

## Introduction

The purpose of this work is to analyze the asset-liability management (ALM) process in the financial intermediation industry, especially among insurers, from the perspective of what is known about capital markets and practiced in financial engineering. This aspect of insurance firm management is a crucial issue now because of a rapidly evolving perspective on ALM and the management of a financial intermediary in general. Insurers are increasingly forced to bring ALM into the mainstream of business management. ALM is not merely a tool of control or elimination of interest rate risk; it increasingly incorporates the asset default risk, product pricing risk, and other uncertainties of the business. Insurers are facing competition from financial markets innovations, and their products are often viewed by customers as capital assets. This, in turn, forces the enterprise to take an integrated view of assets and liabilities, and to price them from the capital markets perspective, which increasingly is becoming the consumer perspective.

Modern life has brought about increased competition and lower information prices (through global telecommunications networks and other forms of information technology). The pressure to compete and modernize are so pronounced that it may be difficult to find time to stop and think about fundamental philosophical questions such as the meaning of our business or financial intermediation in general. Competition in a dynamically changing environment requires fast adaptation to changing trends. But how

do trends come about? They are created by new market leaders. How do we know who the future market leaders are? We usually do not. Some of us follow the leaders, some of us follow the lemmings, and it's not always easy to distinguish between the two. On the East Coast, it is quite possible that they wear the same designer suits—on the West Coast, the same designer jeans. They may even speak the same language.

The modern business experience has resulted in more and more companies giving significant consideration to their mission and vision. This monograph strives to define a mission for the modern insurance industry, its place in the financial intermediation network, and the role of ALM in that mission. The main challenge to the traditional vision of the industry among its professionals comes from the ALM area. Sadly, this challenge may be routinely addressed by temporary means even though it deserves a philosophical answer. Therein lies the mission of this work: to find the meaning of life . . . and property-casualty insurance, at least in the ALM context, and to expand the existing paradigm of the business. The concept of integrated risk management suggested in this work is an idea directly related to that presented by Doherty (2000) for corporate risk. Panjer (1998) also presents major ideas of financial economics that form the core of integration of assets and liabilities.

This paper reveals a positive bias towards philosophy, but it is hoped that some philosophical questions addressed here will eventually prove themselves to be worthy of practical consideration.

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# Asset-Liability Integration

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