
Its Technology Eases Hedging of GLB Riders, UAT Claims

By Editor Test *Wed, Aug 12, 2009*

The firm said its real-time portfolio statistics could help insurers preserve GLB features in their products.

UAT, Inc., the Denver-based developers of the Unified Compliance and Control System (UCCS), claims in a news release that its system can improve the effectiveness and lower the cost of hedging programs for sub-advised insurance products.

The use of insurance-type benefit riders in variable annuity products, particularly Guaranteed Living Benefits, or GLBs, has increased dramatically over the last decade. To deliver GLB benefits, insurers engage in various hedging techniques to reduce exposure to capital market risks.

But the lack of real-time portfolio statistics has hindered risk management groups from creating and stress-testing hedging strategies for their sub-advised products.

Risk analysis based on one- or two-day old data, which is often the case today for sub-advised platforms, forces risk management groups to make constant readjustments to their hedging strategies. In extremely volatile or fast-moving markets, adjusting strategies on lagging data can lead to additional exposure and expense for the underlying sub-advised portfolios.

“The need for real-time statistics in risk management of guaranteed living benefits in variable insurance products has become increasingly clear over the last year,” said Tom Warren, President of UAT, Inc. “UCCS provides the kind of real-time portfolio statistics that will enable more effective and less costly hedging programs associated with GLBs.”

The challenge to effectively hedge risk for sub-advised insurance products has led several product sponsors to lower benefits, increase pricing for GLB riders or drop the feature altogether. A growing list of companies is transitioning their actively managed equity strategies to passive management, with the goal of reducing tracking error in those portfolios.

The real-time portfolio statistics offered by UCCS will enable insurers to better preserve GLB features in their product and actively managed investment options on their sub-advised platforms.

“UCCS enables insurers and active money managers to collaboratively address this special need by providing continuous real-time data on sub-advised portfolios associated with GLB

riders,” says Warren. “That and the fact the system pays for itself should encourage the continued use of actively managed sub-advised portfolios in insurance products with GLB riders.”

Types of sponsors expected to benefit from UCCS include insurance companies, pension plans, mutual fund companies, trusts, endowments and bank trusts groups.

“Without access to real-time portfolio statistics, no risk management group-sub-advised or otherwise-can effectively manage a hedging strategy,” said Geoff Bobroff of Bobroff Consulting, Greenwich, RI-based adviser to the investment management industry. “Technology that delivers real-time portfolio statistics to risk managers will almost certainly improve the effectiveness of their hedging programs, including those that include GLB riders.”

© 2009 RIJ Publishing. All rights reserved.