Financial Modelling 2.0 – The Next Generation

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Over the last 20 years financial modelling systems have become a fundamental part of the actuarial and risk technology stack. But as these modelling platforms have come of age, have they evolved in line with emerging technology trends and the increasingly operational and risk-mitigating needs of their users? This guide offers some pointers on the things to consider when selecting a new modelling platform, either as part of consolidation activity or new model development, in order to ensure the most is made of next generation technology.

Background

As personal computers started to appear on the office desktop in the mid-1990s, so the actuarial & risk community shifted away from largely paper-based analysis supported by mainframe number-crunching to desktop-based financial modelling. In the absence of any dedicated software, this started with actuaries developing home grown solutions in the languages of choice of the era – COBOL, FORTRAN, APL, IDL, etc. before moving onto spreadsheets and other more structured environments.

In the late 1990s a number of more standardised financial modelling packages started to appear on the market developed by consulting actuaries as a way to support their consulting businesses. These packages have since changed hands a number of times through mergers and acquisitions of the consulting firms and associated technology vendors.

Modelling Monopoly

Unfortunately, most insurers who chose to adopt one of these new modelling systems were inadvertently making a decision which would effectively fix them on a path of destiny for the next 20 years or more. Much in the same way as Lotus Notes and Microsoft Outlook polarised the e-mail client landscape in the early 2000s, so the actuarial modelling vendors carved-up the customer base, which is largely unchanged to this date. The only exception to this is where insurance firms have been impacted by mergers and acquisition activity, in which case consolidation of modelling packages may have taken place.

While this monopoly or oligopoly has led to significant stability in the actuarial modelling software market during a time of significant regulatory upheaval, it has effectively ruled out any new-entrants and left customers wondering whether their modelling tools are actually fit for purpose in today's and tomorrow's world.

Further Information

To continue reading this paper, please contact us at reports@quintantpartners.com.

The following related research and analysis from Quintant Partners may also be of interest.

- Financial Modelling Platform Selection Toolkit
- Total Cost of Modelling Platform Ownership

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