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Reinsurance Counterparty Credit Risk ~ Allianz Perspective

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Allianz 

Agenda

1. Why are we interested in Reinsurance Security?
2. History of Allianz Approach
3. Impact of Financial Crisis
4. Challenges going forward

Why are we interested in Reinsurance Security?

Allianz Value Proposition

To be the most trusted company in the financial services sector



Providing long term stability and security to our customers and clients is paramount

Counterparty Credit Risk is incorporated within our Risk Capital Models – this comes with a price

We maintain a stringent stance towards reinsurance security to protect our proposition and our customers

History of Allianz Approach 1/2

WTC highlights vulnerability of Reinsurers to major event

- Reinsurers post significant WTC losses e.g. Lloyd's downgraded, Gerling placed into runoff.
- AZ Group reacted quickly setting up a WTC Working Group to analyse the effects.
- Importance of Reinsurance Security reiterated.

Allianz Group approach to Security re-assessed

- Lack of transparency in terms of Allianz Group exposure to Reinsurer Counterparty Credit Risk.
- No common AZ Group stance on required credit quality of Reinsurers.

▶ Security Framework required to address this risk

History of Allianz Approach 2/2

Active Measures taken to mitigate Counterparty Credit Risk

- Dedicated Dublin based Allianz Group Security Vetting Team (SVT) & International Security Committee formed (previously at OE level) in 2002.
- SVT mandate to assess claims paying ability & monitor Group exposures.
- Approved Security List & Principles & Guidelines rolled out worldwide.
- Considerations included Ratings, meeting with key partners, internal financial condition assessment, Group Exposure, Limits.

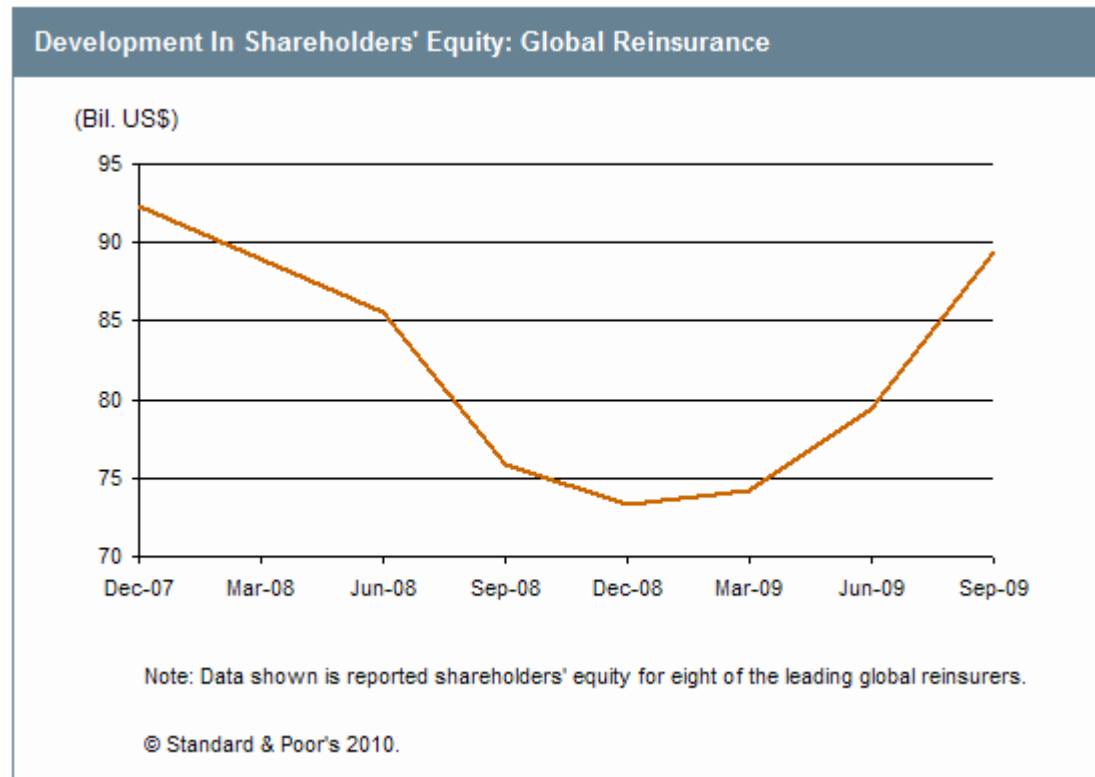
Major events and financial security issues continue to increase

- Volatile stock markets in 2002 lead to Munich Re losing AAA rating.
- Adverse reserve developments in US led to severe challenges for SCOR & Converium.
- Hurricanes 2005 ~ PXRE, Credit Crisis ~ Lehman Re.

▶ Allianz remains focused on dealing with the strongest partners

Financial Crisis 1/2

Key take aways to date...



► Decrease in capitalisation during crisis but recovered quickly.

Financial Crisis 2/2

Key take aways to date...

Insurers/reinsurers with riskier investments & business models hit hard

- Rapid downfall of AIG sent shocks through the insurance world.
- Swiss Re, XL Re major players offering capacity to Allianz.
- Majority of Reinsurers had conservative investment portfolios & investment losses manageable.
- Unrealised losses from widening of credit spreads in RI bond portfolio were largest contributor. Although sizeable reduction in capital in 2008, strong 2009 operating results and asset recovery brought capital back to very strong levels.

Allianz does not depend solely on ratings

- Contact with agency analysts and key reinsurance partners, watchlist created.

Allianz also considers market perception of counterparts

- SVT receives CDS Spreads on daily basis from Group. Investor Confidence can also damage franchise value in turbulent times.

► Crisis has led to further improvements in Allianz Approach

Challenges going Forward 1/2

Increase in frequency & severity of catastrophes

- Concern for P&C Cat focused Reinsurers. Investors support again?
- Q1 2010 mean cat budget for 2010 may already be exceeded. Pricing impact?

Mergers & Acquisitions Expected to Continue

- Majority of reinsurers trading below book value; way of managing capital.
- Allianz Perspective: concentration risk/less capacity from combined entity.

Solvency II should not pose major impact

- Demand for reinsurance expected to increase for capital relief.
- Reinsurers already use internal capital models due to inherent cat risk.
- Potential changes in group structure and relocation.

Continued Softening Rates & Excess Capacity in absence of major event

- Lower investment returns put underwriting performance under pressure.
- Will discipline be maintained in soft market unlike the late 90s?

Challenges going Forward 2/2

Redomicile after the event

- Shift away from Bermuda, may not even be a new class of reinsurers.
- Ireland (XL) /Switzerland (Flagstone) popular as close to Europe, favourable tax, advanced regulation, access to European shareholders.

Stable outlooks from most rating agencies

- Few upgrades/downgrades expected

Dealing with excess capital

- Share buybacks/special dividends not a concern as long as sufficient buffer for cat event.
- Pursue Mergers & Acquisitions?

▶ Allianz believes Reinsurers in good shape to face challenges

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