Case Study: Market risk modelling

Nematrian was asked to advise a non-life insurer on its internal market risk model for Solvency II risk management purposes. The insurer was keen to adopt a model that was 'market consistent' and Nematrian's advice included:

- Types of uses to which a market risk model could be put and for which of these it is most helpful to adopt market consistent approaches

- What impact incorporating market consistent methodologies might have on the predictive ability of a market risk model

- How a 'risk neutral' distribution for different types of assets might be identified in practice

- The merits of blending market implied information with past data and expert judgement when developing market risk models and how in practice this might be done

Related material available via Nematrian website

Some of the probability distribution functions in the Nematrian online toolkit were expanded to facilitate the analysis carried out for this client.