

Value & Capital Mangement: A new era

Thomas C. Wilson
CRO Allianz SE

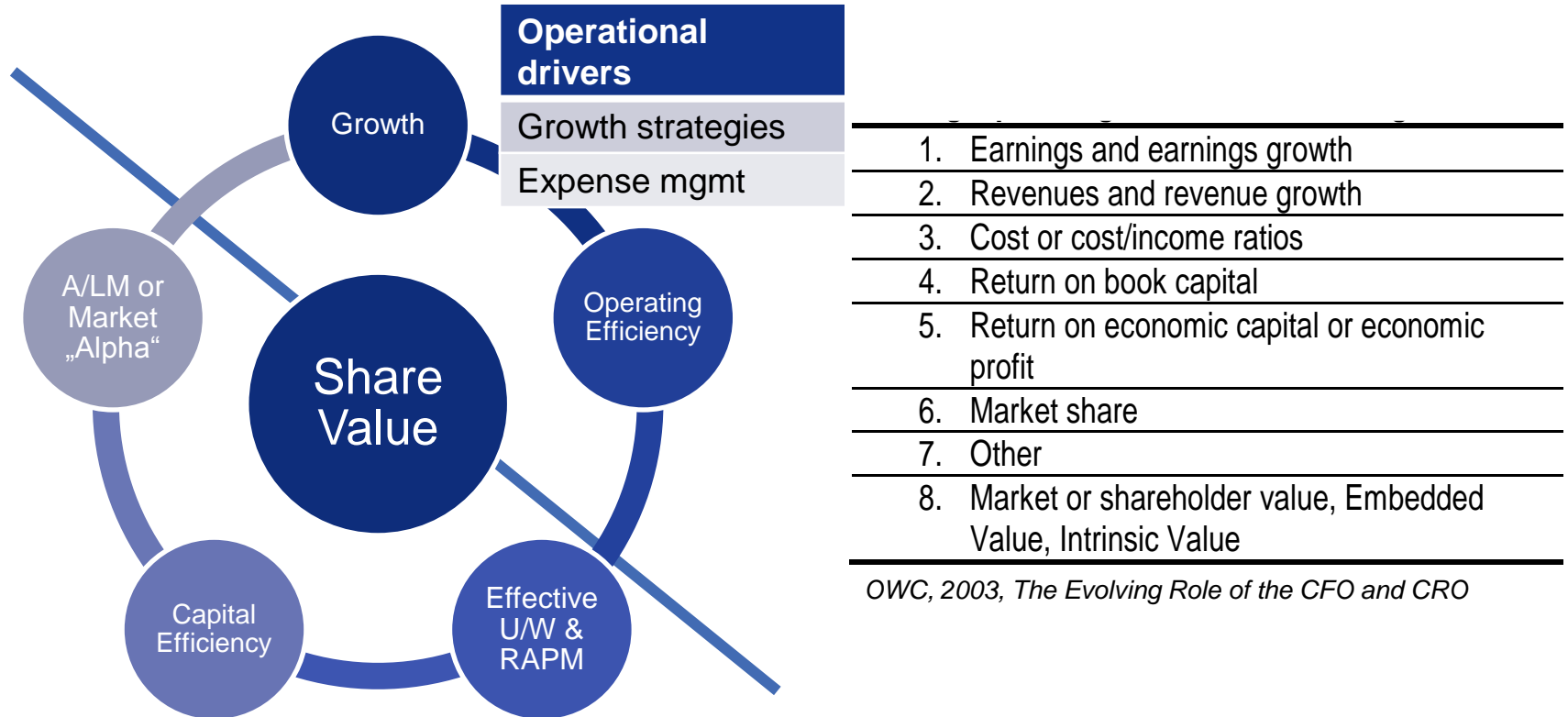
Institute of Actuaries
London, 20 January, 2017

Agenda

1. A New Era

2. Implications for insurers

Which measures are most used for strategic decision making?



OWC, 2003, The Evolving Role of the CFO and CRO

Looking forward, challenges to earnings growth and capital ...



Economic Environment

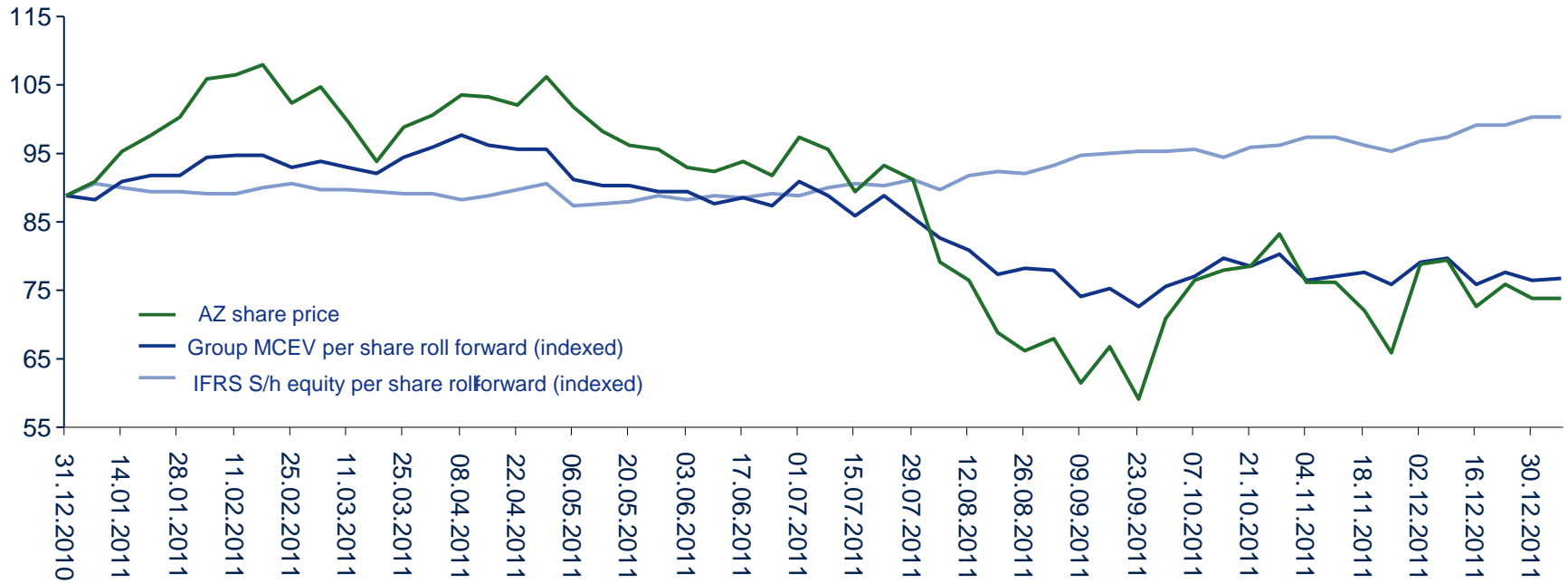
- Anemic growth
- Low rates
- Market volatility

10 yr Euro Swap rates, 2006-2016



What can happen in a volatile market environment?

Allianz share price vs MCEV and IFRS roll-forward



Roll-forward based on 2010 disclosed IFRS and MCEV sensitivities without quarterly rebalancing.

More than just one company, one year

Comparison, adjusted MCEV Roll-Forward vs. Δ TNAV and Δ Share Price

Company	2009	2010	2011	2012	2013
Allianz		✓	✓		✓
Aviva	✓	✓	✓	✓	✓
Axa	✓	✓	✓	✓	✓
CNP	✓	✓	✓	✓	✓
Generali		✓		✓	
Prudential	✓	✓	✓	✓	✓
Zurich	✓	✓	✓	✓	✓

Looking forward, challenges to earnings growth and capital...



Economic Environment

- Anemic growth
- Low rates
- Asset volatility

Regulatory Pressure

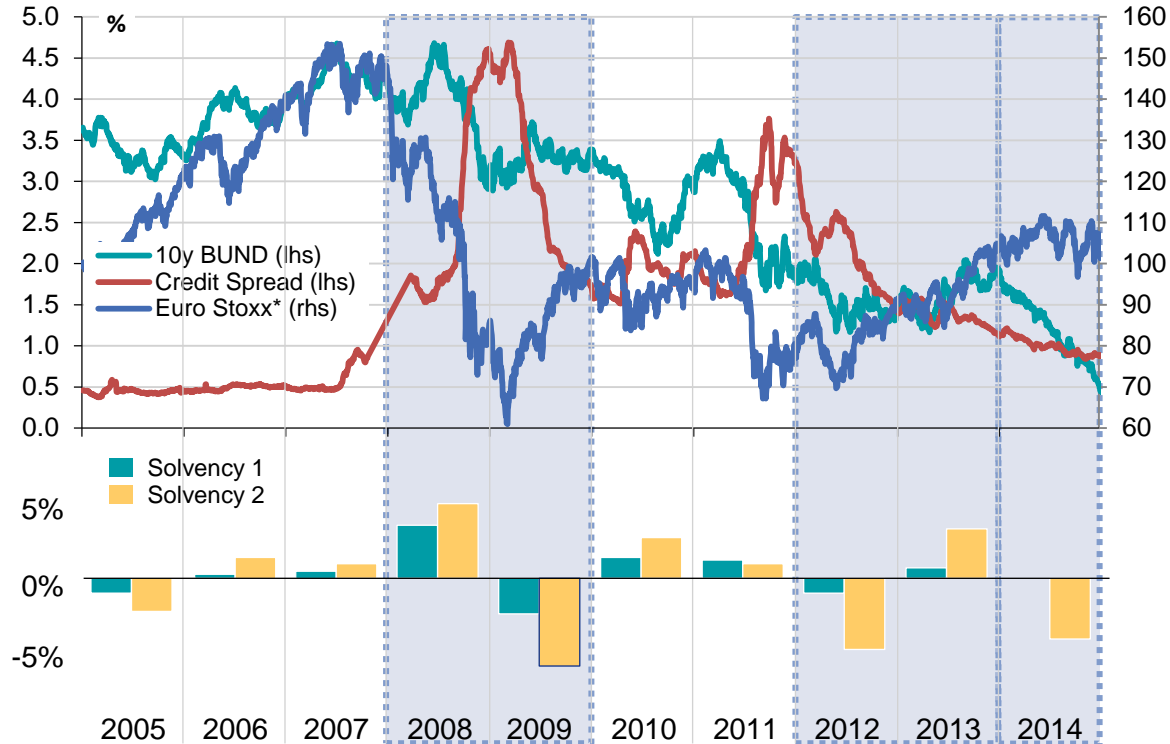
- Risk-based capital
- Risk management
- Consumers

Solvency II, a substantially more volatile regime

Periods of extreme financial market volatility ...

... impact Solvency II ratios significantly

(example of traditional Life products, comparison of change in surplus as a % of assets)



*) Barclays Capital Euro Aggregate Corporate average credit spread

Source: Morgan Stanley, Oliver Wyman

Looking forward, challenges to earnings growth and capital...



Economic Environment

- Anemic growth
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Regulatory Pressure

- Risk-based capital
- Risk management
- Consumers

Paradigm Shifts

- Consumers
- Business system
- Shareholders

Shareholder activism, focus on capital

“Earnings analysis is of limited use ... We prefer composites that i) generate strong cash flow after ‘maintenance capex’ ... , ii) have high growth capex that supports future earnings and iii) ... surplus cash generation, driving financial flexibility and the ability to redeploy capital for growth.”

Morgan Stanley 2012

“(Investors need to understand how) ... capital is spent. We are supportive of investment in new business ... (at) IRRs above the company’s cost of capital and with reasonable payback periods ... (but) business at or sub 9% IRRs which takes 9 years to break even ... is not a viable source of value for shareholders.”

Barclays 2011

“A focus on cash and dividends has driven the sector to an outperformance of the European equity market...”

Regulatory capital is the fuel for dividends ... (and) Given the importance of dividends we think it is crucial to understand how capital will be generated going forward.”

Morgan Stanley 2016



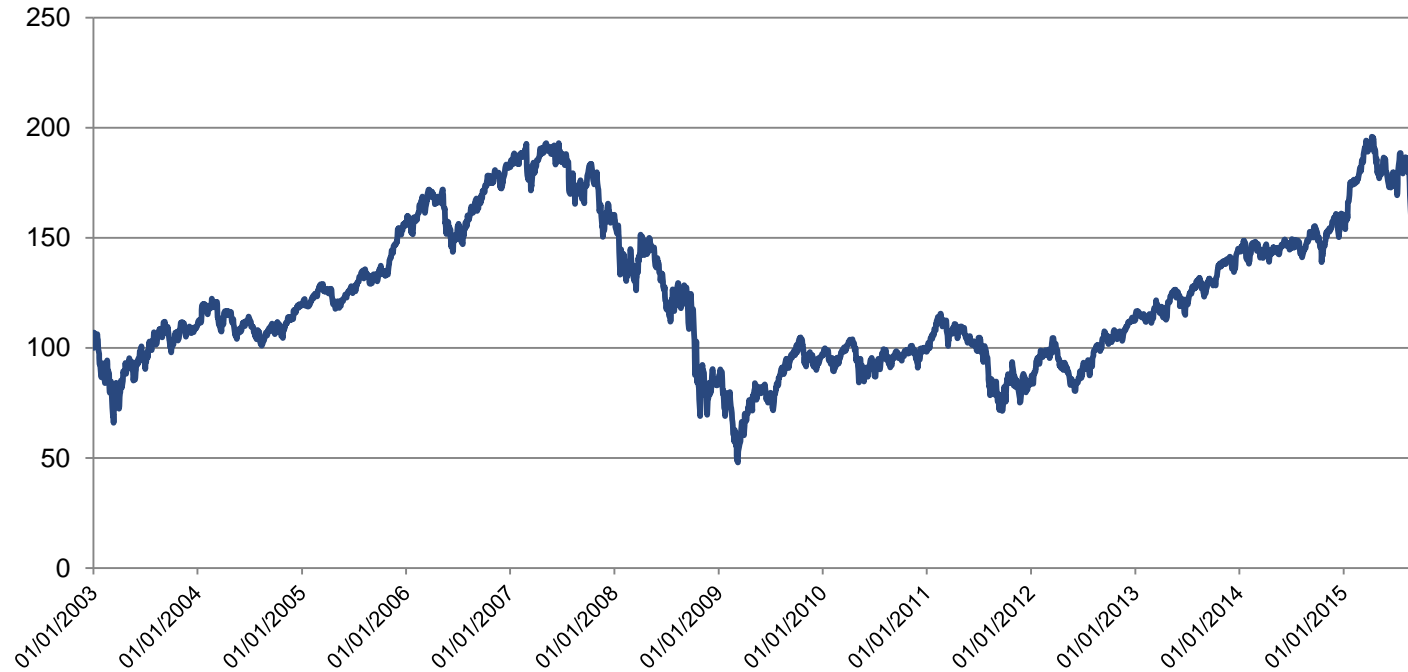
Agenda

1. A New Era

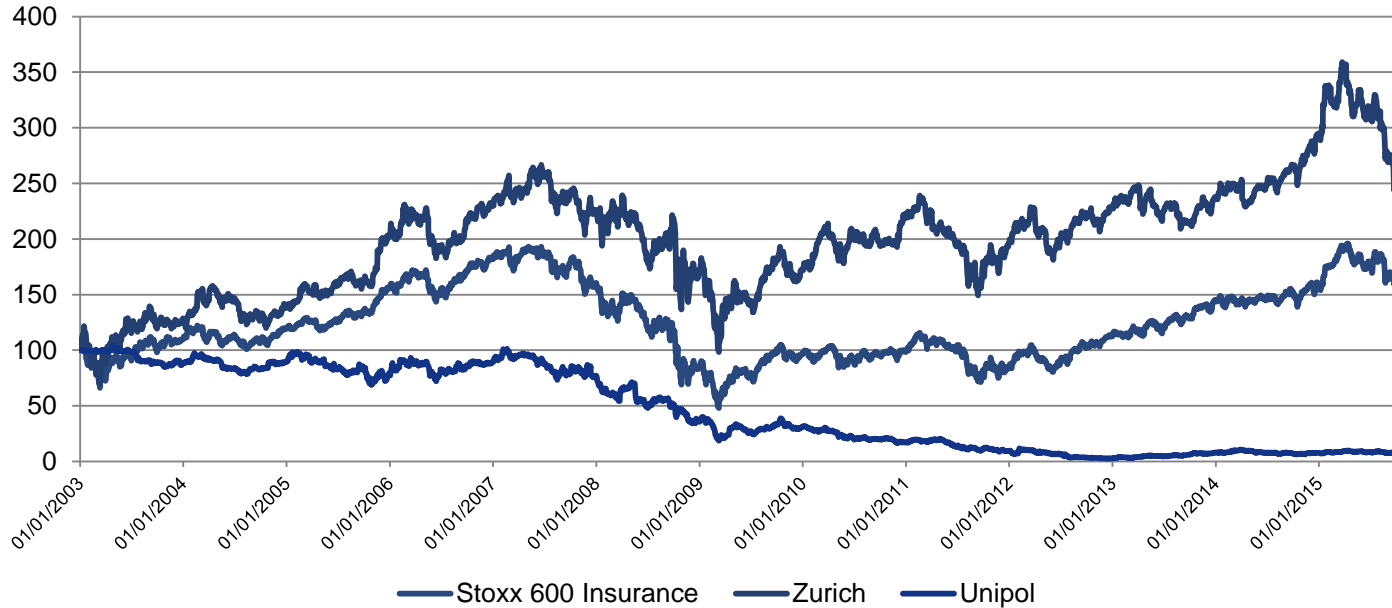
2. Implications for insurers

A turbulent ride for banks and insurers

Eurostoxx Insurance Index, 2003-2015



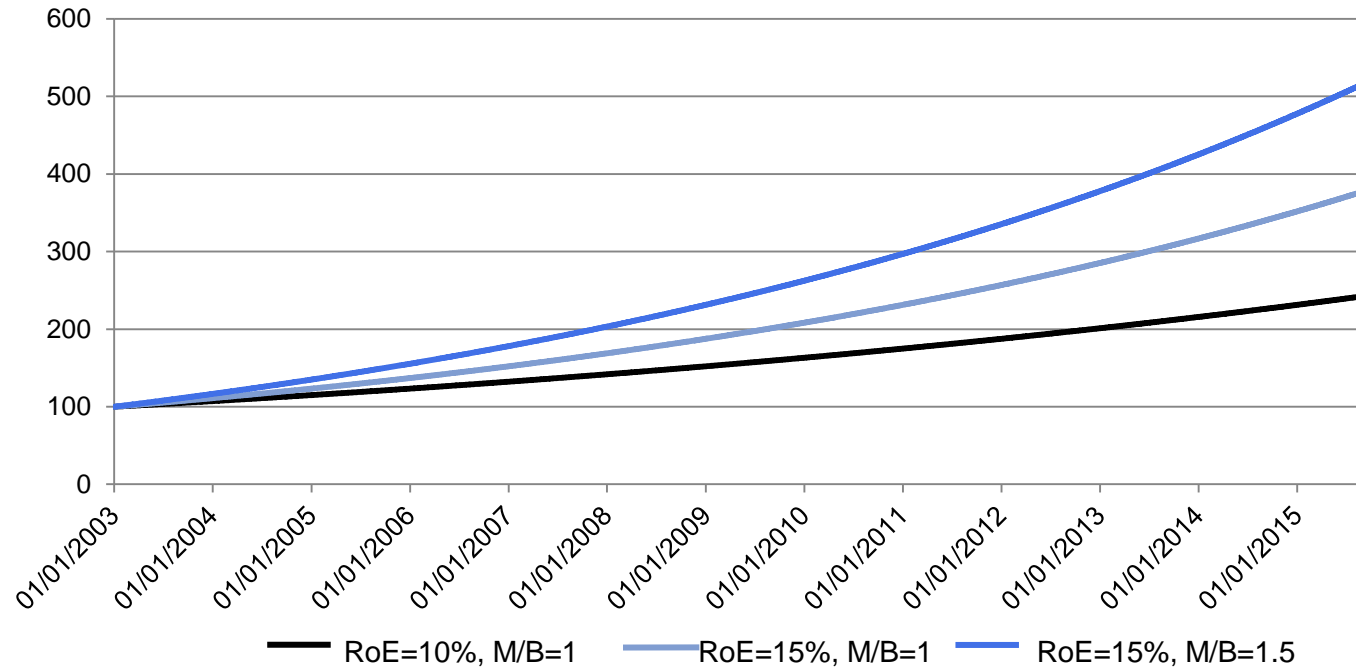
Still, some prosper more than others



Raising two questions:

- What drives trend with market?
- What drives relative outperformance?

Drivers of relative share value are trivial...

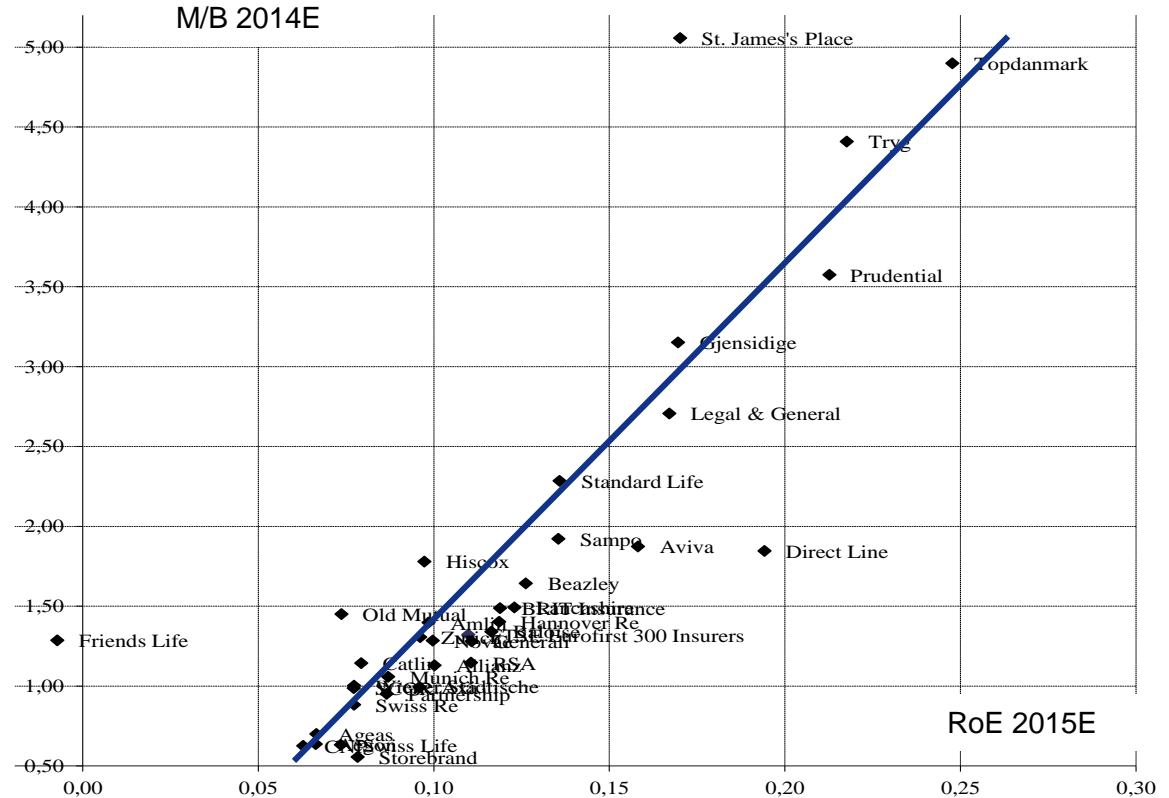


...but what drives M/B?

There is a theory...

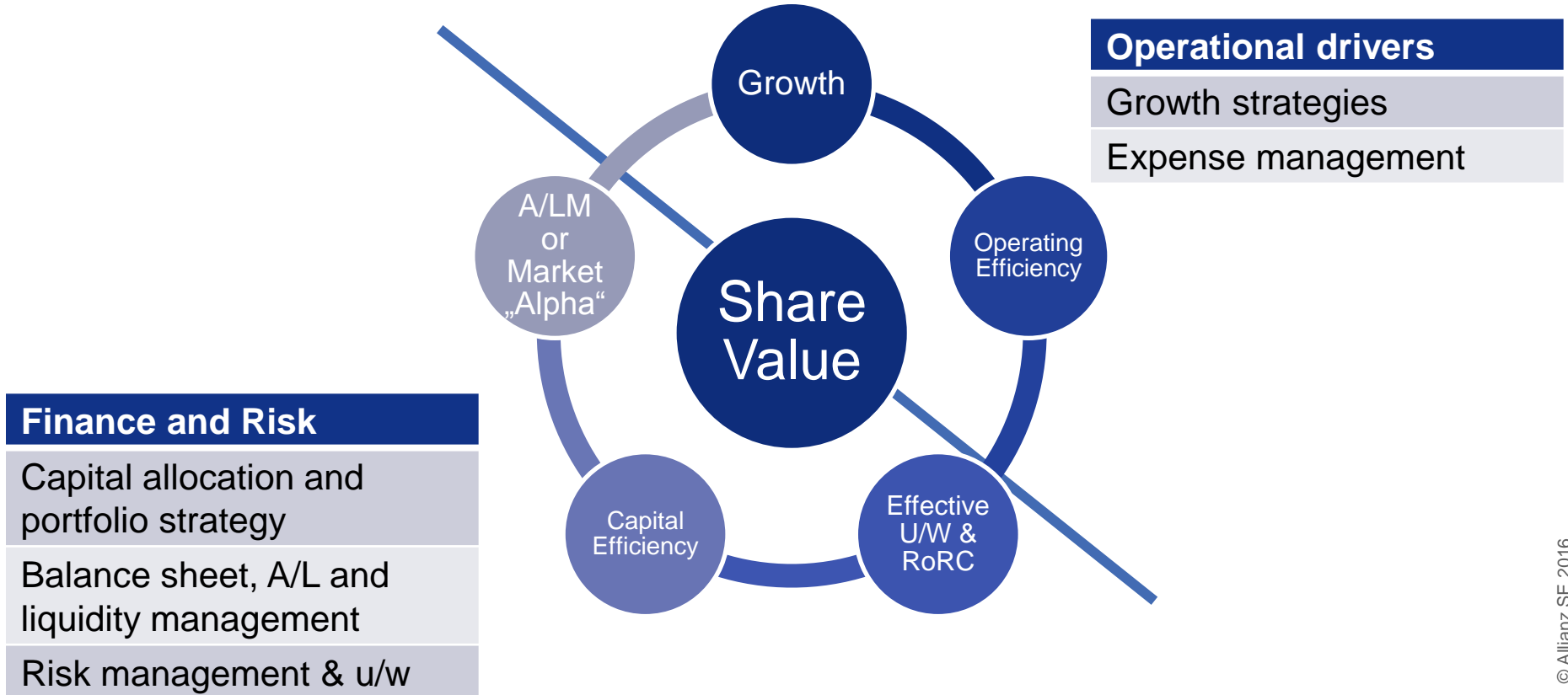
...that generally works

$$\frac{M}{B} = 1 + \frac{(RoE - CoC)}{CoC - g}$$

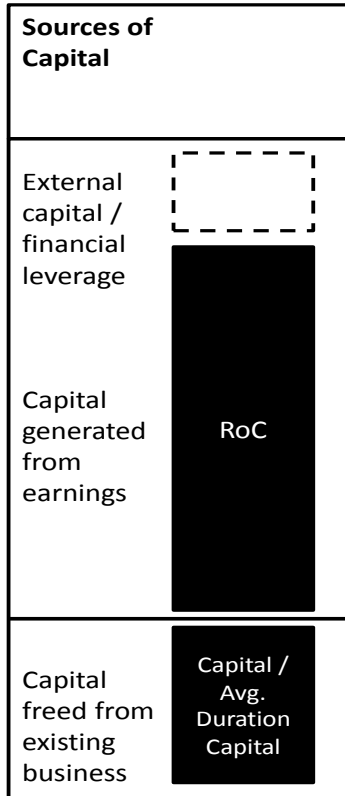


Source: KBW Insurance Overview, 2014

The New Era requires an holistic view...



A clear capital budget



capital between
 strategic-initiatives
 consistent with
 strategy;
 cost if long-run returns
 of capital;
 much as possible if
 returns greater than
 cost of capital;
 resilient capital
 respecting regulatory
 requirements, consistent with
 risk appetite;
 / excess capital to
 shareholders.

Clearly communicated financial targets emphasizing growth, returns and capital...

2015	2018			2015	2018
8.0%	5%	3-year EPS CAGR	Businesses with NPS above market	50%	75%
12.5%	13%	RoE Allianz Group	SII interest rate sensitivity	14%-p	< 11%-p
				Potential to free up €3 bn in capital	
94.6%	94%	P/C CR	PIMCO CIR	61.3%	60%
65%	100%	L/H OEs with RoE ≥10%	IMIX	68%	72%
2.1%	3.0%	L/H NBM	Share of new digital retail products (P/C)	< 10%	~100%

...and capital management strategy...

- 1** 50% pay-out

 - Regular pay-out ratio of 50% (up from 40%)

➔ Healthy balance between dividend yield and investments in profitable growth

- 2** Dividend continuity

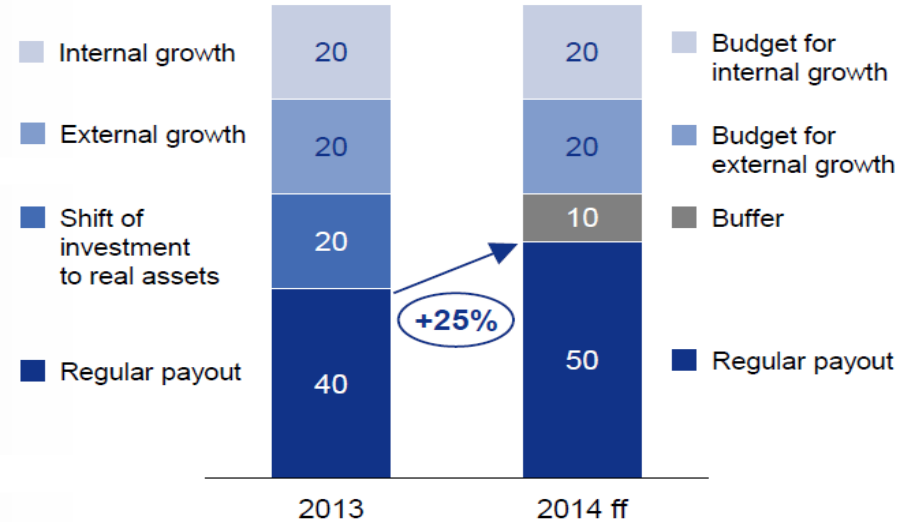
 - Dividend no less than previous year's level

➔ Predictable income for investors

- 3** Discipline

 - Payout of unused external growth budget every 3 years
 - Entire dividend policy subject to sustainable Solvency II ratio > 160%

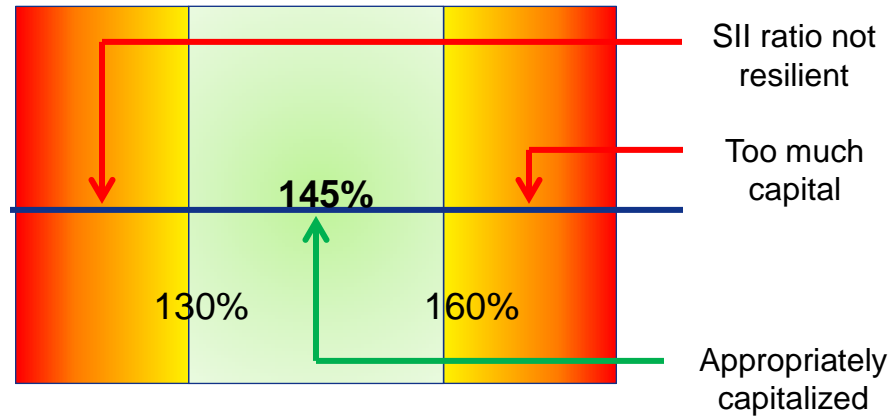
Allocation of net income² 2014ff (in %)



Evaluation of unused budget for external growth every 3 years, starting end of 2016

Solvency capital framework

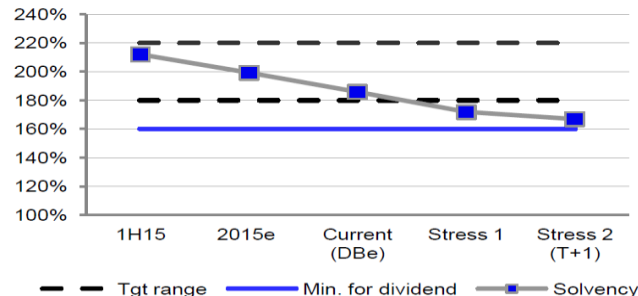
Minimum ratio after all stresses



Historic Scenarios – Illustrative	
—	2008 Financial Crisis
—	2011/12 Sovereign Debt Crisis
—	2014/15 Low rate scenario, no UFR
—	2001 Equity crash
Parametric Stresses – Illustrative	
—	1:10 year modelled event

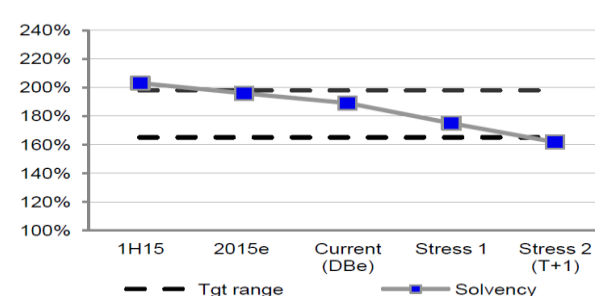
Starting Solvency Ratio

Figure 14: Allianz – recent solvency trend and potential outcome under further stresses



Source: Deutsche Bank estimates, company data

Figure 20: Zurich – recent solvency trend and potential outcome under further stresses



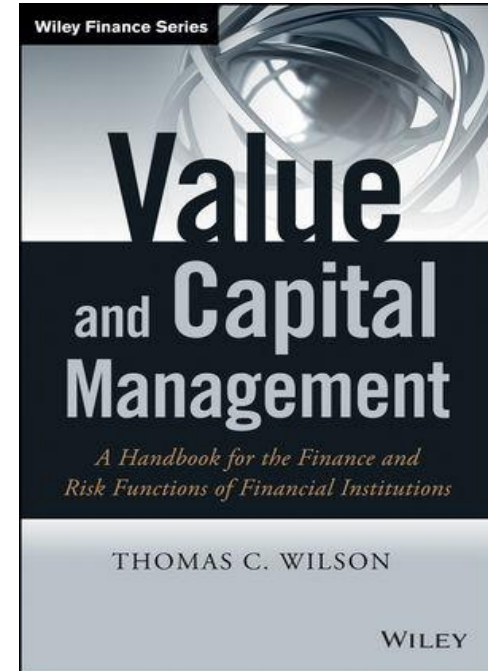
Source: Deutsche Bank estimates, company data



Biography, Thomas C. Wilson



- 2008 – Chief Risk Officer, Allianz Group
(Chief Risk Officer, Dresdner Bank)
- 2005-08 Chief Risk Officer, ING Insurance
- 2002-05 Global Head, Finance & Risk Practice,
Oliver Wyman & Company
- 1998-02 CFO Swiss Re New Markets
- 1990-98 Global Head, Risk Management Practice,
McKinsey & Company
- 1989 PhD Economics, Stanford University
- 1984 BSc Business Administration,
University of California at Berkeley



Author, Value and Capital Management – A Handbook for the Finance and Risk Functions of Financial Institutions, 2015, Wiley Finance Series

