

Episode 1: What GOES Where and When

In Episode 1 of the Everything GOES podcast, Daniel Finn and Casey Pursley discuss the basics of the transition from the AIRG scenario generator to the GOES scenario generator—when it will happen, what changes it will involve, and how companies can start preparing.

SEGMENT 1—OPENING

[Joe Golaszewski] Hi, and welcome to the Everything GOES podcast. I'm your host, Joe Golaszewski. If you're checking out this podcast, you're probably already aware that the NAIC has instituted a new committee to switch from the existing Academy Interest Rate Generator to a customized version of Conning's GEMS Economic Scenario Generator scenarios. That committee is called Generator of Economic Scenarios, or GOES. Now naturally, many insurers are wondering what this will mean for them in their process, and the goal of this podcast is to help answer some of those questions.

In today's episode, we'll be focusing on some of the basics of this transition. So, we'll cover when the transition will happen, what changes it will involve, and how companies can start preparing for this new approach to economic scenarios.

To help answer these questions, I'm joined today by the two people who have been coordinating Conning's work on this project, Daniel Finn and Casey Pursley. Dan is a managing director at Conning, where he is the head of North America for the Risk Solutions unit. This is the group that will be responsible for generating all these new scenarios. Dan has been leading Conning's effort on this project since it began back in 2020. Casey is a director in that same group, and she's been working closely with Dan on this project since she joined Conning in 2022. Welcome to the podcast.

[Daniel Finn] Thanks very much.

SEGMENT 2—THE NAIC'S PLAN (1:42)

[JG] So let's dive in. Casey, can you tell us about the current plan?

[Casey Pursley] So the current plan is for the new economic scenario sets to be effective as of 12/31/2025. And for those people who are saying, well, we've heard year end before, we're in a very different place. The NAIC attorneys and the actuaries are busy drafting amendments that are going to update the valuation manual, all of the references to economic scenarios, that those will be the Conning maintained using the prescribed ESG. So as a matter of fact, those were exposed at the spring LATF meeting, and they are slated for adoption no later than June of this year. So that's going to give all of us six months to prepare for that first business day of 2026.

[JG] Okay. So we still have some time. Dan, can you give me an idea of what exactly is going to take place when the switch happens?

[DF] Sure, absolutely. So up until now, companies have had to go to the American Academy of Actuaries or AAA site and download a copy of the AIRG. They update the starting conditions and then generate their own scenarios. And all of that was possible because it was an Excel file. It's a customized file, but it was still something that pretty much everybody could use in their office application.

As Casey mentioned, the new application, Conning GEMS scenarios, are a proprietary model. So there's not going to be a simple file. Instead, our team is going to, at the end of every month, update the necessary information—so, think things like treasury yields and other items that you can get off Bloomberg—update the model, which we've already agreed based on the calibration, and then run those.

Now in order to meet everybody's needs, what we've decided is we're going to create one file that has essentially everything that people could want. So it's going to have ten thousand scenarios, twelve hundred months, and each month, it will contain updated components for a series of columns. Essentially, everything that you can get out of the AIRG, treasury yield on both a spot and a par basis and also a series of asset classes.

Now, there will be slight differences. We're going to have more asset classes. We're going to have a breakdown of them between price and income to better align with products. But the basic idea is that we're every month going to post by the end of the first business day a giant file that has all of this data.

SEGMENT 3—GOES ACCOMPANYING DOCUMENTS (4:29)

[JG] So one giant file. But I imagine we're going to be providing more than just that.

[CP] Yes. So there are three other important things we need to talk about. First, let's talk about the validation report. So for anyone who is counting, as Dan was going through the list of things that are included in this basic dataset, that's over a hundred and twenty million data points. So we're going to take this eleven-gigabyte file. We're going to load it into SQL and perform some statistical analysis for you. And then Conning will post a link to what will be a Power BI report that users can easily interface with to view key statistics about the variables they're most interested in.

[DF] Yeah. So this is an example of that case. You will be looking at things like yield distributions. So you can look up where it starts, but this will allow you to see how wide it gets and how quickly it gets there. Or potentially how many scenarios have negative interest rates, how many are inverted, What's a particular asset class you might be interested in—say, aggressive equity—look like in terms of its cumulative returns over ten, thirty, fifty years, whatever your particular. And even things like how are the asset returns correlated, things that really potentially impact your results and can be key to understanding the data in these underlying scenarios.

[CP] Yeah. So a lot of interesting information that you'll be able to see, and understand about the contents of that file while the download is still in process.

So the second thing is, some of the listeners may already be thinking, well, you know, I don't produce ten thousand scenarios with my copy of the AIRG. I only run two hundred, or maybe I run a thousand. Well, the good news is that Conning will provide a scenario picking tool that you can use to pull a subset from that ten-thousand-case set.

[DF] And a couple of things about that at file. First, as Casey mentioned, it will be an Excel file, and it's going to have each period, what we call a significant value and then a gross wealth factor, which is off of the large cap returns, both of which are in the file, we're just providing them for you so you don't have to read the full ten thousand scenarios.

[CP] And those are the same options that they currently have in the AIRG for selecting their subsets? Is that correct?

[DF] Yeah. Well, the significant value is the same. The growth wealth factor is new. And one of the things that the NAIC has decided to allow us a little more flexibility to companies in terms of how they pick their subsets.

[CP] Yeah. That's right. So we're making this tool available, but companies aren't required to use either of these selection criteria.

[DF] Right. They can basically ... the regs will now say you're able to pick the thousand that makes sense for you as long as you can show that that they align with the rules. So it could be the first thousand. It could be a custom selection. And we've tried to design the selection tool to make that easy, so that you're easily able to pick off the scenarios and run just the ones that you need for your analysis rather than having to deal with this giant file every time.

[CP] Yeah. So, just to kind of pull all of this together then for the companies who are happy with these selection options that are available, if these are the ones you want to use, you'll be able to download this Excel-based scenario-picking tool from the public website. And then each month, when we publish the large basic dataset, we'll also publish a smaller file that contains those significant values and the gross well factors corresponding to this new set that users then can download and bring into their copy of the scenario picking tool. Then they'll just specify how many scenarios they want, what their criteria is, and the tool will extract the appropriate paths into a file name that they specify.

Then lastly, of course, the CERT scenarios. Those will be a separate file separate from the basic dataset. It'll be the same format, but it will only contain the sixteen deterministic paths, in their own separate file.

[JG] Good to know.

SEGMENT 4—THE REVIEW PROCESS (8:54)

[JG] Now I'm sure another question that listeners might have is about the review process for these new scenarios. Can you talk a little bit about that?

[DF] Sure. That's obviously something now that Conning is doing that that we're very attuned to and want to make sure that everybody's comfortable with the these datasets before they start doing reserve and capital calculations.

So we've layered a couple of different components into this check process. Obviously, Conning is going to do its own things like, did we get the yield curve correct both out of the dataset and then also in the scenarios? Are components of the CERT scenarios aligning with our expectations? Are those distributions that we talked about in the Power BI, do those match our expectations?

And as part of the dataset in our delivery, we're going to actually be attesting to that and making that available. We've got a format that we basically agreed with the NAIC to say, here's all the tests we did and somebody's actually signing off on those.

We expect that to then go to the NAIC, and the NAIC is going to do their own review and independent check to make sure it meets things like acceptance criteria. Does the file have the right size? Does it have the right components? Does it meet anything that was used to set up their actual calibration criteria?

And that really then ends up going into the broader picture that all of this is going to be built into a model governance feature. We'll get into that in a later podcast in terms of some of the detail, but you should understand that there is a subgroup of the GOES that's focusing on this. They did some exposures in 2024, and we are having ongoing meetings. But there will be implementation of that and documentation that gets built into this whole process that talks about all of the different components, model selection, validation, how we've met those, over and above Conning's documentation associated with what is actually happening in the scenario generation.

[JG] So it sounds like there are a lot of eyes on the process.

[DF] Oh, absolutely. A lot of eyes are probably an understatement. You know, this is a high-profile change. And part of the change is that the NAIC wanted to have something that continues to be updated. They don't want something like the AIRG where maybe it's calibrated once and then doesn't have people dedicated to updating it. So we even have processes in here talking about, you know, how we're going to change this and review it every year or every five years. And now the fact that all of those have to go through the same sort of process associated with any changes that those might lead to parameters and feeding it through the entire process and exposure components. So it's not just Conning making changes. It's a very broad, well-documented process to move this thing forward.

SEGMENT 5—CLOSING (11:46)

[JG] Excellent. That's a lot of great information.

I think we're going to leave it there for this first episode, but we'll be back with another installment soon to discuss some of the other things that Conning will be providing to help ensure us with this transition. In the meantime, we've published the first in a series of articles looking at the differences and results between the AIRG scenarios and the new GOES scenarios, and this first article focuses on bond classes. So you can head on over to Conning's website to have a look at that. Please also feel free to reach out to us with your specific questions, and we can try to answer some of them on the next episode. Until then, thanks for listening and keep on modeling.

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