Latest Insights and Experiences from Germany and Switzerland

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Agenda

- Market overview for Switzerland and Germany
- Product evolution and comparison
- Experiences of AXA in both markets
- Key risk management aspects of VAs

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German and Swiss clients are looking for guarantees

Germany

- **Regulation / Tax**
  - Strong tax incentive on regular savings and annuitization
- **Product landscape**
  - Majority still invests in general account products (60-70%)
  - Growing share of unit linked often in combination with guarantees
- **Purchase criteria**
  - Rankings comparing level of guarantee and expected total income
  - Equity share of underlying investments in unit linked products
- **Distribution**
  - Strong focus on broker and pyramid selling insurance organisations

Switzerland

- **Regulation / Tax**
  - Domination of 2nd pillar
  - Strong tax incentive on savings
- **Product landscape**
  - Domination of general accounts (with profit products) with 80% market share in new business
  - Growing share of unit linked in combination with guarantees
- **Purchase criteria**
  - Rankings comparing level of guarantee and expected total income
  - Flexibility until maturity becoming more important
- **Distribution**
  - Stronger focus on tied agents

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The need for guarantees has been strengthened through the financial crisis

A customer survey[1] revealed that

→ **44%** changed their investment behaviour due to the crisis

→ while **52%** out of it value guarantees more than before the crisis,

→ **37%** out of it already valued guarantees earlier but are now interested in *who* is providing the guarantee

→ and **17%** out of it who invested in equities before won't buy any unprotected products anymore.

[1] Swiss customer survey, AXA Winterthur, 2008

Growing number of VA providers in Germany

Company	Product	Type	Premiums	Launch	Carrier
AXA	TwinStar Klassik	GMIB/ GMAB	Single, regular	2006	Ireland
AXA	TwinStar Invest	GMIB/ GMAB	Single, regular	2006	Ireland
Ergo	Global Top Return	GMAB	Single, regular	2008	Luxemburg
Allianz	Invest-4-Life	GMWBL	Single	2008	Ireland
R+V	Premium Garant Rente	GMWB	Single	2008	Luxemburg
Swiss Life	Champion	GMIB	Regular	2008	Luxemburg

➡ The Hartford lately announced their withdrawal from German market before introducing their first VA product in that particular market

Current providers of VAs in Switzerland

Company	Product	Type	Premiums	Launch	Carrier
AXA	TwinStar Invest	GMAB	Single	2008	Switzerland
AXA	TwinStar Income	GMWB	Single	2008	Switzerland
Groupe Baloise	RentaSafe	GMWBL	Single	2008	Liechtenstein
Swiss Life	Champion Duo	GMAB	Regular	2008	Switzerland

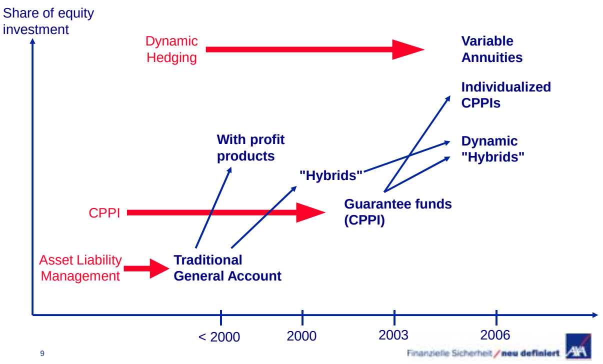
In Germany there is further potential for VAs in particular in the at retirement segment

	Expected Growth	Market share Insurance	USP of VAs
Saving for retirement ▪Tax advantage for annuities ▪95% of market regular premiums ▪Guaranteed annuitization factors	→	↘	++
Decumulation during Retirement ▪Lifetime annuity payments ▪Tax advantage ▪Few offers up to now and still small market	↗	↗	+++
General investment solutions ▪Tax advantage of insurance increases in 2009 ▪Growth potential realized in other markets ▪Insurance with small market share in this area	→	↗	+

The taxation of VAs is a challenge for the Swiss market

	Expected Growth	Market share Insurance	USP of VAs
Saving for retirement ▪Tax preferred (3a) ▪50/50 split between banks and insurers ▪Little demand for annuitization	→	→	++
Decumulation during Retirement ▪Lifetime annuity payments with tax penalty ▪Decumulation plans allow for tax advantage ▪Few offers up to now and still small market	↗	↗	+++
General investment solutions ▪Additional tax advantage of insurance in 2009 ▪Growth potential realized in other markets ▪Insurance with small market share in this area	→	→	+

VAs in Switzerland and Germany compete with other guarantee models…



...but VAs are the better answer to customer needs in the retirement market

	CPPI	Variable annuity
Premium payment	• Single, flexible and ongoing	• Single, flexible and ongoing
Guarantee	• Return of premium, eventually ratchet (high watermark)	• Return of premium, ratchet or guaranteed interest rate • Guarantee of withdrawals possible
Cost of Guarantee	• In most cases no direct costs linked to the guarantee (but sometimes hidden expenses) • Real cost of guarantee through unfavorable asset allocation	• Transparent costs of guarantee as a fee deducted from the NAV or the benefit base • Costs can vary for different choices of investment baskets
Investment	• Large fund choice • Investment rules reallocate from equity to fixed income in a market downturn hiding the risk of cash lock when markets move up again (cyclical market movements)	• Transparent allocation • Underlying asset structure independent from market movement

AXA has gained very positive experiences with VAs in both markets

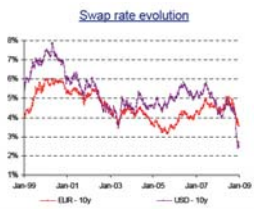
Germany

- Over 254'000 policies sold since launch in 2006 with a total volume of 6,8b Euro sum of premiums
- TwinStar Klassik (GMIB)
  - Launch in 2006
  - About 50% of total volume
- TwinStar Klassik and TwinStar Invest (tax preferred / Riester) (GMIBs)
  - Launch in 2007
  - About 40% of total volume
- TwinStar Invest (GMIB)
  - Launch in 2006, stopped in 4/2009
  - About 10% of total volume

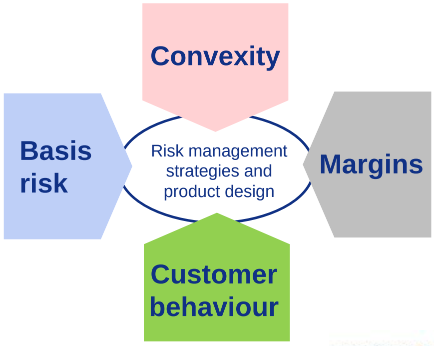
Switzerland

- TwinStar Income (GMWB)
  - Very successful start since launch in October 2008
  - More than 100m SFR premiums generated in a few months
- TwinStar Invest (GMAB)
  - Almost 1'000 policies sold, generated volume: 80m SFR since launch in March 2008
  - Difficult market environment at the moment

2008 has been a perfect stress test scenario for VAs…



…challenging risk management strategies and product design of VAs



Basis risk

Risk/Cost drivers

- **Tracking error** (risk of not replicating the benchmark of the underlying fund)
- **Underperformance** (risk of a fund underperforming its relative benchmark)

Experiences in the crisis

- Fund managers fundamentally underperformed benchmarks
- Significant shifts in strategic and tactical allocation made it difficult to track performance

Risk mitigators and learnings

- Ensure diversification of asset management styles
- Right to exchange funds in case of adverse market conditions
- Move from active managed to passive managed funds
- Direct hedges of funds instead of benchmark

Convexity

Risk/Cost drivers

- **Volatility**
- **Liquidity**
- **Duration**

Experiences in the crisis

- Gained significance with strong market movements
- Became painful in combination with market illiquidity

Risk mitigators and learnings

- Hedge convexity by applying more complex hedging strategies incl. swaptions or equity options
- Reduce exposure by adjusting product designs

Customer behaviour

Risk/Cost drivers

- **Information efficiency** (i.e. through internet)
- **Education**
- **Secondary market evolution**

Experiences in the crisis

- No effect on behaviour observed
- Irrational behaviour with negative results for customers made us react in order to care for our customers
- Struggling with own survival, secondary market players have withdrawn

Risk mitigators and learnings

- Product design, i.e. limiting options with little value for clients but high risks
- Poison pills for institutional investors
- Stress testing with rational behaviour

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Margins

Risk/Cost drivers

- **Market to market valuation**
- **Sensitivity to market parameters with high volatility**

Experiences in the crisis

- Changing market conditions required repricing to stay profitable
- Good experiences with pre hedging strategies

Risk mitigators and learnings

- Product design, i.e. flexibility in rate setting
- Quick repricing capabilities
- Interest lock in with pre hedging strategies
- Avoid dependency on one product line

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Conclusion

- VAs have gained significant market shares in the US, Japan and are now starting to show success in some European markets, too
- The current crisis has even increased the interest of costumers in guaranteed offers such as VAs
- 2008 has been a perfect stress test scenario challenging the VA producers and helping them at the same time to improve their risk strategies
- All issues that have shown up during the crisis could be solved through adjustments in the risk / hedging strategies and the product design
- The business model of VAs has become stronger with the crisis

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Thank you

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