The Actuarial Profession
making financial sense of the future

Developing a Comprehensive Risk Management and Governance Framework for a Financial Conglomerate

The Allianz Group Approach

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Risk governance is a strategic challenge for the financial industry

Several areas of self interest

- Protect corporate brand
- Restore confidence of customers and investors
- Assure effectiveness and integrity of business processes
- Comply with changing regulatory requirements

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Insurance industry started late to properly quantify certain risks

Without adequate risk assessment and pricing models profitability is not sustainable - three examples:

- Life: embedded options and guarantees
- PC: natural catastrophes
- Integration of actuarial and financial risks

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Allianz Group aims to implement Group risk management framework across all businesses

Risk management has to be integrated with general management processes

- Risk adequate organisation
- Capital management and stress testing
- Group limit system
- Risk reporting

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The Group Risk Committee is a cornerstone of the Allianz Group risk organisation

The RiCo serves to establish a comprehensive risk culture and processes within the Group

- Transparency on Group capitalisation and risk profile
- Recommendation and co-ordination of measures to manage risks
- Proposal of Group risk policy

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Allianz Group companies have to meet stringent requirements for risk governance

Integrated Group wide risk management framework across all businesses by 2005

- Laying the foundation: risk policies and minimum standards
- Controlling the implementation: risk diagnostic
- Involving senior management: agreement on key development needs

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Currently there is no harmonized European corporate governance framework

New solvency regulation for banks and insurance companies could promote European harmonization of corporate governance

- Pillar II relates to corporate governance aspects and goes beyond Sarbanes-Oxley
- Common standards are a prerequisite to reduce multiple supervision

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Economic risk capital is a common denominator across risk categories and segments

	Insurance	Banking	Asset Management
Market / ALM	✓	✓	(✓)*
Credit / Counterparty			(✓)*
▪ Investment	✓		
▪ Reinsurance	✓		
▪ Investment Banking		✓	
▪ Retail Banking		✓	
PC risk			
▪ Premium Non-Cat	✓		
▪ Premium Cat	✓		
▪ Reserve	✓		
Life biometric risk	✓		
Operating			
▪ Business	✓	✓	✓
▪ Operational	✓	✓	✓

Solvency
EVA
Capital allocation

*) Fiduciary

Respect material differences within consistent framework

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The internal risk capital must be integrated into the overall value based management approach

Economic Value Added =
Profit - (Required Capital * CoC)

- Remuneration of management based upon EVA
- Allocate capital to most profitable lines of business
- Improve value creation for shareholders through incentive system

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Risk and capital management has to account for regulatory and rating agency perspective

Stress tests on regulatory and rating capital complement economic perspective of risk capital

- Contingency plans to be prepared
- Integrate stress tests & contingency plans into capital planning process
- Aim for consistency of internal, regulatory (Solvency II) and rating view

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A comprehensive limit system is being used across the Group

Group limit framework defines the key principles for limit setting within the Group

- Solvency limits
- Capital budgets
- Counterparty and investment limits
- Nat cat limits

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Achieving risk transparency through comprehensive risk reporting

New standard reports will support risk and capital management decisions

- Describing risk profile and capital situation
- External reporting should ultimately be consistent with internal figures
- Stable IT environment and reconciliation with accounting figures required

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Allianz Group risk governance system built to comply with regulatory requirements

Allianz Group supports regulation which is based on incentives

- Consistency between regulatory initiatives
- Qualitative approach to regulation, e.g. no quantitative limits
- Reducing complexity of supervisory processes for multinational groups

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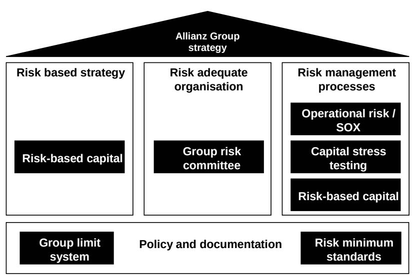
Allianz Group is building a comprehensive risk framework



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