

TC Wilson

Episode 206: Investing Opportunities in COIN with TC Wilson of The Doctors Company



GUEST Q & A

Stewart: Welcome to another edition of the InsuranceAUM.com podcast. My name is Stewart Foley, I'll be your host. I am really excited about this podcast with a really good friend, longtime friend TC Wilson, who's the Chief Investment Officer of The Doctors Company, as everyone knows. But today we're going to be talking about the COIN, which is the California Organized Investment Network. So without going too far forward here, TC, welcome. Thanks for being on.

TC: Thanks for having me here, Stew. It's always a pleasure.

Stewart: So it's interesting. I want to talk about COIN and that's super important, but it's also important to note that you were a summa cum laude graduate of Hampden-Sydney College with five Beta Kappa Honors and an academic All-American in football. If I'm not mistaken, that is a D III school, which is near and dear to my heart. Can you talk a little bit about being a student-athlete, what impact that's had, or what the result has been in your career, which has been incredible and we can talk more about that, but what was it like at Hampden-Sydney and how do you think that's transferred to today?

TC: Nice. Yeah, so happy to talk about that and you were right on with those accolades I worked hard in college to earn those, but at the time I didn't realize how much of an impact being at a school like that and being a student-athlete and having the success that I did both in the classroom and on the gridiron was going to have on my future. So yeah, as you mentioned, Hampden-Sydney, a small Division III school. It was all male. It's actually one of two that are left in the country today. So that helped. It certainly helped me focus during the week on my academics but the athlete part of it was interesting because I was recruited to play I-AA football. Back then there was such a thing as I-AA but again, doing that meant I committed my full year to football and I really loved the sport, but I wanted to enjoy college life.

So Division III was great. It's like a fifth year of high school. You started in August, you ended in mid-November, and then you were done and you could enjoy the rest of your time in college. But I attribute a lot to what I know today to what I learned from my head coach at the time. His name was Joe Bush. Small guy, played football at VMI, Virginia Military Institute. So he was a military guy, but he ingrained in me and my teammates how important it was not only to put the work in on the field to get results that you wanted but also to put the work into the classroom because eventually that's going to really pay off. Stuff on the field none of us were going to play pro football. None of us had aspirations to do that, but it was a good release from academia and it was a very, very tough school.

Still is today. So I think what I took away the most from that is again, the commitment. If you aren't five minutes early, you were late. If you didn't stick around after practice, not that we had a choice, but you expected an extra 10, 15, 20 minutes of whatever. But the thing I took away from that is one, you make the commitment, you put in the time you'll get the results. But what I also learned was that by doing so it was going to make me a better person. And he challenged each one of us individually and it was about 80 of us on the team, but in front of people, one-on-one, he gave us individual challenges. He'd look at film religiously and he would come back to us and to me, I'll just use me and say, "Hey TC, you're doing great. Here's something you need to improve on."

It may be taking a step that's 12 inches as opposed to 6 inches. It was that much detail to make you better fundamentally. So again, I learned a lot from that focusing on the little things. And the one line that he gave the team, and this kind of stuck with me, he said, "Look, after each game, if you can look in the mirror and you can say, 'I gave it my all, there's nothing more I could have done,' then regardless of the outcome, I did my job." And of course, no one can do that because nobody's perfect. And I think that line of thinking has transitioned to what I do today.

When I stand up in front of my board, my investment committee, when I'm on a panel speaking to a group, or whatever I'm doing, I will get like the 100%, hey, TC, you did a great job. No recommendations on how to improve that. But I leave each one of those events bothered by some of the little things that I said or misinterpreted or just did wrong. And there might not... It obviously isn't clear to the audience, but to me, it's the little things that I'd like to focus on and improve on. So I think that's made me better. It's helped me evolve to the position I am today. But again, it goes all the way back to being a student-athlete in college and learning from that coach.

Stewart: Yeah, it's really inspiring, right? I mean, I was involved with a liberal arts college, a D III College they had a great football coach named Jim Kattenzero, and he went by Coach Kat. And Coach Kat had a tremendous influence on his players, no doubt about it. And in ways that you're talking about, which I think is inspiring, and it's gotten you to... And I'm going to read off some of your professional accomplishments just so people know where you're at.

TC: Thank you.

Stewart: So you've been the CIO of The Doctors Company since 2017. You worked for The Doctors Company for 18 years before that. The Doctors Company, for those who don't know, is the nation's largest physician-owned medical malpractice company. It's based in Napa, California. The portfolio is about \$6.4 billion. It's about \$2.8 billion in surplus. You also chair The Doctors Company 401k investment committee, which I'm sure that's... I've kind of been in that seat.

I know there's a lot of responsibility there. The treasurer of the TDC Foundation, you're also the chair of the advisory board of COIN, which is why we're on today. And a member of the advisory council of owns and impact ETF, a non-voting member of the private equity firm Tuckahoe Holdings. And it's an impressive resume and I've known you for a really long time and you have an outstanding reputation in the industry and it's really interesting to see what you're doing with COIN. So before we go real far, can you give us a high-level overview of what is COIN and a little bit about its history?

TC: Yeah, absolutely. And it's got a rich history. So COIN, as you noted, is the California Organized Investment Network, which is under the purview of California's Department of Insurance, but as well as an advisory board, which you alluded to that I am now a chair of. And the advisory board is comprised of non-departmental individuals. So I'll get into that in a little bit, but it's a very broad and complimentary board. So COIN's mission is to really help insurers make financially sound investments that have environmental benefits throughout California and/or social benefits in the underserved communities across the state. So the program brings together leaders and advocates from obviously the DOI, the insurance industry, which is me, community affordable housing, economic development organizations, and community advocates. So as history goes, COIN goes all the way back to 1996 and basically, at that time the insurance industry was looking for ways to prudently invest in underserved communities.

And I stress the word 'prudently' because we didn't want to be resorting to state legislation that would have required insurance companies invest and I'll come back to that as well. So most COIN investments back then were in the form of municipal bonds that were issued for the benefit of California's social environment and loans for its low to moderate in rural communities. In 2018, COIN launched the Impact Investment Marketplace. And what that is, it's an online portal that lists investment strategies that have an impact in California. So insurers like us looking to make a COIN-Qualified investment would have an easier way to see what is available as far as options and types of strategies that are out there. So I've got the consulting background that you think about. So with my previous companies, we had a recommended list of firms and strategies under various asset classes.

Think of the marketplace as a similar structure. It's smaller in nature, but again, it's got multiple strategies and within their strategies, they have different managers that are available. But today the marketplace has expanded far from just municipal bonds and loans to underserved communities. So it includes public and private equity, public and private debt, green bonds, infrastructure, renewables, small business loans. We just heard a presentation on forest conservation, which was quite fascinating to hear. And then they also have a breakout for DEI-qualified firms. So the breadth of offerings is quite impressive and it's a vast improvement from what COIN offered just a few years ago.

Stewart: That's awesome. And I know that you're the chair of the advisory board. How long have you been involved with COIN?

TC: Yeah, so this is interesting and this dates all the way back to when you and I first started to get to know each other. So in 1996 when COIN started, that's when I made a career move, same type of business doing investment consulting, but I made a career move out of doing mostly endowments, foundation, and pension consulting into insurance consulting. So one of my first clients was a large northern California P&C company, not The Doctors Company, which had a board member who was a huge advocate of COIN and he constantly mentioned the program at the quarterly investment committee meetings. So COIN was in its early stages, I was just learning the nuances that go along with insurance investing. But we did look at some of the qualified investments and we ultimately gave our investment managers a target dollar amount to invest in some of the approved municipal bonds at the time.

In 2019, I was appointed by the Insurance Commissioner, Lara, to the advisory board of COIN. There's 12 of us on the board and we represent, as I mentioned earlier, insurance companies, community affordable housing for low to modern-income families, community-developed financial institutions or CDFIs as we call them, community advocates, and former members of state government. The balance perspectives really brought by this complimentary group are key to providing guidance to COIN to help meet its mission. In November of 2023 so just in our last board meeting, I was nominated to serve as chair of the advisory board.

Stewart: That's a phenomenal story and I think it's interesting. I never really knew that you were at some point not an insurance person because you've been an insurance person for so long, and that's interesting. I want to talk more about that in a minute. But can you discuss how the COIN team is structured and what their process is for qualifying a fund for their platform?

TC: Certainly, there's a very experienced team in the COIN group that does the initial vetting and the team includes CFAs and others who have a number of years evaluating investment opportunities. So the application process is open 24/7 through the marketplace that I mentioned. It's the portal and the instructions are really clearly defined there and most are based in Sacramento. So the staff of COIN review all applications to determine which fit the goals and objectives of the program, but I'll get to that in a second. And even those that are turned down, which don't initially meet it, they're notified as to the reasons why and also given an opportunity to resubmit if they've got a different strategy or an idea that might fit. So the three guiding investment principles that must be adhered to be considered for COIN one, now they have to be impact investments and they must have some percent of its investment capital focused in COIN-Qualified investment criteria.

So high-impact investments have a 50% or more exposure in California. Two, they have to provide either a social or impact to low to moderate-income people or communities and/or environmental benefit to California. And three, which is one that's up for discussion quite a bit and it makes sense to you and me, is provide safe, sound, and solvent investments that offer acceptable risk-adjusted financial return for whatever asset class is represented. So they go through the vetting process, they take the submissions. If they pass those three or one of those three, they qualify and then they're vetted even more by the team. As any manager, a fund would be reviewed prior to getting qualified status.

So once an approved investment bulletin is issued and the bulletin highlights the investments' philosophy, team, process, performance, and terms, and it's distributed to all insurance companies that do business in California, COIN is responsible for tracking and updating all the bulletins and reporting any changes to us. So it's a very thorough and rigorous process by a team that is more than qualified to put these in front of us as investments for consideration.

Stewart: That's interesting. That sounds like a rigorous process. You had mentioned earlier that some of the spectrum of opportunities, can you just go through and say how many funds are there and what types of funds are currently available on COIN's platform?

TC: Yeah, it's a big number and this is again, one of the things that we are working on, and when I say 'we', I'm talking about the advisory board in conjunction with COIN's staff. We're working on to get the message out. This isn't the COIN of just 1996 or even 2017. Since the launch of the marketplace in 2018, the offerings have expanded significantly. So right now, and I'll just round because I don't have the exact number, but total strategies, that's not managers because some managers have multiple strategies available. Total strategies that right now I believe are nearing 100, which is pretty large. And that excludes the individual municipal bonds that qualify for COIN. As mentioned earlier it spans equities, fixed income, private equity, private debt, and all on the real assets. There's some hidden gems in there with some small firms that you have to do a little bit more digging on to understand what they do, who they are, and their background.

But to many surprise, you're going to see some of the larger firms on that list and that we all recognize, Brookfield, BlackRock, J.P. Morgan, Pimco, Payden & Rygel, StepStone, I could go on with even more, but there's some very well-known high AUM managers out there who have proven track records that are offering strategies that are COIN-Qualified. So it's comforting. So I get in front of my committee and I have to report out each quarter on my COIN investments. And while there are some names they don't recognize when they do see names like some of the ones I mentioned, they go, "Okay, we feel better." Not that they don't trust us to do the research, but again, just recognizing names that are familiar to those of us in the industry just gives a little bit more... A better sense of comfort.

Stewart: And you mentioned there's an insurer connection to COIN. So can you walk us through the benefits for an insurer to invest in a COIN-Qualified strategy?

TC: Yeah, sure. So one of the more common agenda items over the years and ever since I've been involved is "What can COIN do for me," right? As an insurer, you want to know what can I get in return for making a COIN investment. Years ago, there were some premium tax credits that were available to insurers if they invested in COIN-Qualified strategies. Those expired and are really not likely to be renewed anytime soon. So we again, are kicking around some ideas including can we get favorable RBC treatment for COIN-Qualified investments. Can we get more municipal bonds that qualify on the list? Again, with the rates up where they are, most of us, well all of us having most of our assets in fixed income and looking for income, we really want that list to expand to make it easier to get some uptake in COIN assets or adding to areas that are currently underrepresented on the list, like private equity for example.

So those are a couple of things that could benefit, but one thing that I have found out, and it's a little concerning in one form, but it just gets back to we need to do a better job messaging some of the changes that are happening at COIN. In 2021, there was a major legislative action that took place, and I think the vote was unanimous, like 38-0 that went into effect on January 1st of 2022. And a lot of insurers weren't either not paying attention or it didn't impact them or just simply didn't know about it. But basically, California passed a resolution that amended the Leeway Law. And for those that are not familiar with the Leeway Law, it basically says that an insurer domicile in California cannot invest more than 5% of total omitted assets or 50% of surplus, whichever is less, and investments that fall on Schedule BA of the financial statements.

And the rationale behind this was really to limit exposure to less liquid riskier investments. You don't want an insurer going out there kind of being in the Wild West, and just investing a member or shareholder premium in whatever they wanted. And so the purpose of the law is good, but the problem was that many of the COIN-Qualified strategies that we're talking about were vehicles, limited partnerships, for example, that fell on Schedule BA. So for those of us who are well-capitalized and have broader risk appetite like The Doctors Company, if we were already near the maximum that was allowed, so we couldn't add COIN-Qualified even if we wanted to under the old law. So we discussed it, we said, "Look, something's got to change." I'm just speaking on behalf of The Doctors Company, but I know I'm speaking on behalf of a lot of others out there.

We want to put more in COIN, but your law doesn't allow us to do that. So the modified Leeway Law allows for unlimited discretionary BA assets as long as they are COIN-Qualified. So in other words, insurers can add as much above that 5% limit as they want of COIN-Qualified, and it won't count against them. This was an impactful legislative action and it should increase investment in COIN, and we're going to do a better job of getting that message out there that the Leeway Law is different today than it was just two and a half years ago.

Stewart: That's really helpful background because I think that that's the kind of thing that not everybody knows and it's just helpful to get out there.

TC: Why would you?

Stewart: Yeah, right. Of course.

TC: Why would you? A lot of people aren't following because again, many companies don't have dedicated investment teams like The Doctors Company has with backgrounds like I have, and I'm not patting myself on the back, I'm just saying The Doctors Company recognized how important investments were just wasn't a back burner section of the company that, hey, generate me income and to help with the operations and go away. It's important and staying on top of these things is not first and foremost for many companies. For us it is, and we certainly have benefited from it.

Stewart: And are there any particular challenges for insurance companies who want to invest in COIN-Qualified strategies that kind of similar to what you're talking about right here? Is there anything that an investor needs to know?

TC: Yes, there's a couple of things. One of the biggest challenges, and it kind of ties into how I just mentioned our team versus many companies just don't have dedicated investment groups. So one of the biggest challenges is the depth of the due diligence and research that COIN staff currently provides. As I mentioned, they do an incredible job given their knowledge and experience to vet candidates for the program. However, just because COIN is approved a manager, that doesn't mean that is automatically approved for an insurer's portfolio, nor should it be under the way it's currently structured. So in other words, many insurers have to go through the same due diligence process that they do when selecting a non-COIN manager. And as you know, the process is time-consuming and expensive, especially if consultants who use and staffing is typically thin in this area for most companies. Again, my company is fortunate in giving manager research was what I spent most of my career doing, and I have a great staff that's dedicated to providing the additional due diligence.

The CIOs, including myself that are on the advisory board, are working with COIN to enhance the questionnaire to improve the due diligence process so that most of the heavy lifting is done before it hits our desks. We'll get there. It's a slow process, but we've made huge strides with the help of the staff. That's at COIN. The other challenge is, and this gets discussed as well, is balancing "doing the right thing" by committing investments to the mission of COIN with "fulfilling their fiduciary responsibility" now by providing oversight and advice to their general account assets. So most companies that I've spoken with, and I've reached out to about 50 companies over the last couple of months to see why they aren't investing in COIN or what I could do to make it more visible for them. But most companies believe in COIN and what I found out was a nice surprise is that they believe in COIN's mission and they want to contribute, but acceptable risk-adjusted financial returns must be attainable and they just weren't seeing that with the previous structure.

And remember, the money we're talking about is from our shareholders or members and we're member-owned. So finding an answer between doing the right thing or fulfilling fiduciary responsibility, I'm not going to say it's a challenge. I think we both know what the answer is. We've opted to fulfill the fiduciary obligation and you can't argue that, right? It's not our money. The good news is that the work COIN has done to expand the offerings and identify prudent investments has really made it easier for us to do both, do the right thing, invest in COIN, support its mission in everything that it's looking to improve, but also fulfill our fiduciary obligation to our shareholders. So we're working hard to get that message out and attract new capital. I'm going to continue to do that at least as long as I'm a part of the advisory board.

Stewart: I really appreciate you being on today. I have learned so much about COIN and just as a reminder, COIN stands for California Organized Investment Network. TC, you are the chair of the advisory board as well as the Chief Investment Officer of The Doctors Company. So thanks for being on and thanks for going through this with us and giving us all the background and details that are super helpful for people who want to learn more about COIN or consider it. Do you know off the top of your head the domain address if somebody wants to go there online? I can get it out here on the podcast if helpful.

TC: Yeah, and you should probably look that up. I don't want to misstate a backslash or a semi-colon or something like that.

Stewart: I will read this off, but this is going to... If you're driving just pull over it's insurance.ca.gov/0250-insurers/0700-COIN/ and that is where you will find the California Organized Investment Network. And that's good stuff, and I really think that you're doing the right thing here and I'm really happy to have the opportunity to help promote COIN. I've got a question that I have been toying with. What do you think makes a good insurance investment professional? If you wanted to be CIO, if somebody who's early in their career wants to be CIO at The Doctors Company, what do you think? Are there characteristics or skill sets that you think are particularly well suited to this industry?

TC: Again, having seen the broader spectrum of this industry endowment foundation pension insurance is different, but what I would say and what I've learned and I'm still learning, and I don't know if when I retire I would've learned at all, I probably most likely not because it's such an evolving industry, but I would say what's helped me the most and what's made The Doctors Company as successful as it is is understanding what we do. Investments is easy, right? It's all I've ever done. I mean, you know what I mean by saying it's easy, it's what I do, it's what I live and breathe. But understanding what claims does, understanding how business is developed in our company. Understanding how we market, understanding the legal challenges that we face.

I'm fortunate that I get to sit in on each of those board meetings, on each of those internal meetings to discuss those things that are happening. Again, many don't really impact my day-to-day, but eventually, something does leak over and what I do on the investment side with my team has an impact on other areas of the organization. So again, it's just not a straight pot of portfolio. Here it's an endowment, it's in perpetuity, go out, generate me whenever 10%, 9%, 10% returns per year, we'll be done with it. There's a lot more to it and understanding really how the company is operating, I think is something that's important. If you want to be involved in insurance.

Stewart: Outstanding, great words of wisdom there from somebody who's been at it for your bio... You don't look like this is possible, but 33 years of investment experience right there.

TC: Yeah. Actually, Stew, it's actually only 31 and a half. I spent 18 months thinking I was going to be an actuary at a college, so somehow I lasted 18 months, but I made that move over quickly after that.

Stewart: I love it. I spent about the same amount of time majoring in computer science, and I was like, "Oh." I go, "Hey, listen, finance, how about that?" And then-

TC: How about that?

Stewart: How about that? No, but it's great to catch up with you as always, and thanks for being on. We've been joined today by TC Wilson, Chief Investment Officer of The Doctors Company, and chair of the Advisory Board of COIN. TC, thank you.

TC: You're welcome, Stew. And thank you.

Stewart: And thanks for listening. If you have ideas for podcasts, please shoot me a note. It's stewart@insuranceaum.com. Please rate us, like us, and review us on Apple Podcast, Spotify, Google Play, or wherever you listen to your favorite shows. My name's Stewart Foley. This is the InsuranceAUM.com Podcast.