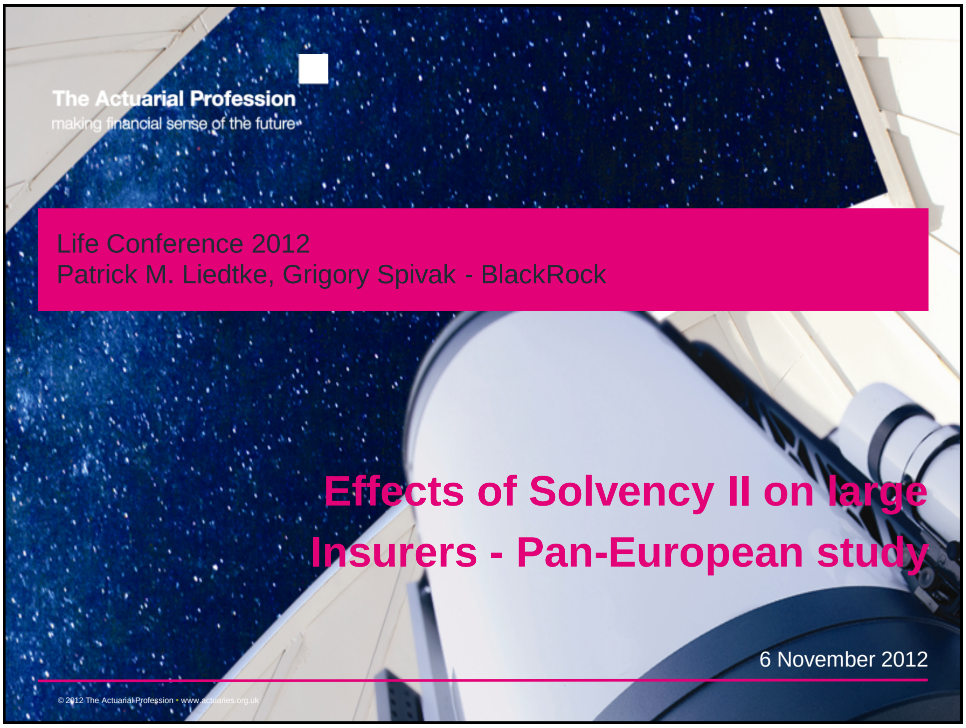

Who we are

BlackRock
- The world's largest funds manager AUM $3.8 trillion
- Manage $230 billion on behalf of European insurers
- Own the UK unit-linked life company with AUM of £78 billion
- Run a Solvency II survey together with The Economist Intelligence Unit

Patrick M. Liedtke
- Head of Financial Institutions Group EMEA
- Previously Secretary General and Managing Director of The Geneva Association
- Founder of several insurance networks
- Actively involved in many insurance and risk organizations and journals

Grigory Spivak
- Product development and range management
- Specialist in life funds, including SII program for Lifeco
- FIA

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Solvency II survey – Key messages

Solvency II – caveat emptor

- BlackRock Solvency II Market Survey and internal market intelligence at the heart of our presentation
- However:
  - Unfortunately complete details for implementation are still missing…
  - …but most parts of the legislation are in principle agreed
  - Implementation timetable still remains the main open question
- Key results of the survey are not be affected much by the changing parts

Key messages from the survey

- Asset allocation shifts have been decided but implementation is on hold
- Allocations to Alternatives are set to increase
- Allocations to Derivatives will increase
- Meeting data requirements is a major concern, whilst Pillar 3 commands the least budget
- Insurers will re-examine guaranteed products which may become prohibitively expensive
- Solvency II could increase market volatility
- Share prices are likely to be hit (further) by Solvency II
- Regulators may have to rethink approach to ‘risk-free’ assets

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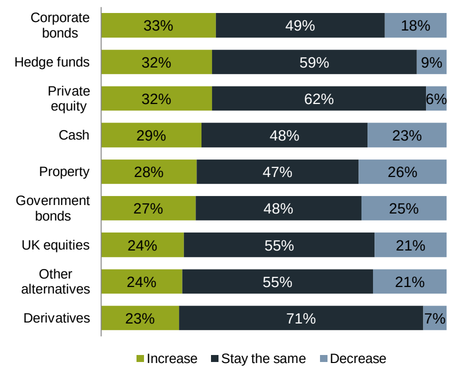
The Future for Asset Allocation

The Future for Asset Allocation

- 46% of respondents already know how they are likely to change their asset allocation
- Only 4% said they have not made plans
- However, 53% say they are waiting until closer to implementation before making changes
- Most changes – away from equities towards corporate bonds
- ~70% believe their portfolio's returns will increase under Solvency II

Perceived effect of Solvency II on holdings of each asset class



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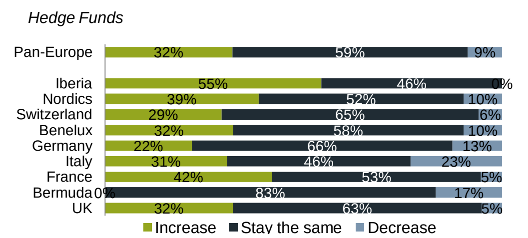
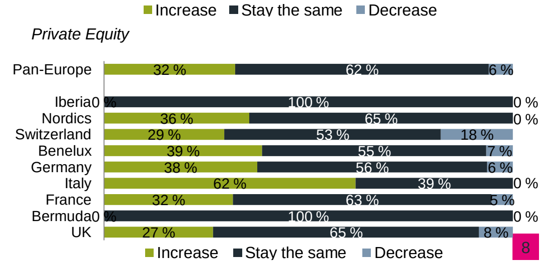
Return-Seeking Assets

Return-Seeking Assets

- 32% of respondents plan to increase their allocation to Alternatives (e.g. hedge funds and private equity)
- Just 9% and 6% respectively plan to decrease exposure to these asset classes
- Hoping higher charges will be worth higher potential returns

Thinking about the likely effects of Solvency II, in light of the regulation's capital requirements, how are your holdings in each asset class likely to change?

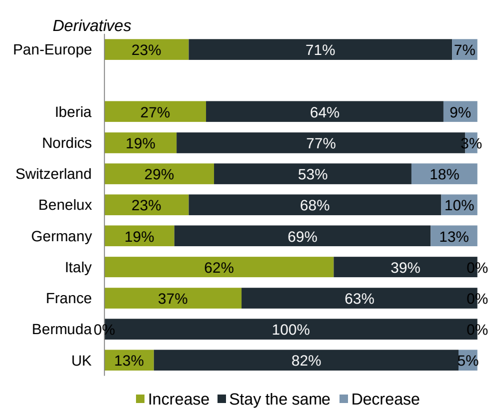




Return-Seeking Assets

- 60% of respondents agree that the Directive will result in greater use of derivatives to better match assets and liabilities
- Over 37% agree that Solvency II will make them more likely to use derivatives in future
- Only 18% currently use derivatives and just 23% have definite plans to increase their overall holdings

Thinking about the likely effects of Solvency II, in light of the regulation's capital requirements, how are your holdings in each asset class likely to change?



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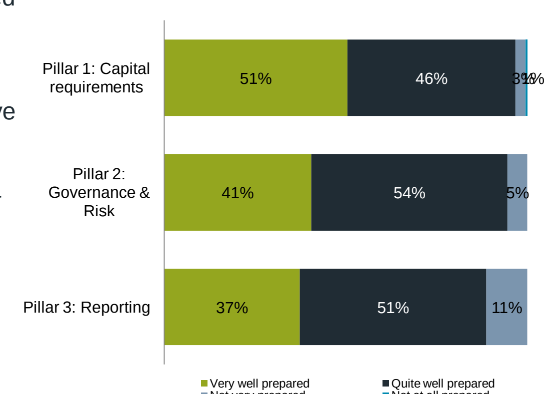
A Demanding Data Management Regime

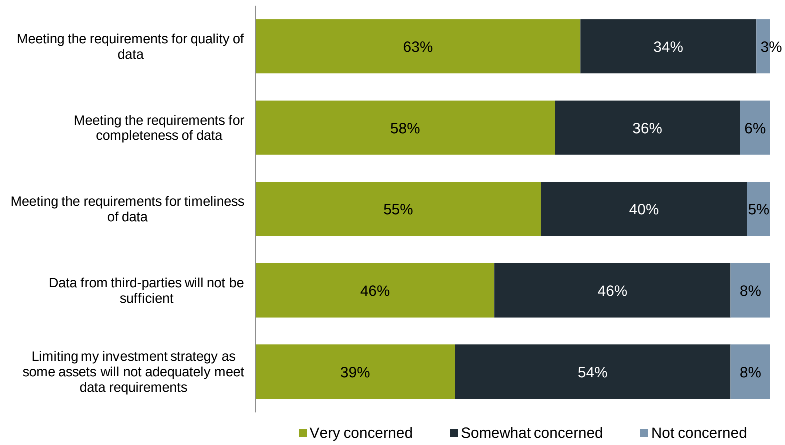
A Demanding Data Management Regime

- Over 90% of respondents are very or somewhat concerned about meeting data requirements
- 92% of respondents concerned that they will have to limit their investment strategy as some assets demand more rigorous data requirements
- Overall, respondents say they are most concerned about Pillar III
- Yet it is the pillar to which they are devoting the least budget

Pan-Europe: Level of preparedness for the Three Pillars



Level of concern over preparedness for Reporting requirements (Pillar III)



Base: All respondents (n=223)
Source: Q13 Thinking about each of the specific reporting requirements under Pillar III, how concerned are you about each of the following areas?

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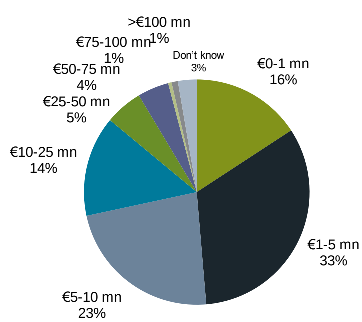
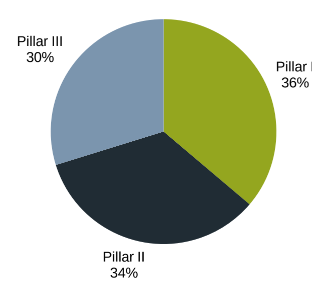
Overall solvency II budget and share between the three pillars

Overall Solvency II spend



Share by pillar



Base: All respondents (n=223)
Source: Q14 What is your overall budget for Solvency II? Q15 How is your budget for Solvency II apportioned between each of the three pillars? Select the approximate percentage for each pillar

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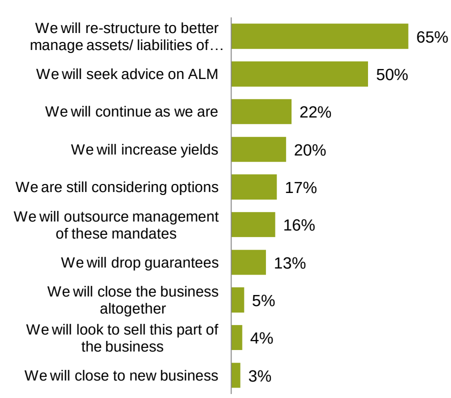
Shifting Product Ranges

Shifting Product Ranges

- For some insurers, the Directive merely accelerates an on-going trend away from guarantees, but for other it creates the whole new way of thinking about their business
- Two-thirds of Life and Composites say they will restructure in order to better manage guarantees in-house
- 49% of Life and Composites say will seek ALM advice
- This will increase price of guarantees and will drive consumers into other cheaper but less-protected offerings

How will guaranteed funds businesses be managed under Solvency II?



Changes in investment approach – examples

- Enhance yield:
  - Hedge funds
  - Emerging markets debt
- Capture illiquidity premium:
  - Infrastructure debt
  - Real estate investments
  - Emerging markets debt
  - Liquidity swaps
- Protect downside risk
  - Hedge funds
  - Absolute returns strategies
- ALM: need for flexibility, rapid rebalancing → e.g. using ETFs
- Every investment strategy requires full transparency and look-through

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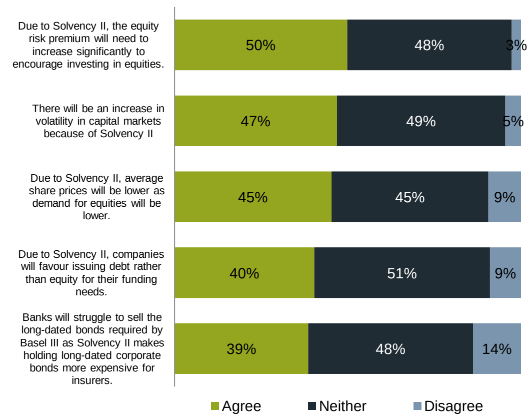
Consequences for Capital Markets

Consequences for Capital Markets

- 5% respondents disagree that the Directive leads to greater market volatility
- 69% of smaller insurers and 44% of larger insurers expect greater volatility
- Threat of pro-cyclicality; although EIOPA is trying to reduce it with the matching premium and equity dampener.

Global Capital Markets: Effect of Solvency II



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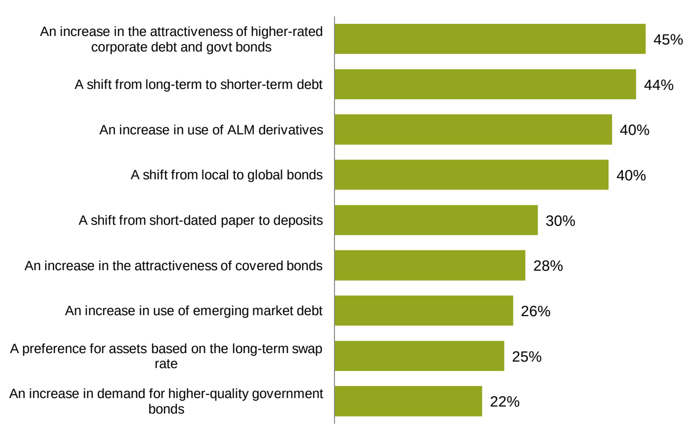
Global Capital Markets: Effect of solvency II on Fixed Income

How will Solvency II affect European insurers' use of fixed income assets? Select up to three answers.



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Consequences for Capital Markets

- 5% respondents disagree that the Directive leads to greater market volatility
- 69% of smaller insurers and 44% of larger insurers expect greater volatility
- Threat of pro-cyclicality; although EIOPA is trying to reduce it with the matching premium and equity dampener.

Some final thoughts:

- When the implementation timetable is confirmed, Solvency II will trigger insurers to revisit and recalibrate their whole approach to asset management
- The definite trend we see is to focus on yield enhancement and diversification benefits.

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.