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New Capital Raising by Insurers

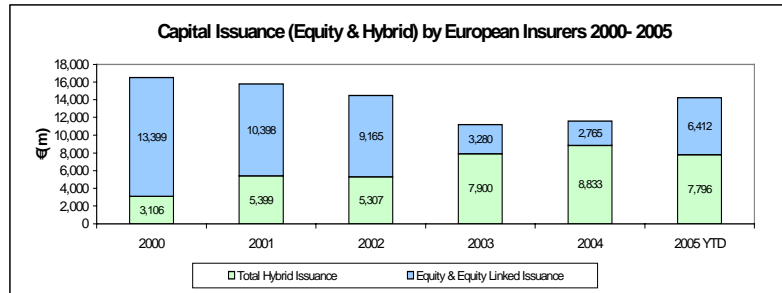
John Westby

Agenda

- Market developments 2000 - 2005
- Aviva's position
- Constraints
- Future developments

Market Developments 2000 - 2005

- Significant capital issuance by European Insurers over last five years (€45.4bn Equity, €38.3bn Hybrid)

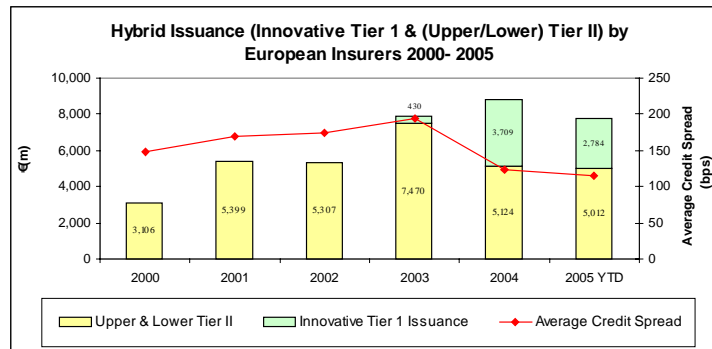


Source: Morgan Stanley Research

- Appetite for capital driven by a range of factors including:
 - regulatory change:
 - introduction of Insurance Groups Directive
 - increase in regulatory capital requirements
 - challenging equity market

Market Developments 2000 - 2005

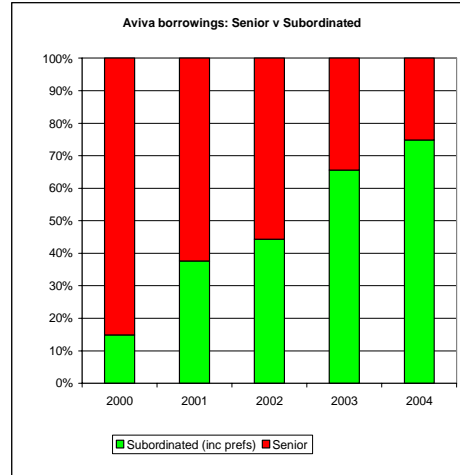
- Growth in Insurance hybrid issuance facilitated by:
 - alignment of regulatory capital regime for banks and insurers
 - strength of demand for fixed income product
- Insurance hybrid has become an established and liquid asset class



Source: Morgan Stanley Research

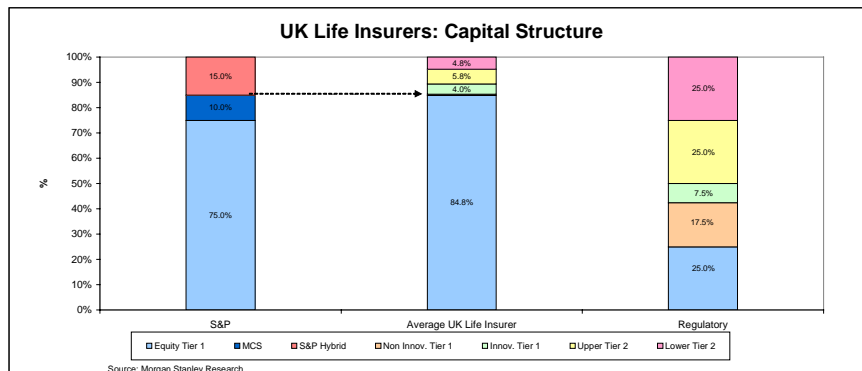
Aviva's Position

- Since the merger between CGU and Norwich Union in 2000, Aviva has issued £3.8bn of Hybrid (£1.0bn Innovative Tier 1, £1.1bn Upper Tier 2, £1.7bn Lower Tier 2)
- Hybrid issuance significantly enhanced quality of debt capital:
 - replaced senior debt with deeply subordinated paper
 - extended the debt maturity profile
 - diversified the investor base
- Objective was to optimise Aviva's capital structure through issuance of cost efficient regulatory capital



Constraints

- Significant disconnect between regulatory and rating agency treatment of hybrid
- Rating Agencies act as "effective capital regulators"



- Disconnect may be exacerbated by development of RBC/ICA methodologies and recognition of diversification benefits by regulators

Future Developments

- Market focus has shifted from **adequacy** of capital to **optimisation** of capital
- Hybrid will continue to be important, although subject to rating agency constraints
- Drive for capital efficiency to enhance returns and support growth will encourage securitisation and diversification agenda

Securitisation

- acceleration of the Balance Sheet
- improves financial KPIs
- supports disciplined pricing
- operational and execution challenges

Diversification

- compelling case for recognition although models are complex
- need to work with Regulators and Rating Agencies to realise the benefits

- Ability to manage capital efficiently will be a key value driver for the industry going forward

