

INSURERS BOOST SCENARIO MODELLING SPENDING AS INVESTMENT COMPLEXITY INCREASES

- **Global study finds 84% believe the level of investment complexity and challenges facing the sector will rise over the next two years**
- **87% say their firm is increasing its budget for scenario modelling, optimisation and testing and 86% believe the industry will increase spending over the next three years**

Insurers are boosting spending on scenario modelling, optimisation and testing in the face of rising investment complexity and challenges for the industry, a new global study* among investment management professionals in Life Insurers, London Markets (re)insurers and investment managers who support insurers, shows.

Nearly nine out of 10 (87%) questioned are increasing spending at their own firm while 86% expect increased spending across the sector as a whole over the next three years, with 14% forecasting a dramatic increase.

The study from Ortec Finance, the leading global provider of risk and return management solutions for insurers and other financial services companies, found 84% believe the level of investment complexity and challenges the industry faces will increase over the next two years.

One issue driving increased spending on scenario and stress testing is the growing use of alternative asset classes by insurers. Almost all (97%) questioned say the relatively new risks and issues, such as liquidity and correlation posed by alternative asset investments, means insurers and insurance asset managers need to invest more in scenario and stress testing.

The increased focus on more esoteric, illiquid and unlisted asset classes as the search for yield intensifies is regarded as the biggest factor driving increased spending on scenario and stress testing. A growing focus on transparency and reporting is also a significant factor in the study.

Regulatory pressures are adding to the need for improved modelling along with climate risk and a general rise in risks faced by insurers.

Just one in seven (14%) rate the accessibility, user friendliness and overall usefulness of current stress testing, optimisation and scenario modelling software as excellent, while 69% believe it is “good”.

Currently, three out of four (75%) of insurers and insurance asset managers conduct up to half of their scenario modelling, optimisation and stress-testing in-house, with the remainder being performed by their asset manager or a specialist consultancy firm.

Hamish Bailey, Managing Director UK, and Head of Insurance & Investment said: “Scenario modelling and stress testing is vital to the success of insurers investment portfolios and that is reflected in the expectation of increasing investment in modelling.

“Increased use of alternative asset classes is a key factor in the increased spending, but insurers are grappling with a wide range of issues including the need for greater transparency and regulatory pressure as well as climate risks.

“While firms are generally happy with the software available it is clear there is room for improvement and a growing demand for specialist support.”

Ortec Finance provides insurers with a range of services to help them confront challenges like complex liabilities, low yields, increasing investment performance analysis demands, or to assess climate change related risks and opportunities.

Specific services Ortec Finance provides to insurers are around asset liability management, asset allocation, risk management, economic scenario testing and performance measurement & attribution. For further information visit

<https://www.ortecfinance.com/en/industries/insurance-companies>

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Notes to editors:

*Ortec Finance commissioned independent research company Pureprofile to interview 100 investment management professionals at life insurance companies, Lloyds of London insurer and reinsurers and at fund managers who support insurers in November 2023. Survey respondents are located in the UK, the USA, France, Germany, Hong Kong, Italy, Netherlands, Singapore and South Korea. Collectively the organisations they work for manage around \$5 trillion.

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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