

Proposal for an Asset/Liability Management System Standards Feasibility Study

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We would like to propose that either the SOA or AAA should initiate a feasibility study to examine the potential creation of technological standards for either Asset/Liability or Risk Management.

Currently technology has advanced to the stage that object oriented programming (OOP) has advanced to a very useful and stable rapid application design (RAD) environment. Also, the ability to link various off-the-shelf modules has both reduced costs and decreased development time for new applications. However, to implement OOP or RAD properly, standardization is required in either the data format, the data structure or module design.

The current environment for ALM for the life insurance industry consists of two or three large systems (PTS, TAS and Alpha) or company specific systems. Most of these actuarial systems are designed to only meet valuation requirements. However, the new paradigm of the consolidation of financial services and risk management has led to new needs that these existing actuarial systems can barely meet. The ongoing requirements for financial service organizations to create flexible and reliable models are beginning to place pressure on the industry to implement OOP and RAD. Note however, that the existing actuarial software vendors may not be motivated to create smaller application modules even though there would be an increased market base from selling these modules.

The proposed feasibility study should consider the following issues:

1. Barriers. What are the limitations to OOP due to vendors, current technology and complexity of the model and data requirements? What are measures to overcome these barriers?

2. Needs. What is the current needs of the industry? What are the primary and secondary risks that need management? What are the reporting requirements and/or data consolidation needs?
3. Benefits. What are the potential improvements to the life insurance and financial services industry if standardization is implemented?
4. New technology. What is the current technological environment? What is the most effective means to implement RAD or OOP within that environment?
5. Data. What are the data requirements? How can the format of data be standardized?
6. Modularity. What should the modules be? How should they be designed? What would the interaction between the modules be?
7. Order of development. Should the standards be developed from output or reporting needs first? Or should the standards be for economic scenarios or assets cash flows and associated prices?
8. Coordination. Can there be other committees or research projects tied with the development of the standards. Can the standards be “farmed” out?
9. Costs. What is an estimate of the time and expertise required developing the standards?
10. Oversight. What organization(s) will ultimately be responsible for the oversight and revisions of the standards? What is the frequency of review?
11. Licensing. Once the standards are in place, how can these standards be licensed for use by various software vendors?
12. Communication. How will the standards be communicated to the industry? What should be on the web site?
13. Funding. What organization(s) should be contacted for funding the project?

We realize that creating technological standards can be both expensive and time consuming, but we believe that the resultant RAD environment will improve the ability of the life insurance and financial services industry

to anticipate and meet the needs of their contract holders and stockholders. Also, RAD will allow the industry to quickly address the increasing requirements from both domestic and international regulators and rating agencies.

We believe that the complexity of designing these standards and the known and possible hidden associated costs may prohibit any one organization from being able to implement them. However, to properly understand the barriers, pitfalls and benefits of standards we believe that this feasibility study should be undertaken.