CAPITAL TO INVEST IS INCREASING WITH PRIVATE MARKETS BENEFITING

Insurance investment managers are expecting a rise in the capital they have to invest in the year ahead, the study found.

More than three quarters (77%) of insurers and insurance asset managers expect an increase in capital available to invest in the year ahead, with only 2% ruling it out.

Private markets are expected to be the biggest beneficiaries of the rise in capital - two thirds of investment managers identify private debt as the asset class most likely to see the largest allocation increase, followed by private equity and real estate.

However, concerns about the level of transparency and reporting from private fund managers remain. More than a fifth (21%) strongly agree these issues prevent insurers from investing in some private funds due to regulatory compliance requirements, while a further 79% agree to some extent.

Inflation protection is regarded as the leading driver for investing in private assets, chosen by 35% of respondents, followed by diversification (30%), 22% chose cashflow matching and 13% returns and illiquidity premiums.

Around 62% expect distributions for private equity – the means by which private equity funds return capital to investors – to be higher in the future. Around 35% expect them to remain stable.

The table below shows the percentage of insurers and their investment managers selecting private asset classes among the top three most likely to see the biggest increases in allocations over the next 12 months.

Private asset class	Percentage selecting among their top three most likely to see the biggest increase in allocations over the next 12 months
Private debt	68%
Private equity	49%
Private real estate/REITS	47%
Real estate debt	46%
Infrastructure equity	41%
Direct real estate	36%
Infrastructure debt	13%

RISK MANAGEMENT SPENDING IS RISING

Insurers and investment managers look set to increase their investment in stress testing, scenario modelling and asset liability management (ALM) over the next two years.

Nearly four in five (79%) plan to increase both spending and effort in these areas, with 24% planning dramatic increases.

The survey found most outsource their ALM studies, with just 9% conducting them entirely in-house. Around 23% outsource completely, while 68% outsource some elements.

When assessing risk, 45% focus on assets, 37% on liabilities, 10% assess the risks of both in isolation, while just 8% examine the combined risks on both sides of the balance sheet.

CLIMATE RISK TO INVESTMENTS ARE A MAJOR ISSUE

Insurance investment managers see climate risk as an increasingly important issue but acknowledge they need more support on understanding the impact of different climate scenarios on their investments, the study found.

Around one in four respondents admit their organisation's current understanding of climate related impact is only average, while 76% consider their understanding of the impact of different climate scenarios to be good.

More than 90% expect climate risk and impact investing to become more important to their organisation's portfolio and investment strategy over the next three years. Nearly a third (29%) believe it will become much more important.

Around two-thirds of respondents allocate 4% of their investment portfolio to sustainable investments, such as green bonds, social bonds and impact investing. A further fifth report that only 3% of their investment portfolio is dedicated to sustainable investments, while one in six dedicate 5% of their portfolios.

Ortec Finance's ClimateMAPS, in partnership with Cambridge Econometrics, enables financial institutions to identify climate change risks and opportunities, across all asset classes, macroeconomic variables and sectors.

It translates climate risk and opportunities across all asset classes into real-world assessments across macroeconomic variables, conventional and green benchmarks, regions and sectors - delivering a real-world assessment of systemic transition, physical and market pricing risks.

AI IS PLAYING A MAJOR ROLE

AI is already embedded in the investment process for almost all insurers and asset managers, with adoption expected to accelerate further.

Nearly half (45%) questioned believe AI will be critical to investment strategy and asset allocation within five years, with a further 48% expecting it to be of significant importance.

All firms surveyed expected their investment in AI to rise, with nearly half (49%) of respondents expecting budgets for AI applications to rise by 75% or more over the next 12 months.

That comes on top of increased spending in the past 12 months – 90% of respondents said they had already boosted spending on AI applications over that period.

Currently almost all (99%) use AI in the investment process, with 91% adopting it more than a year ago. Around a third (31%) have used AI for more than two years. Around 60% use AI for evaluating investments, with 62% using it for client engagement and 55% for marketing.

When asked where AI delivers the greatest value, 41% point to investment evaluation, 21% to risk management, and 16% to marketing and client engagement. Just one in eight (12%) say AI has its biggest positive impact in reducing operational costs. while 4% cite compliance and reporting.

CONCLUSION

The study suggests a shift in sentiment. Following a period of relative caution, insurers are expecting to increase their investment risk profiles over the next 12 months.

Insurers are expecting to embrace more risk despite identifying recession and liquidity as the most significant concerns. This suggests these risks are perceived as having a relatively low probability of materialising. In this environment, tools like scenario analysis and balance sheet simulation are critical to making insightful, forward-looking assessments.

It would seem that investment managers in the insurance industry are more optimistic about investment opportunities this year across both private and public markets, with fixed income standing out as the most attractive area. There is confidence in private assets and the equity market, although optimism in the equity market is more subdued.

The rise in the number of attractive investment opportunities is accompanied by rising risk levels in equity and credit markets and underline the need for robust risk management.

There is continued momentum behind private asset allocation, with many insurers expecting to see an increase in capital to invest in the year ahead.

Scenario modelling, stress testing and ALM seem to be an area of focus for insurers and investment managers with many planning to increase investment in these tools over the next two years. A combination of increased market volatility and continued investment in complex asset classes further emphasises the need for robust risk management approaches.

Climate risk and its impact on investing is becoming increasingly important among insurers. Significant numbers of organisations in the study acknowledge they need to do more, with many admitting their understanding of the potential impact of different climate scenarios on their portfolios could improve. This points to a growing need for stronger support and a more rigorous, forward-looking approach to managing climate-related risks and opportunities.

Finally, AI is being used in some form by insurers and investment managers and is already reshaping investment strategy and asset allocation for nearly all organisations surveyed, a trend clearly reflected in plans to significantly increase budgets in the next 12 months.

Given the strategic importance placed on the role of AI, it is crucial that companies can maximise their investments with access to appropriate tools and expertise.

About the research

Ortec Finance commissioned independent research company PureProfile to interview 100 senior executives working in insurance asset management or in investment management firms supporting insurers in May 2025. Survey respondents are located in the UK, France, Germany, Switzerland, Hong Kong, Malaysia, Singapore and the Nordics. Collectively the organisations they work for manage around \$10.48 trillion.

About Ortec Finance

Ortec Finance is the leading provider of technology and solutions for risk and return management. It is Ortec Finance's purpose to enable people to manage the complexity of investment decisions.

This is accomplished via the delivery of leading technologies and solutions for investment decision-making to financial institutions around the world. Ortec Finance's strength lies in an effective combination of advanced models, innovative technology, and in-depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

Headquartered in Rotterdam, The Netherlands, Ortec Finance has offices in Amsterdam, London, Toronto, Zurich, Melbourne, and New York. Ortec Finance helps 600+ clients manage their \$15 trillion assets under management. www.ortecfinance.com