

Insurance Linked Securities from an ERM perspective

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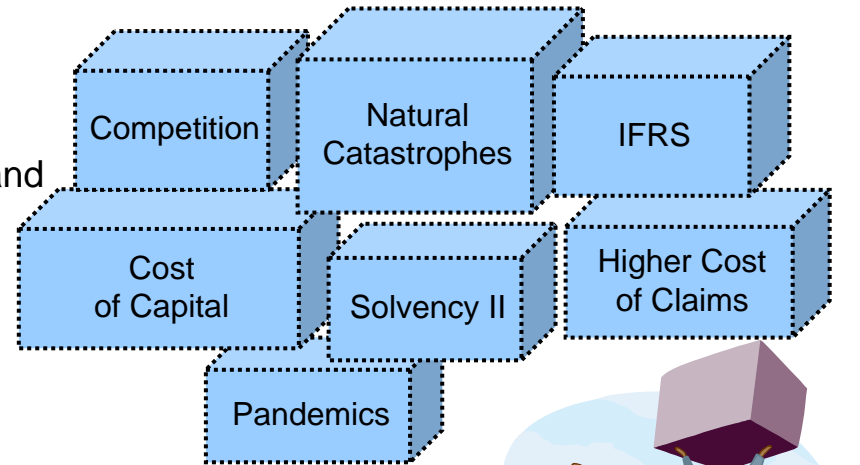
Agenda

- **Driving forces**
- **ILS and the impact on Enterprise Risk Management**
- **ERM scores**

Driving Forces Behind Insurance Linked Securities

Insurance Industry:

- Capital intensive industry
- Pressures from regulators, rating agencies and shareholders
- Threat of costly catastrophes



Capital Markets today:

- Appetite for high yielding asset classes
- Desire for diversification
- Role of hedge funds and private equity and other sophisticated investors



ILS – What's the Impact On ERM?



Impact on Risk Management Culture

As part of Strong Risk Management Culture the company must be able to clearly articulate its risk tolerance and risk profile

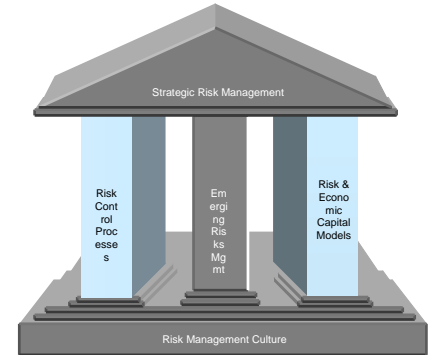


- **Defining risk tolerance starts with identifying which risks to underwrite and within which limits. ILS are an alternative source of risk transfer to keep risks within tolerance**
- **ILS requires more transparency to the market on risk management**
- **Risk spread premium depends on perception of risk management capabilities**

Impact on Risk Controls & Risk Models

Risk Transfer: which risks?

- Property cat risk
- Extreme mortality risk
- Motor insurance risk
- Credit reinsurance risk
- Reinsurance recoverables credit risk



Benefits:

- Diversification of risk capacity sources
- Better modeling and knowledge of risks
- No counterparty risk compared to traditional reinsurance
- Permanency

Disadvantages:

- Basis risk
- Exclusions

Impact on Strategic Risk Management

Strategic Risk Management = optimise risk/adjusted returns = put the capital on the « best » risks

- **Additional capital rising (monetization of EV)**
- **Reserve funding (XXX and AXXX) to free up capital**
- **Capital relief on unwanted risks to invest on wanted risks:**
 - **Internal: Economic Capital Models**
 - **Regulatory: Solvency II**
 - **S&P:**
 - **Ad hoc so far, except cat bonds**
 - **Considering globally consistent principles-based approach**
 - **Place onus on the company/sponsor**
 - **Demonstrate economic benefits**
 - **Limit benefit to economic capital benefit arising from transaction**



Reinsurers

- **Swiss Re**
- **Munich Re**
- **Hannover Re**
- **Scor**

...

Primary Insurers

- **AEGON**
- **Allianz**
- **AXA**
- **Friends Provident**
- **Groupama**
- **Legal & General**
- **Prudential**
- **ZFS**

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A one-to-one correspondence?

Excellent ERM

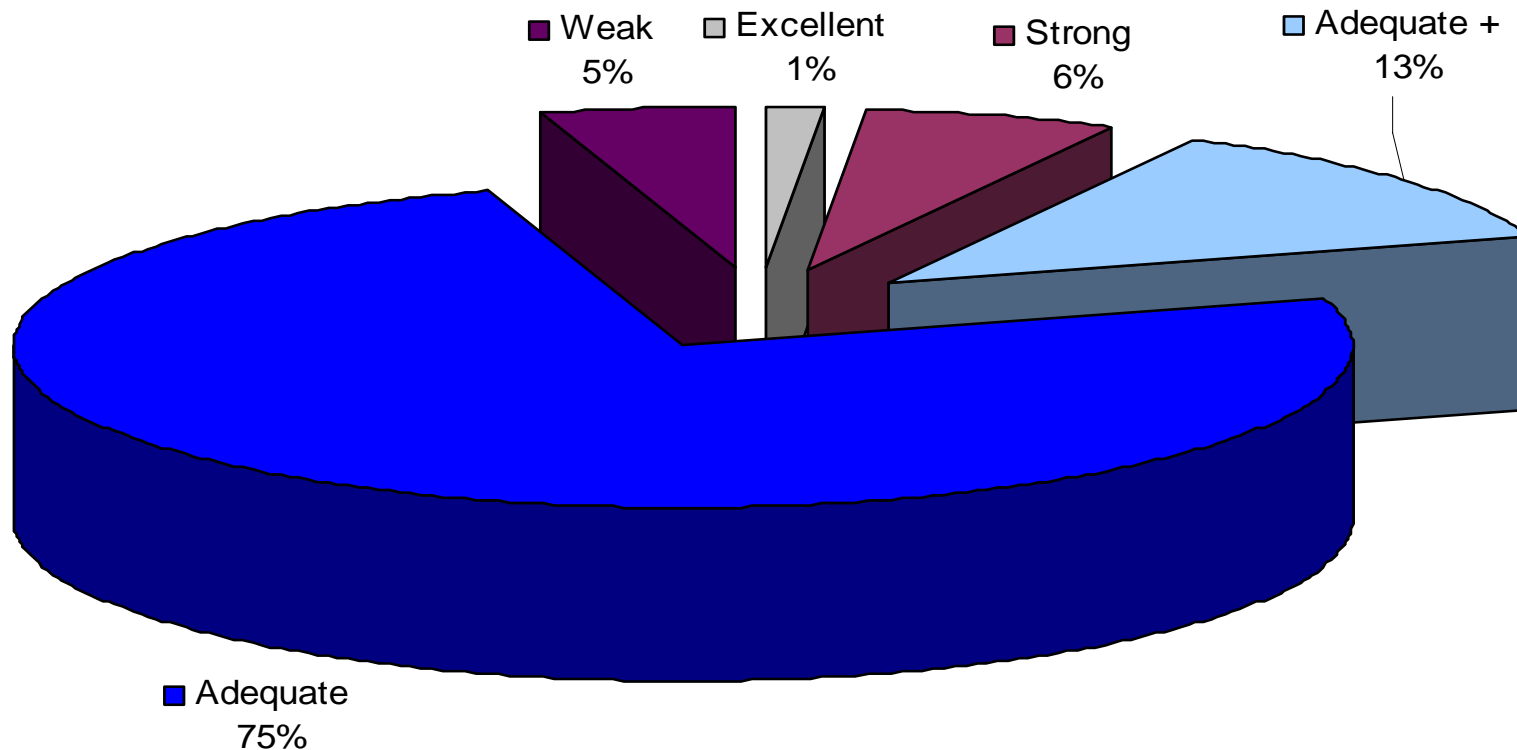
- Axa ✓
- ING

Strong ERM

- Allianz ✓
- Aspen
- Friends Provident ✓
- Hannover Re ✓
- Legal & General ✓
- Munich Re ✓
- Prudential ✓
- Swiss Re ✓
- ZFS ✓

Overall Scores 2007

EMEA



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