Investment Management: Active vs Passive Overview

Insurance companies and risk pools can utilize two different approaches when managing their investment portfolio: Active Management and Passive Management.

There is an ongoing debate in the investment industry and academic circles regarding "active vs. passive" management.

Insurers and risk pools, either internally or through an investment management firm, can utilize either active or passive management for different asset classes.

Often times a "blended" approach, or a portfolio utilizing both active or passive management depending on the sector allocation, is utilized.

Overview	Active Management	Passive Management
Description	• A "Buy and Sell" Strategy • Securities are directly bought and sold to makeup the investment portfolio • Trades are conducted constantly to outperform a benchmark	• A "Buy and Hold" Strategy • Securities are held for longer periods, minimizing trading • The portfolio is structured to match a certain benchmark over the long-term.
Potential Benefits	• Allows for customization and transparency • Potential for greater returns • Can usually be more cost-effective for fixed income portfolios	• Offers greater simplicity, as well as portfolio diversification • Can be more tax-efficient • May generally provide lower fees than active management
Commonly Used by Insurers and Risk Pools For	• Investment-Grade Fixed Income *(Separate Account)* • Mutual Funds *(via Fund Manager)*	• Bond ETFs • Equities • High-Yield Bonds

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