



The Actuarial Profession

making financial sense of the future

Life Conference 2012

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Asset managers and insurers A marriage made in heaven?

5th November 2012

Contents

- Introduction to the survey and backdrop
- Survey results
- Investment optimisation



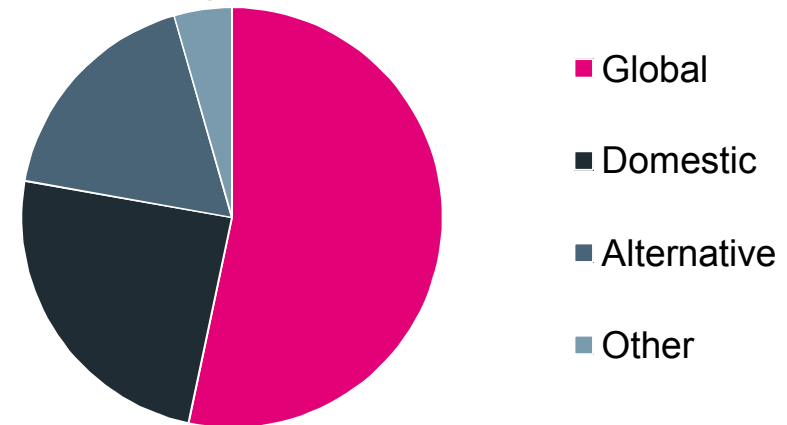
Section 1

Introduction to the survey and backdrop

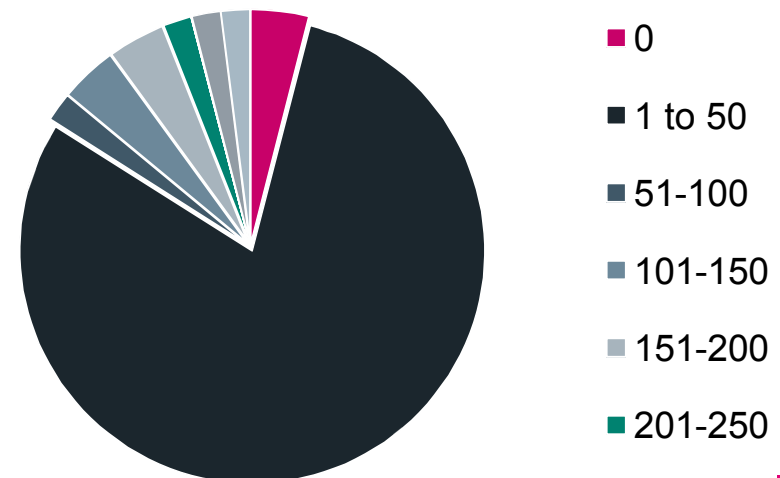
Introduction

- Survey conducted earlier in 2012 to test readiness of asset managers for Solvency II
- 44 European asset managers took part covering a wide spectrum of different asset managers; most of the largest insurance asset managers participated.

Asset management participants



How many insurers do you currently service





Section 2

Survey results

Key survey findings

More insurance
business expected

Lack of clarity the
biggest challenge

Lacking regular
dialogue with
insurers

Client reporting, data
and product
development
functions significantly
impacted

Solvency II
programmes are
predominantly on
schedule

Insurers will reduce
the risk of their asset
allocation as a result
of Solvency II

**Asset managers continue to see Solvency II
as an obligation rather than an opportunity**

Template slide

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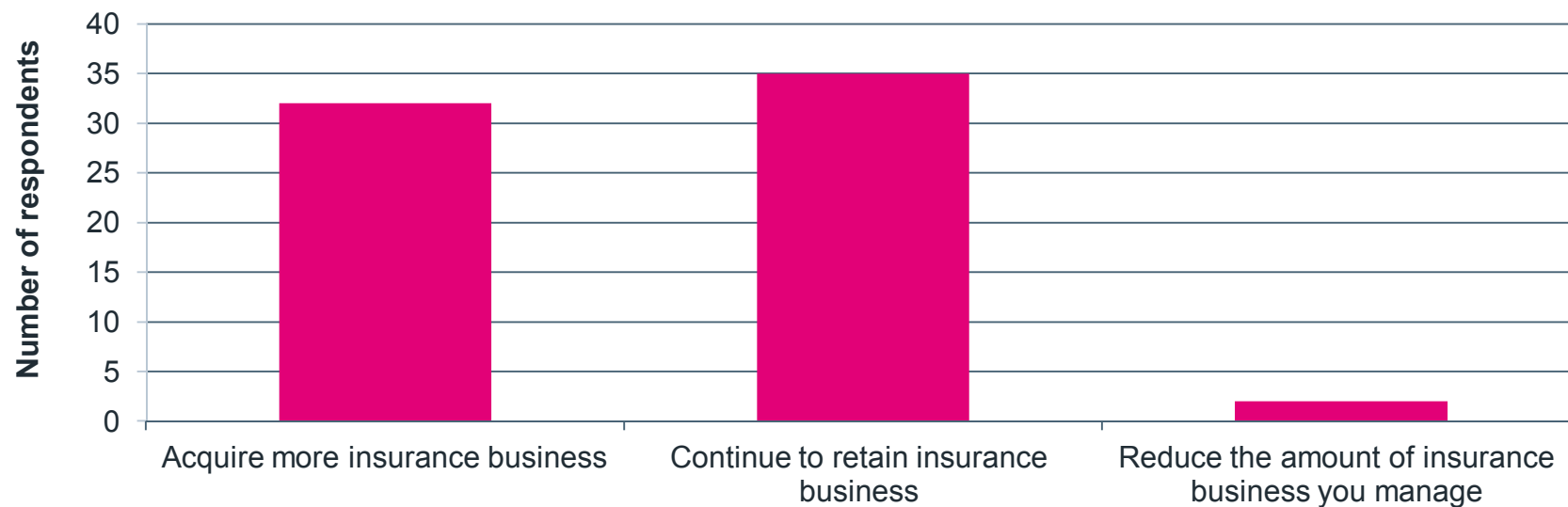
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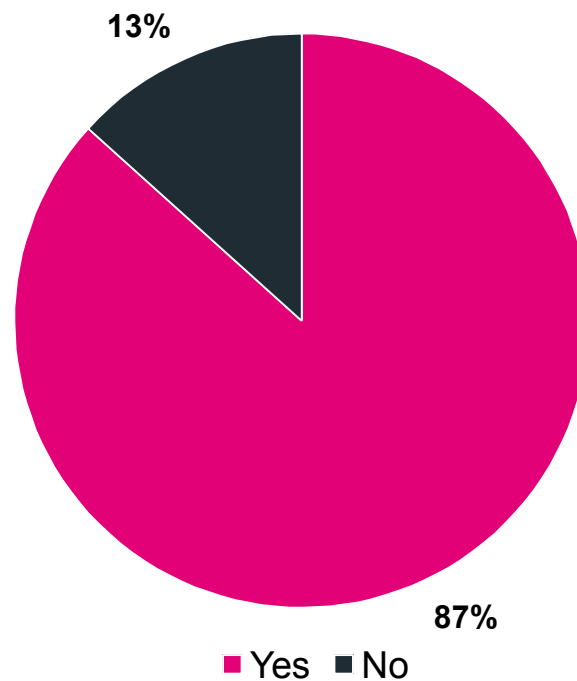
Insurers will reduce
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of Solvency II

Do you anticipate Solvency II will mean that you...?

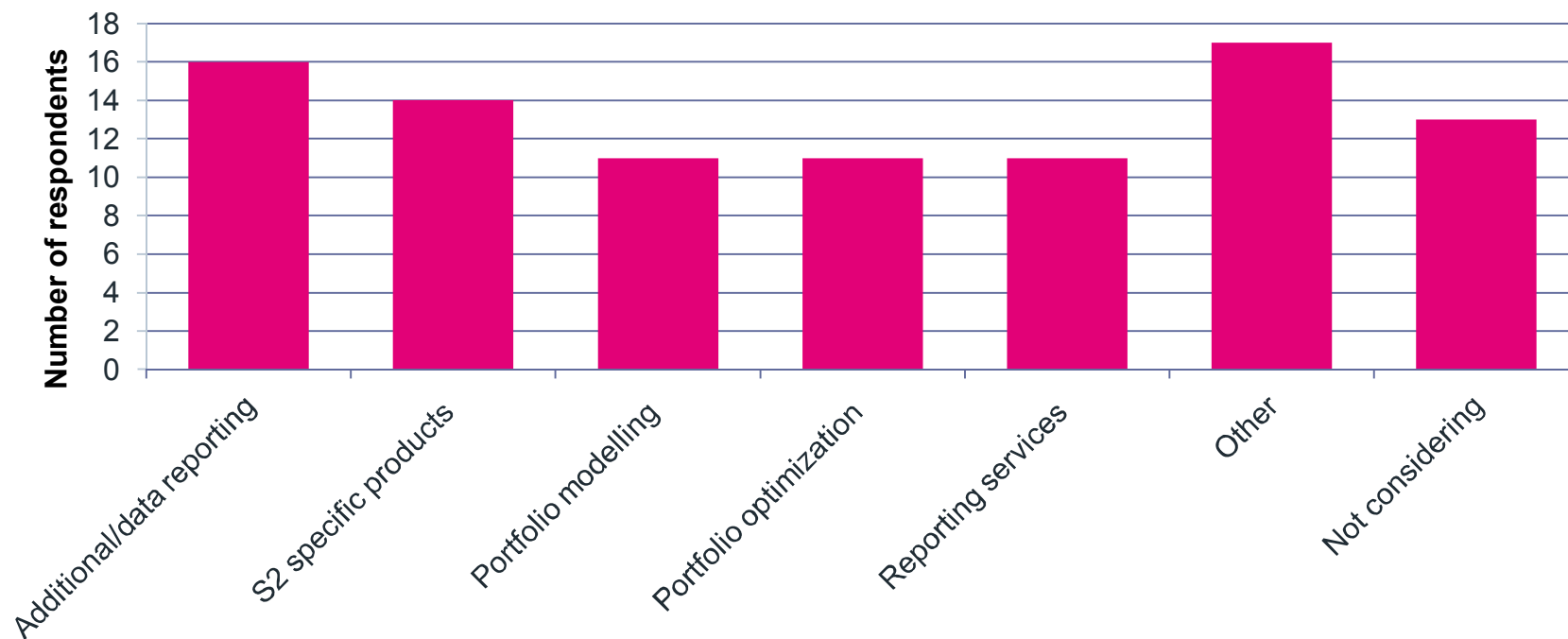


Results based on respondents who manage insurance business

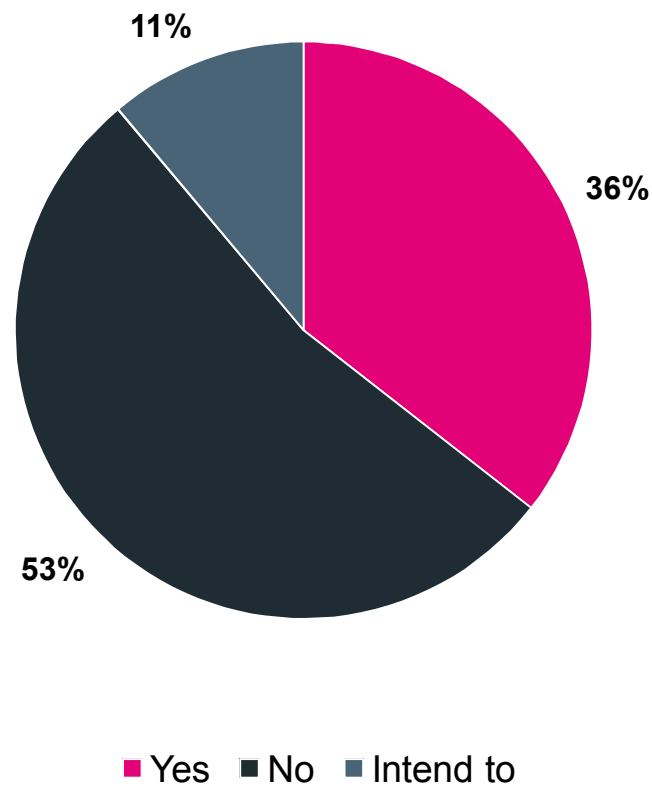
Do you believe SII will promote a closer working relationship with your insurance clients?



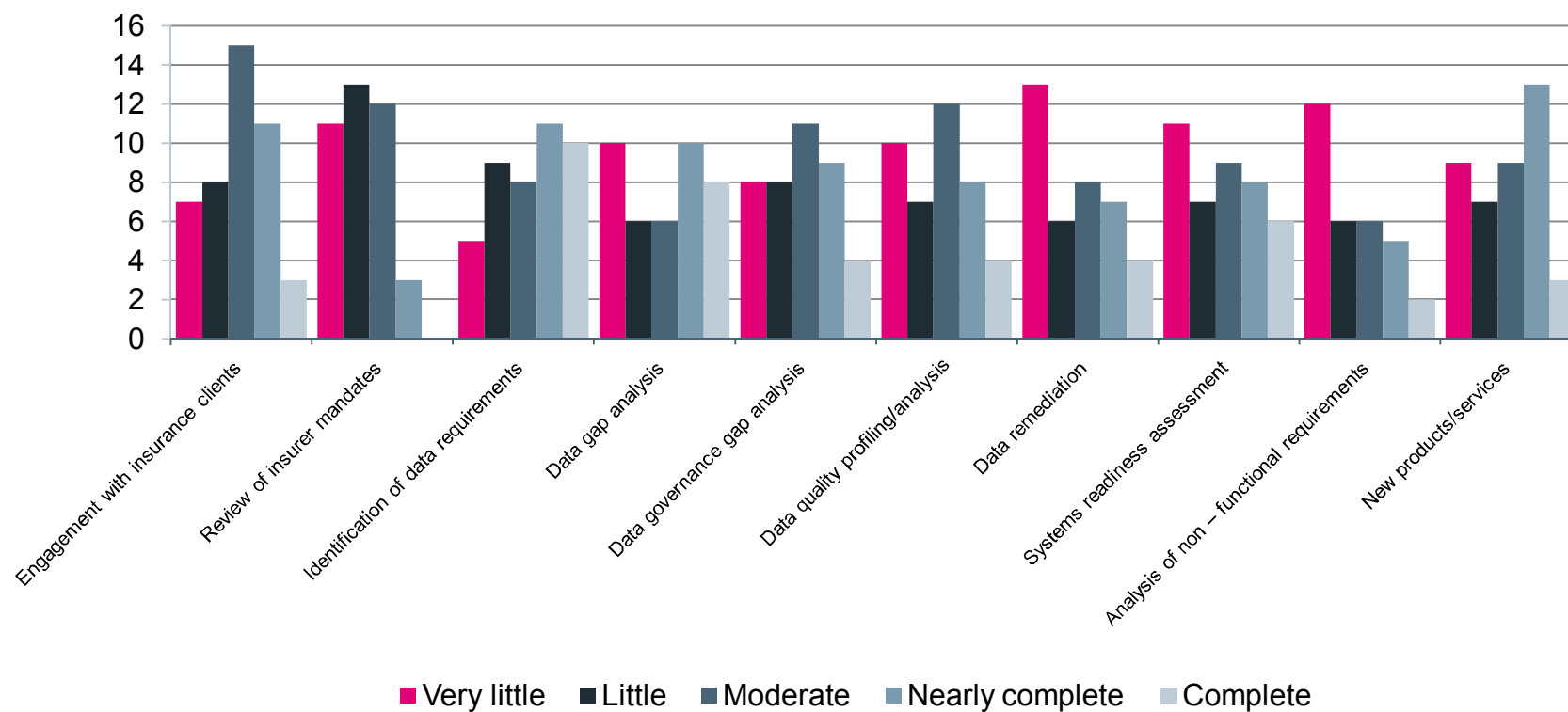
Are you considering charging insurers for any of the following items?



Do you already assist insurers with ALM?



Which of the following tasks have you covered, and what status are they at?



The challenge

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Lack of clarity the
biggest challenge

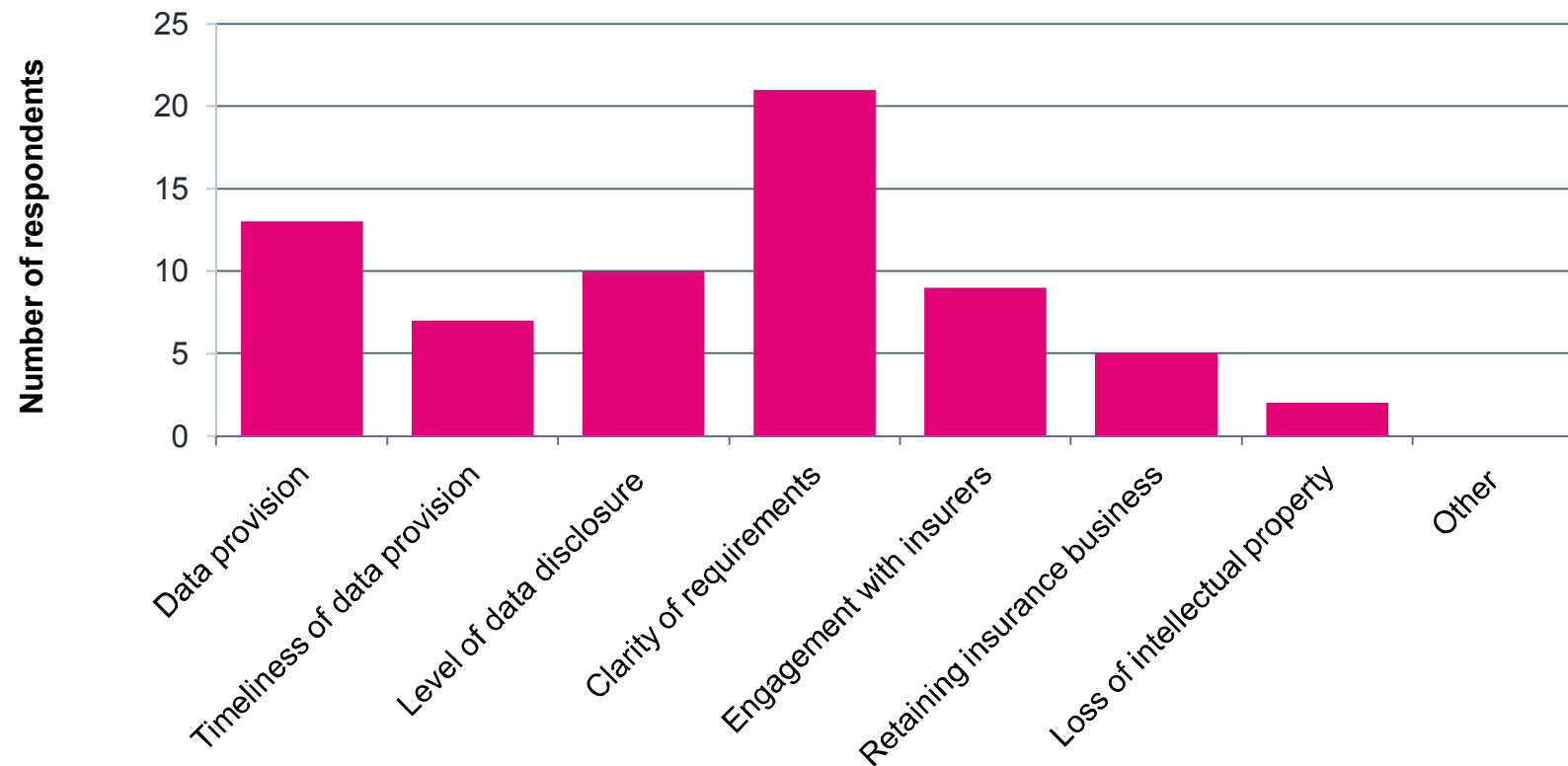
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What do you perceive is the biggest challenge for asset managers of Solvency II?



Engagement

More insurance
business expected

Lack of clarity the
biggest challenge

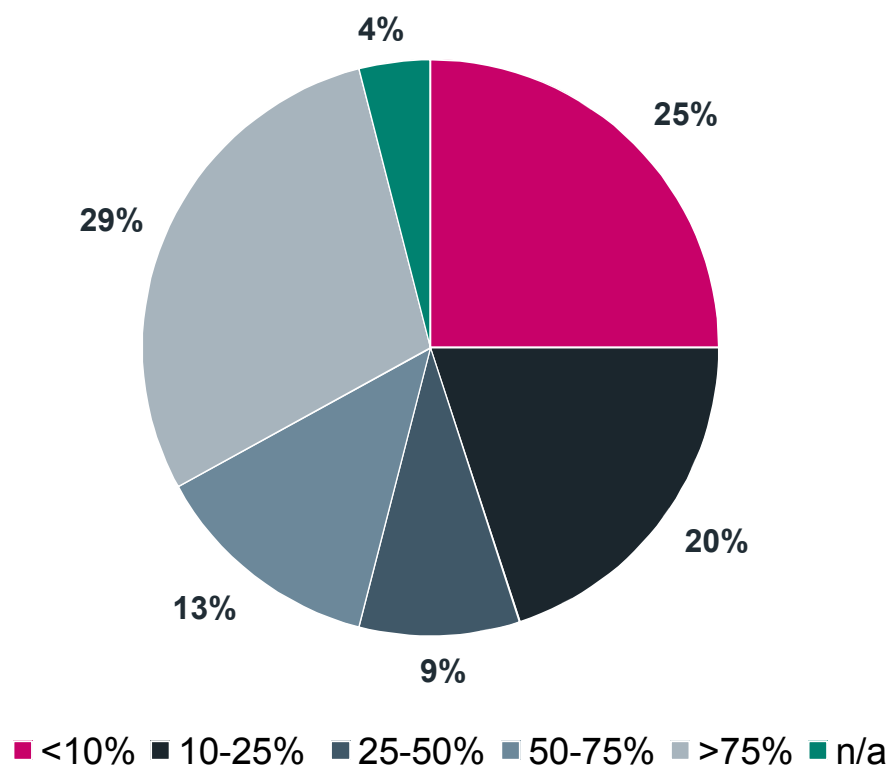
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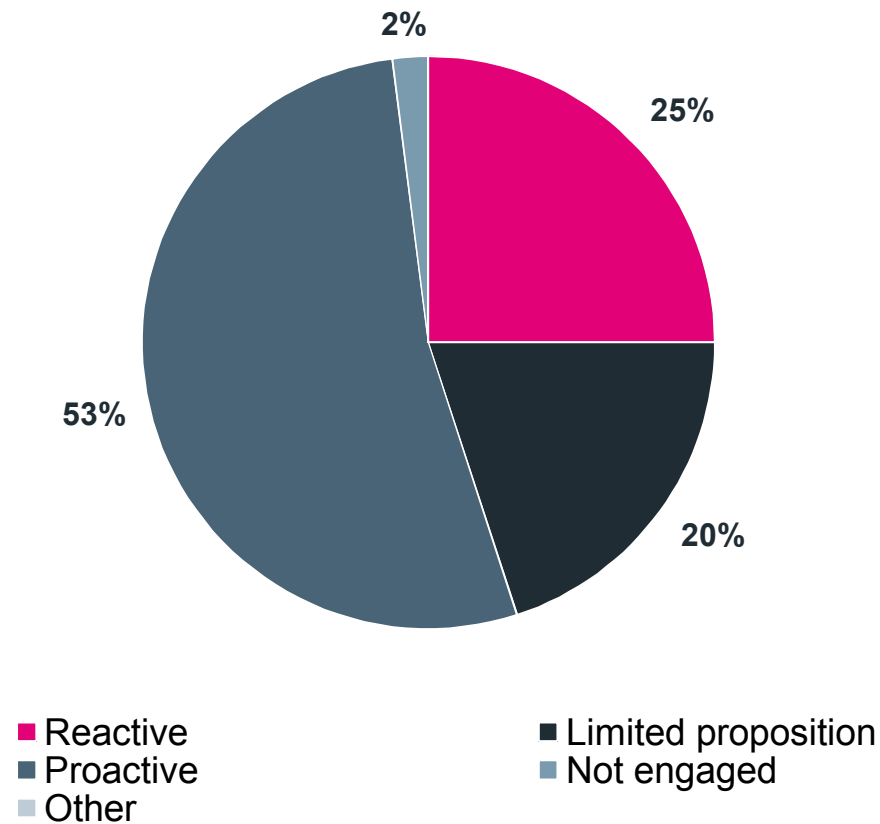
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What percentage of your insurance client base has engaged with you around Solvency II?



How would you describe your firm's approach to Solvency II?



The processes

More insurance
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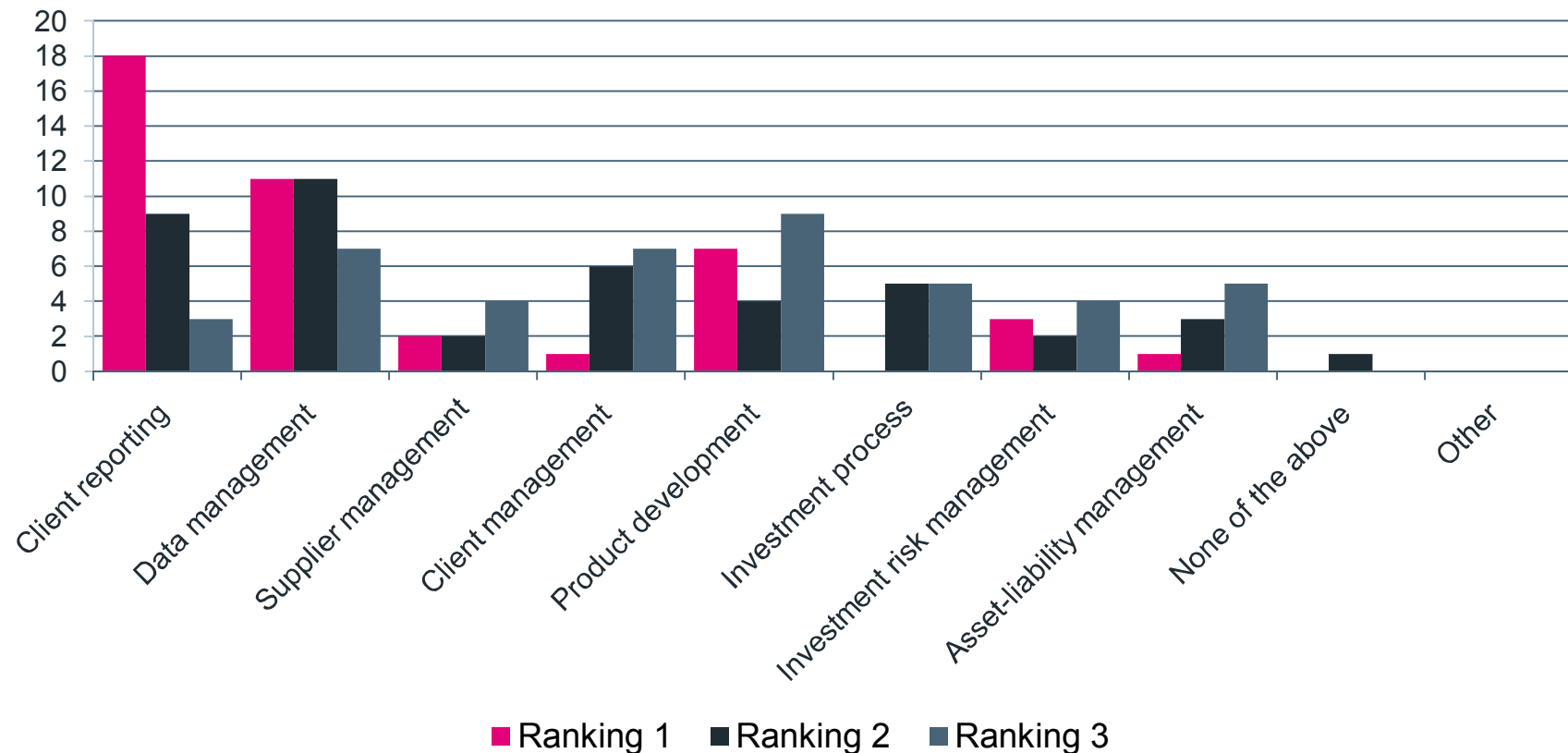
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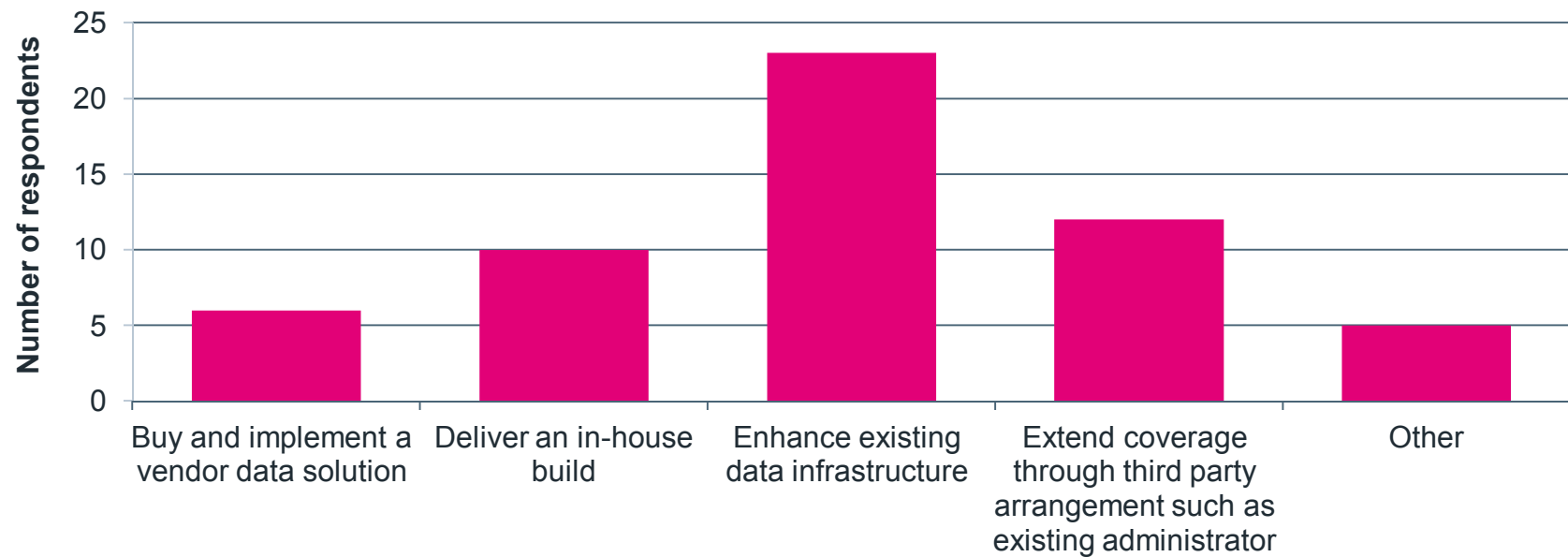
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Which areas of your operating model will be impacted most as a result of Solvency II?

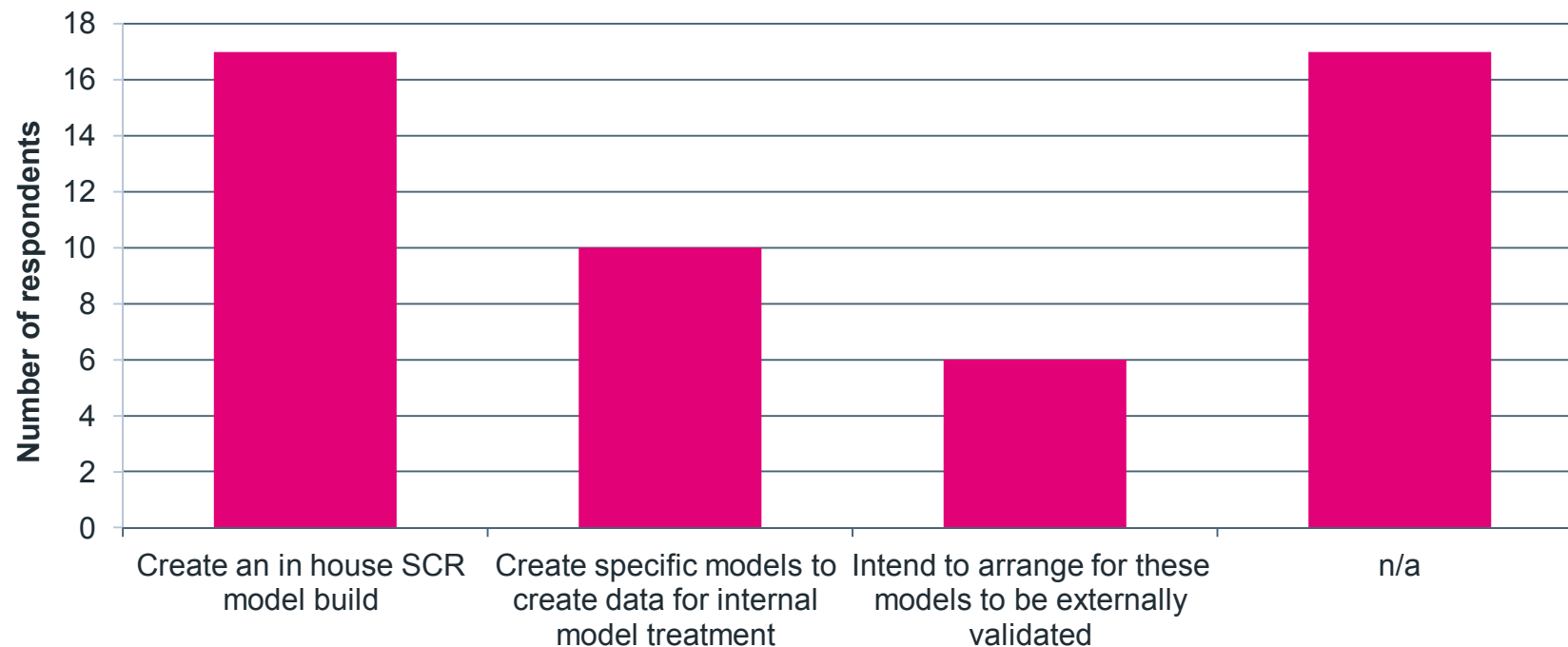
Rank answers from 1 to 3



In relation to data solutions to support Solvency II requirements, do you plan to...?



In relation to modelling solutions to support Solvency II requirements, do you plan to?



The optimism

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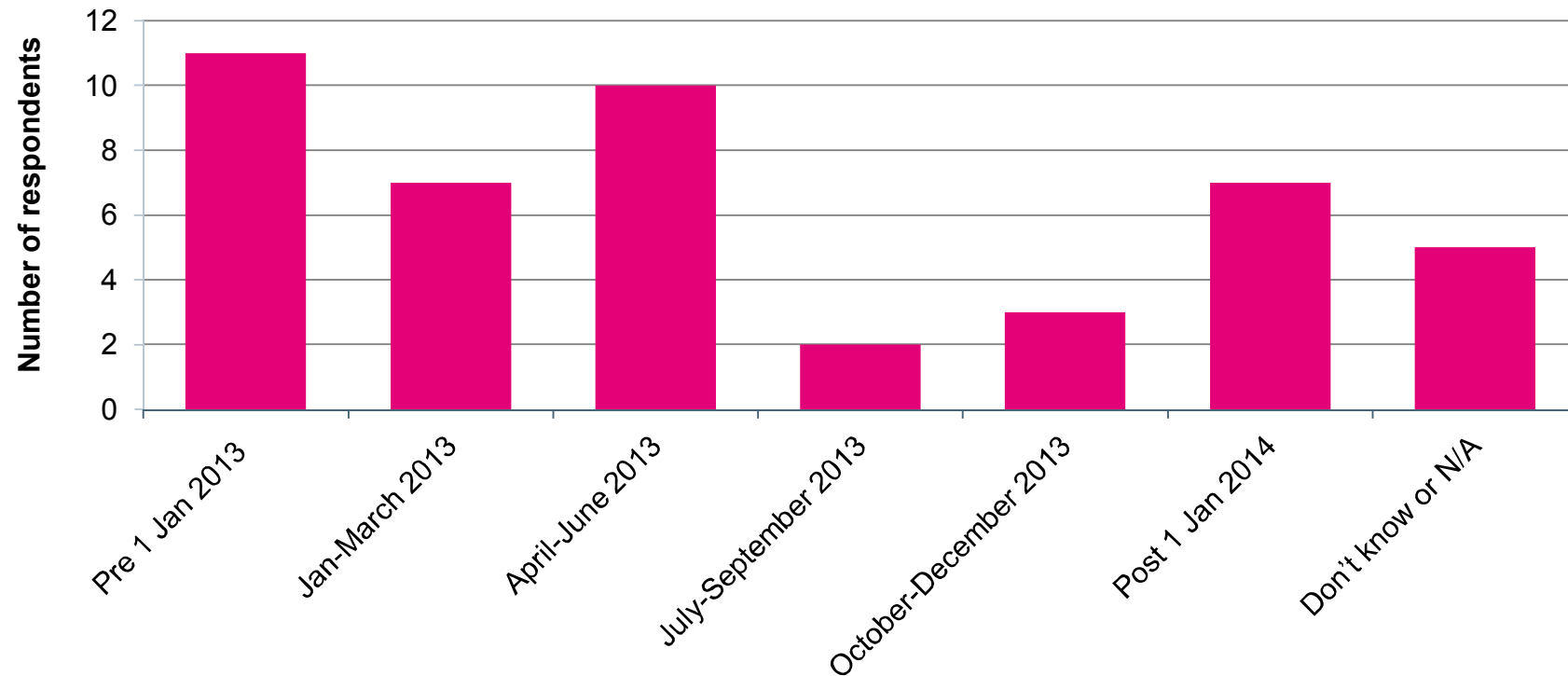
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Planned Solvency II delivery date



Asset allocation

More insurance
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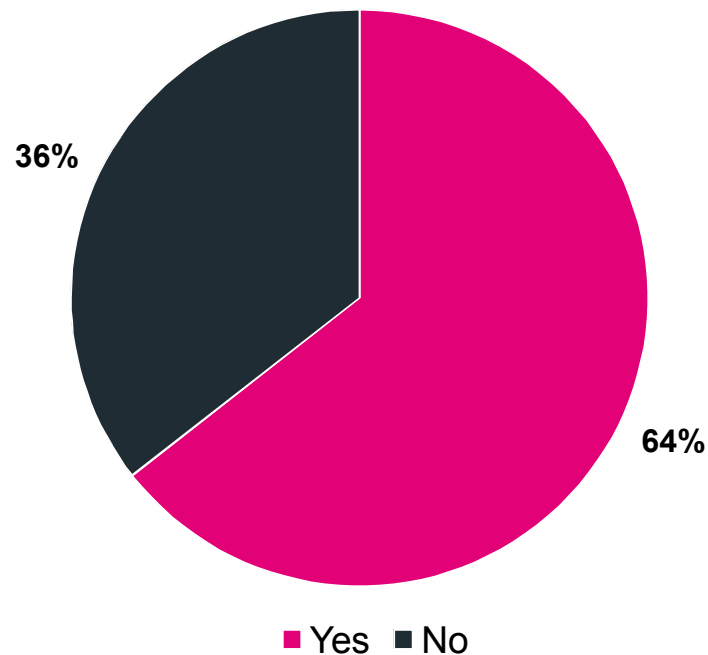
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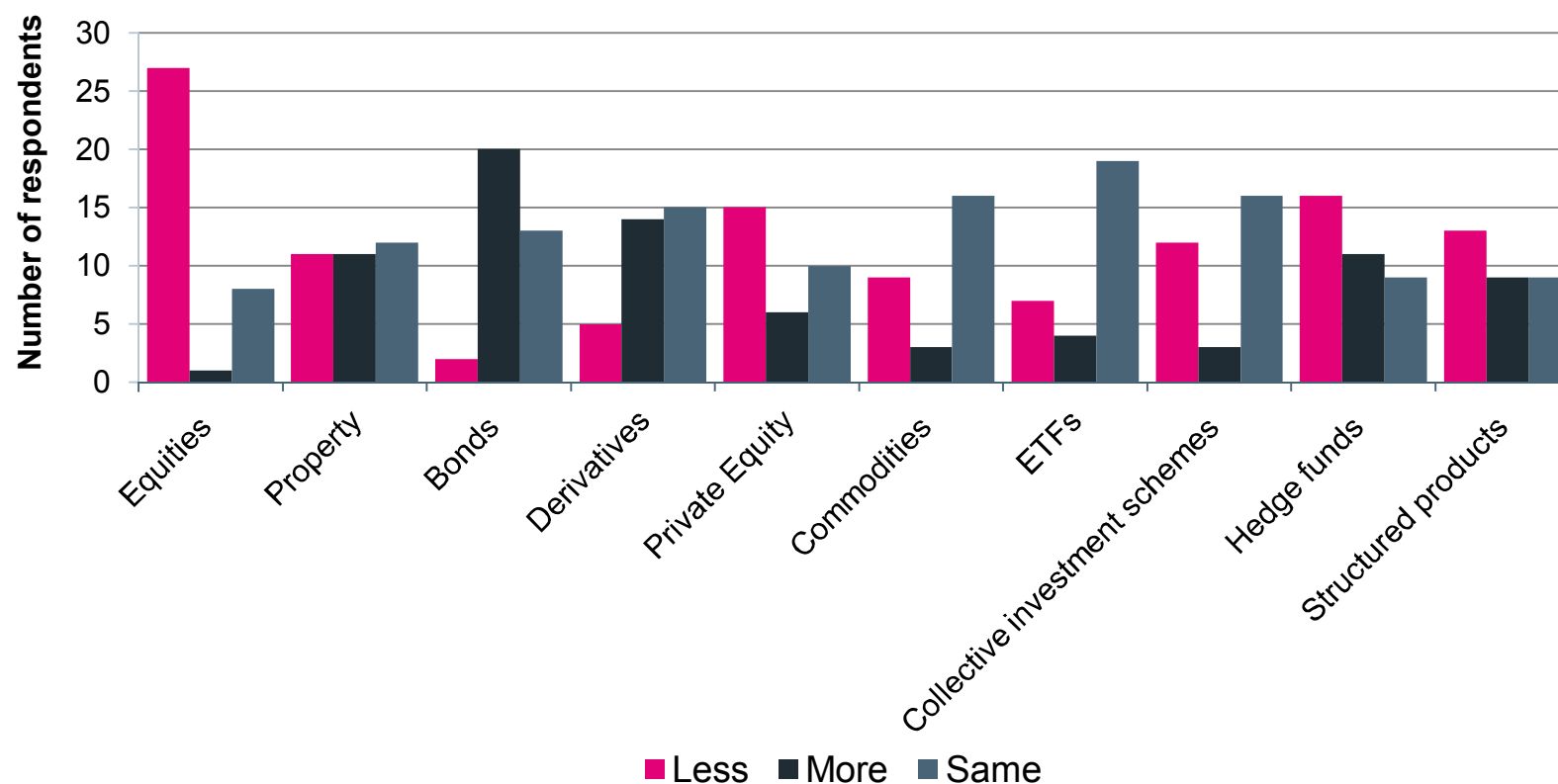
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Are you seeing a change in demand for different asset types from insurance clients?



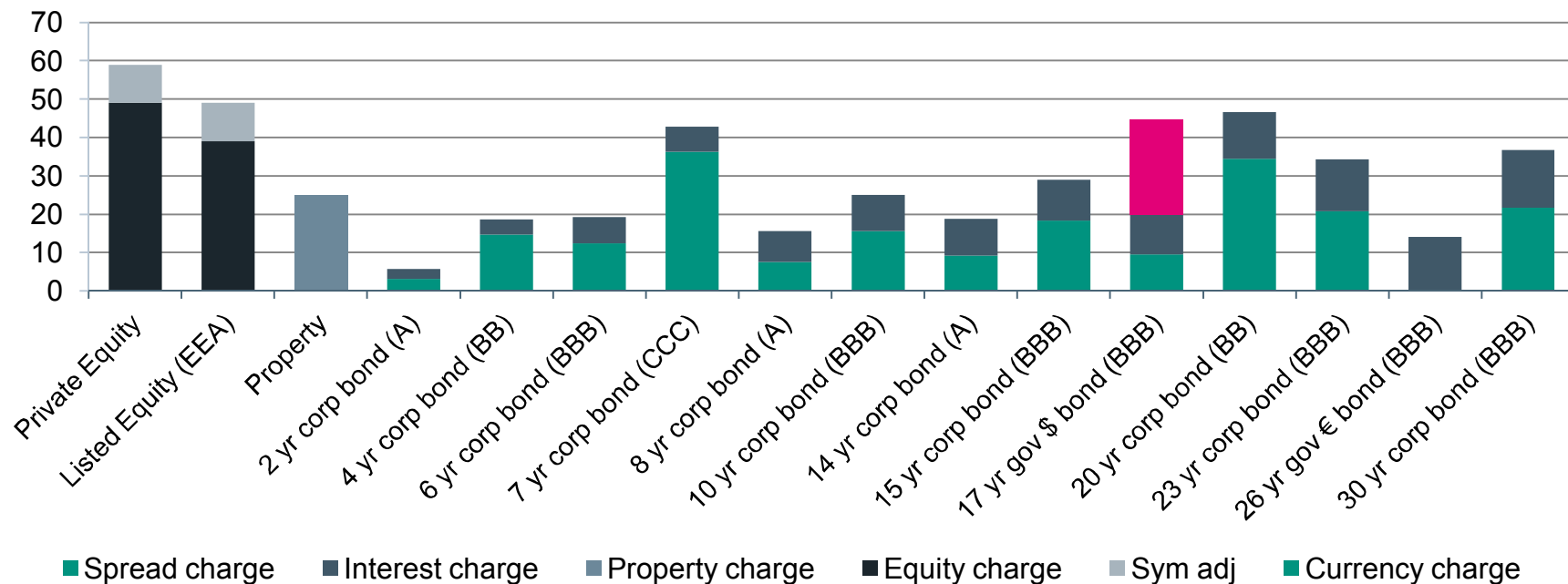
How do you see demand for the following asset types changing under Solvency II?



Market risk charge overview per asset class

Before correlation

Standalone capital charge by asset class (%) Level 2 October



Potential additional charges:

- Currency risk: 25% relative shock
- Concentration risk: threshold dependent.
- Countercyclical premium risk: not applicable

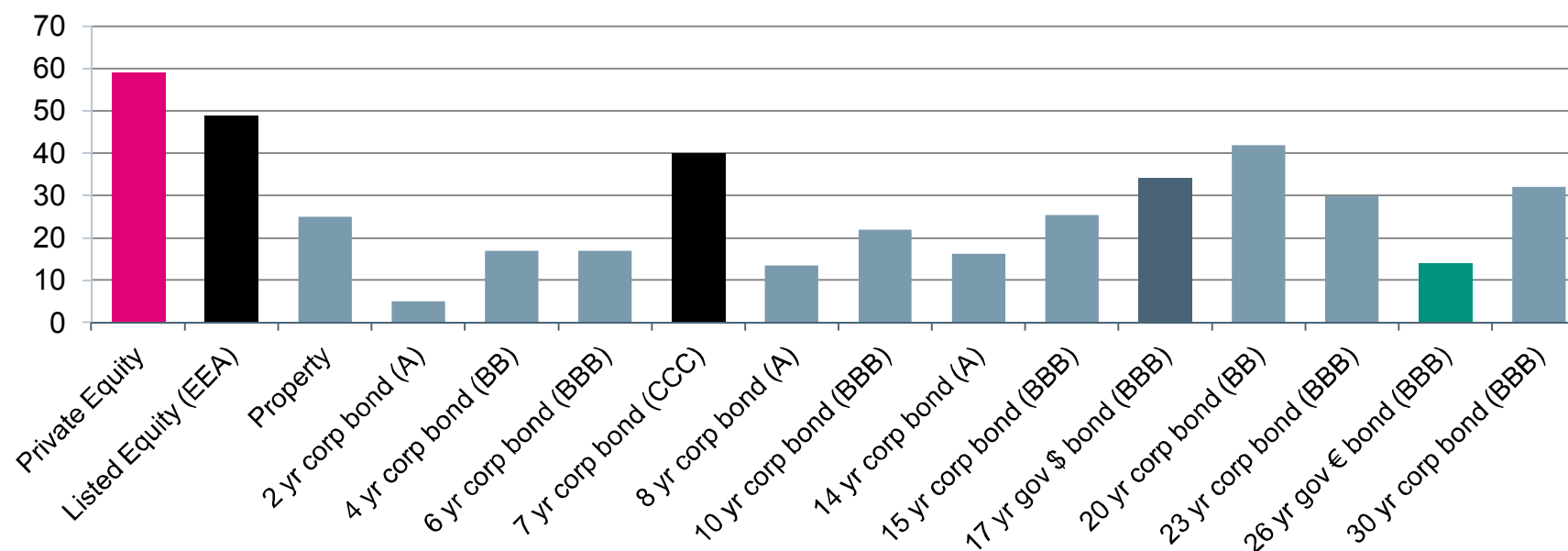
Note:

- Based on October 2011 Level 2 Draft Impl measures
- Based on ultimo 2010 market data
- Equity dampener +10%

Market risk charge overview per asset class

After correlation

Standalone capital charge by asset class (%)



Potential additional charges:

- Currency risk: 25% relative shock
- Concentration risk: threshold dependent.
- Illiquidity risk: not applicable

Note:

- Based on October 2011 Level 2 Draft Impl measures
- Based on ultimo 2010 market data
- Equity dampener +10%



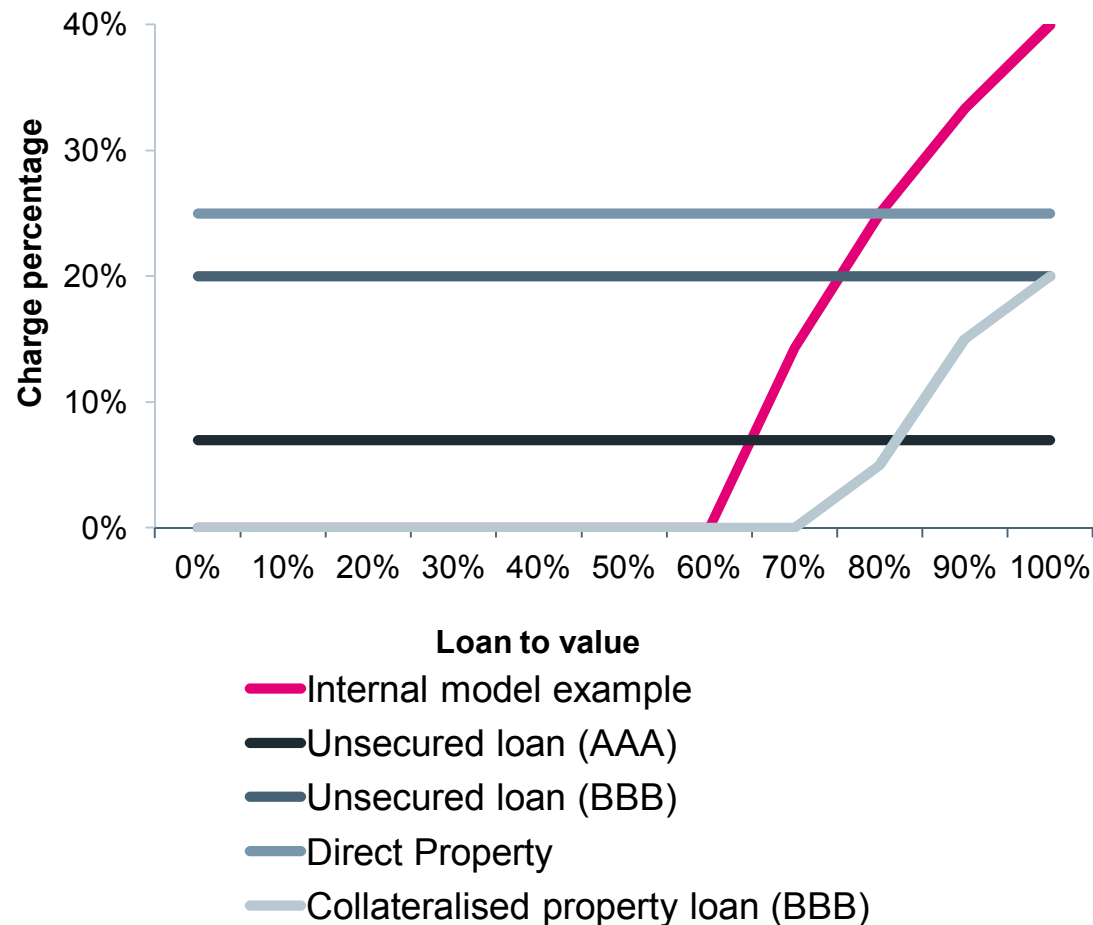
Section 3

Investment optimisation

Changing asset strategies

- Move to prudent person principles (potentially) frees up some asset classes which may have been inadmissible under Solvency I
- Types of strategies which may be employed going forwards may include:
 - Creation of “matching adjustment friendly” investments or structuring such investments for annuity funds
 - Creation of lower volatility strategies to protect whole balance sheet (rather than just matching to best estimate)
- Some “arbitrage” appears to still be present within the latest drafts of the rules e.g.
 - Swapping market risk for counterparty risk (if possible)
 - Direct versus indirect property holdings
 - Investment in funds with “look through”- funds can be stressed as per the underlying investments if the required data is present.

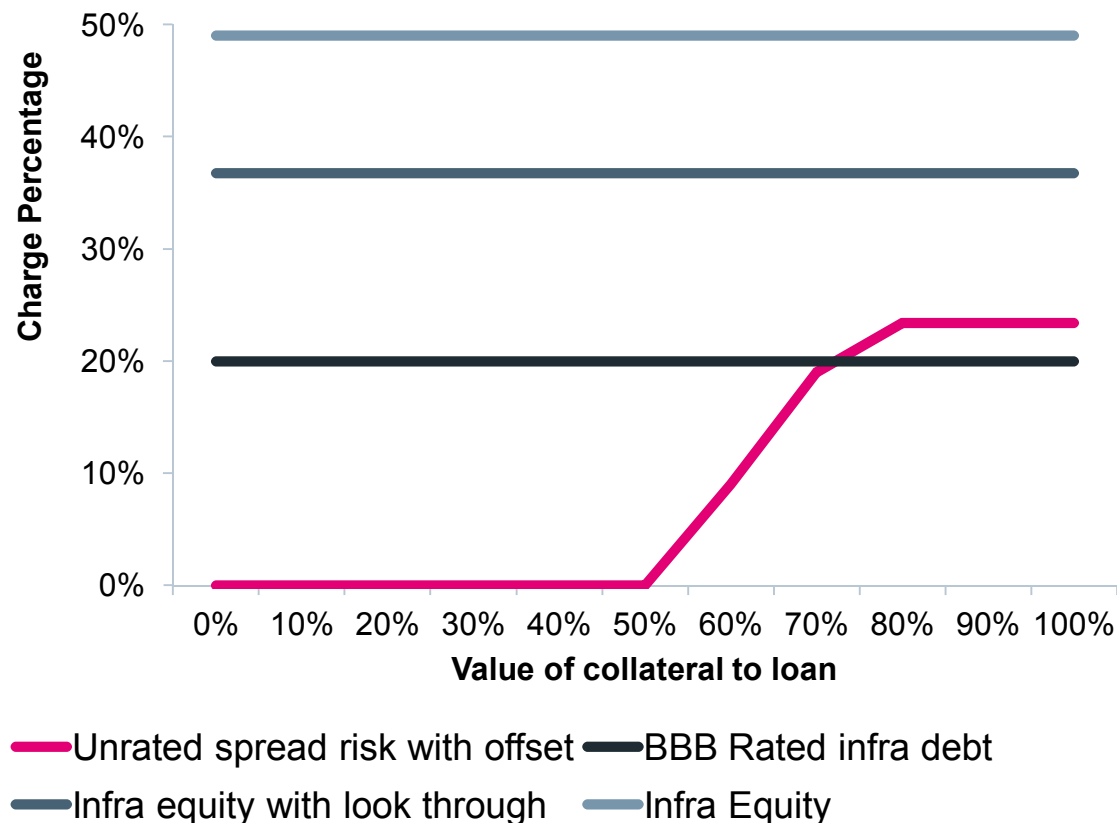
Example 1 - Indirect property



- Level 2 text gives no benefit for secured lending
- Level 3 pre-consultation allows the value of collateral to offset the spread risk charge
- This appears to present an opportunity for secured lending as in the graph (illustrated for low LTV property lending).

Example 2 - Infrastructure

Risk Overview



- Infrastructure equity treated as other equity and so attracts 49% charge.
- Look through within a fund may be able to dampen down if cash or other assets within the fund
- Infrastructure debt behaves like secured lending but likely to start from an unrated starting point

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

