Milliman

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Press Release

Economic risk management cited as key driver of derivatives use in life insurance industry, according to Milliman report

Derivatives Survey identifies tools and techniques used by insurers to manage risk cost globally

Seattle – August 16, 2016 - Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its global Derivatives Survey, which analyzes trends in risk management practices and derivatives usage throughout the global life insurance industry. According to the report, economic profit and loss (P&L) volatility management was the top reason cited by respondents for using derivatives, followed by accounting P&L volatility management. Regulatory risk management and economic capital risk management were also cited as key reasons for using derivatives in Europe, where the long-awaited Solvency II regulations were implemented earlier this year. European respondents showed a bias toward a positive interest rate duration gap, especially in the U.K., whereas US life insurers reported an even split between positive and negative duration gaps.

Ram Kelkar, Managing Director of Milliman's Capital Markets Group, says, "Usage of derivatives as a risk management tool is critical to the global life insurance industry, which is facing historically low interest rates, market shocks such as Brexit, increased life expectancy, and a complex regulatory landscape in a post-Dodd-Frank/EMIR and Solvency II world. Besides giving an overview of current industry practice, Milliman's Derivatives Survey sheds light on ways in which derivatives usage is likely to evolve in the future. The survey will be a valuable resource for senior ALM and risk managers to mitigate risks effectively and in line with best practice amongst peer group companies."

The survey includes responses from over 60 insurance companies worldwide, and features analyses of derivative usage by product type (variable annuities, fixed index annuities, life insurance, fixed annuities, unit-linked products etc.), hedge strategy choices (static vs. dynamic hedging, delta/rho and delta/vega/rho hedging), hedge instrument choices (equity index futures and options, interest rate swaps and options, FX futures/forwards), choices of financial models, and usage of commercial vs. in-house software tools and solutions.

To learn more about the report, or for a summary of the survey, contact: Neil Dissanayake (London): neil.dissanayake@milliman.com, Victor Huang (Sydney): victor.huang@milliman.com, or Ram Kelkar (Chicago): ram.kelkar@milliman.com.

About Milliman FRM
Milliman Financial Risk Management (FRM) LLC is a global leader in financial risk management to the retirement savings industry. It provides investment advisory, hedging, and consulting services on more than $164 billion in global assets (as of March 31, 2016). Established in 1998, the practice includes more than 150 professionals operating from three trading platforms in Chicago, London, and Sydney.

About Milliman
Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit www.milliman.com.

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