

# INSURANCE & TECHNOLOGY

## **AEGIS Deploys DFA's ADVISE Risk Modeling Solution**

**Associated Electric & Gas Insurance Services replaces its eight-year-old proprietary risk management model with DFA Capital Management's ADVISE 4.9.**

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Associated Electric & Gas Insurance Services (AEGIS; \$5.3 billion in total assets), a mutual insurer based and regulated in Bermuda with a wholly owned managing general agent in East Rutherford, N.J., will replace its in-house-developed risk modeling application with ADVISE 4.0, an insurance-specific solution from Purchase, N.Y.-based DFA Capital Management. The utility and energy industry insurer (excess and surplus casualty lines) will use ADVISE (Advanced Decision and Value Simulation Engine) for asset liability management, reinsurance acquisition alternatives and underwriting profitability analysis, according to AEGIS chief financial officer Jack Denman.

"The resource itself isn't the real driver; it's getting better information about our business and what we can do about it," says Denman, adding that "the time had come" to upgrade to a new caliber of model. "We currently have a homegrown model that's about eight years old. It's helpful and interesting, but it's not as robust and it's dated compared to the tools we're going to use from DFA." For example, "Our [Monte Carlo and stochastic simulations] aren't as strong or as integrated as those from ADVISE," he explains.

DFA Capital Management executive vice president for sales and marketing Lisa Cash describes ADVISE 4.0 as a product used for "what-if" analysis and insurance decision making. "The product is used to provide [Denman and his team of actuaries] with tens of thousands of different scenarios of what can happen in the economy with catastrophes, etc., and what impact that will have on the business so [they] can make decisions based on that information."

One feature that was instrumental in the decision to implement the ADVISE product, according to Denman, was the inclusion of DFA's GEMS economic scenario generator, a tool that simulates a company's economic operating environment. "We do an awful lot of actuarial science-type calculations, but we have nothing in our current model that we can use to simulate different economic scenarios — for example, whether we're going to see a recession or not," Denman relates. "We've got a lot of historical information and a lot of statistical results on expected returns, the variances and the volatility around those returns, but none of what we have contemplates identifying certain or specific economic scenarios, whether it's inflation or dollar strengthening, etc."

### A Real Time Saver

Denham adds that he expects ADVISE also will help AEGIS from a resource management standpoint by enabling him to use his internal resources more effectively than in the past. That's key considering that AEGIS has a relatively small, six-person actuarial team. Denman speculates that ADVISE will be easier to maintain, especially with the vendor providing periodic updates to the application. The GEMS economic scenario generator also will be regularly updated and recalibrated.

In the past, AEGIS spent a couple of months each year to update its proprietary risk model and run it effectively, Denman estimates. With the new application, however, Denman believes that the time requirement will drop significantly. As a result, he hopes to run the model on a quarterly, if not monthly, basis. "For us to keep our own [in-house-developed model] current, we'd have to spend a significant amount

of time and effort both to get it up to date and to maintain it, which would make it more difficult to run it as often as we'd like to," Denman says.

"The latest tax codes, accounting regulations and [Standard & Poor's Ratings Services'] standards — everything is maintained within our software company [and] outside our customer environment," DFA's Cash adds. "We'll be taking a lot of that burden away from [AEGIS]."

Denham and Cash expect the implementation of ADVISE 4.0 to take no longer than three months. Because of the size of the application, Denham anticipates that the solution will require new dedicated servers. "Our current application uses four servers, so it's not a huge incremental change for us," he relates.