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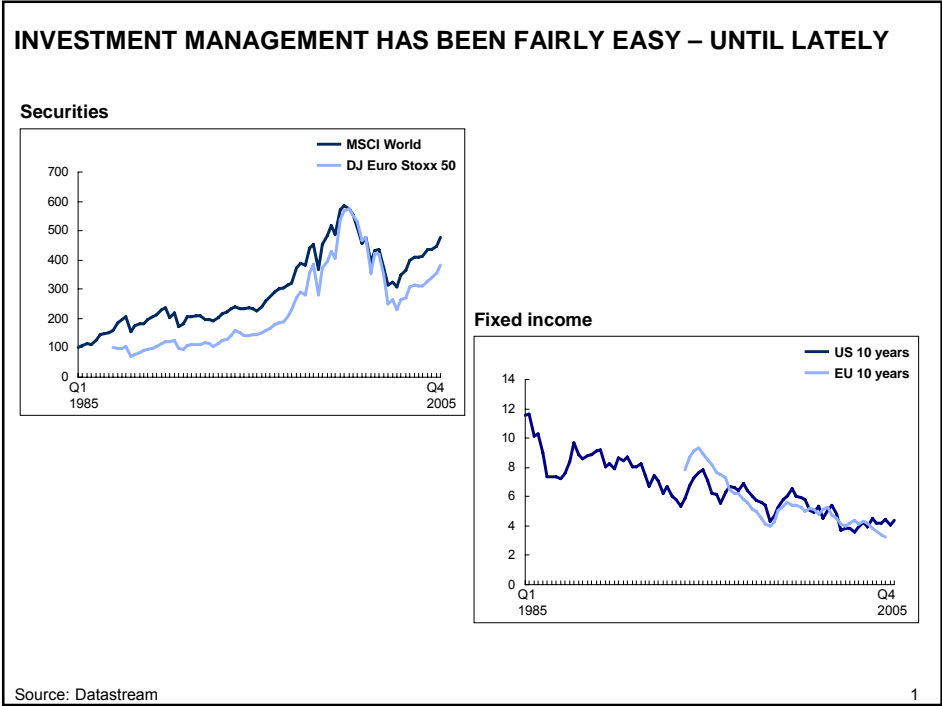
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Layout & Distribution: Valéria Kozakova

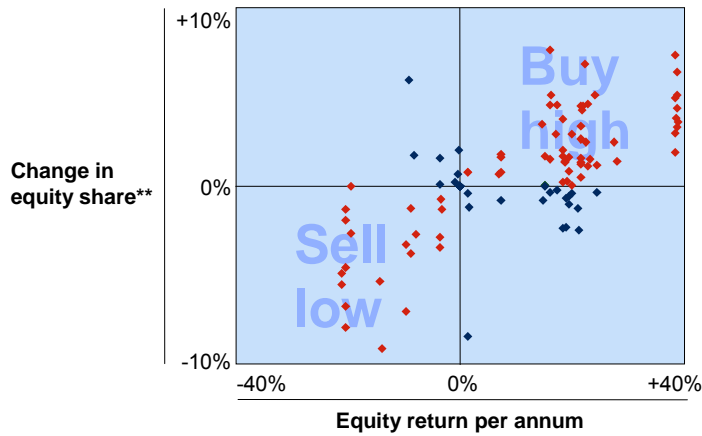
A View on Essentials of Life Insurance Investment Management

Oliver Bäte and Günther Thallinger



DO (LIFE) INSURERS TEND TO BUY HIGH AND SELL LOW?

1991 - 2004*, 12 leading European insurance companies



* For 4 companies no data after 2001 available

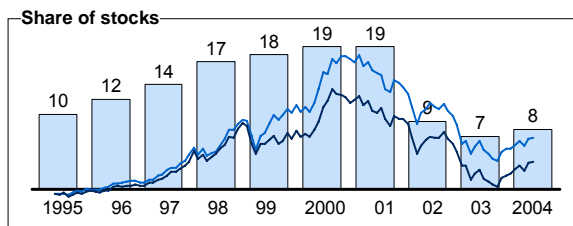
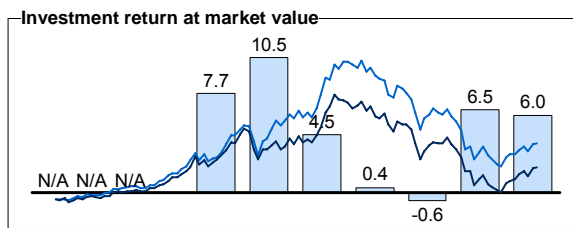
** In percentage points vs. previous year

Source: Interviews, annual reports, data stream

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CAPITAL MARKET DOWNTURN MAKES CYCLICAL INVESTMENT BEHAVIOR TRANSPARENT

Percent of invested assets



Ø GERMAN LIFE INSURERS

— EURO STOXX 50
— DAX 30

Core drivers

- Regulatory requirements (including accounting)
- Investment capabilities and behavior

Here we focus on investment capabilities

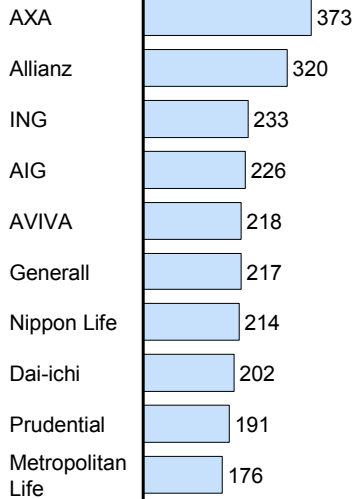
Source: BAV, GDV, WestLB

3

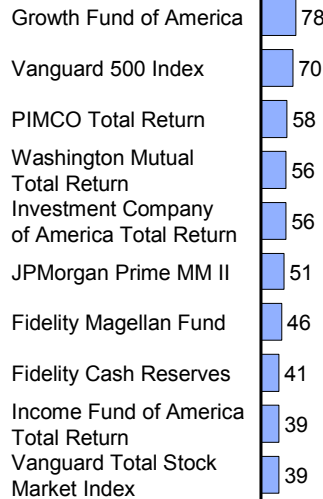
AS THE BIGGEST INVESTORS, INSURERS SHOULD BE AMONG THE TOP INVESTMENT MANAGERS

AuM in EUR billions, 2004

Life insurers



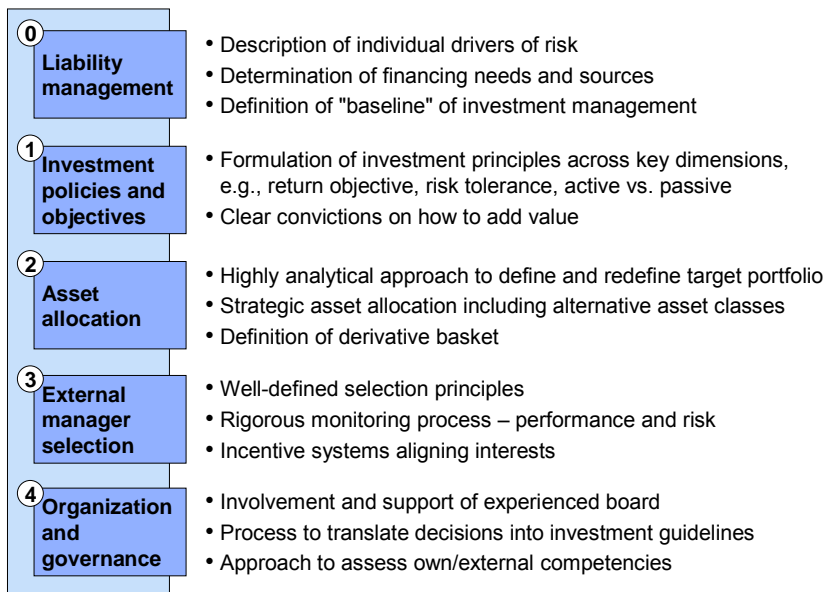
Mutual funds



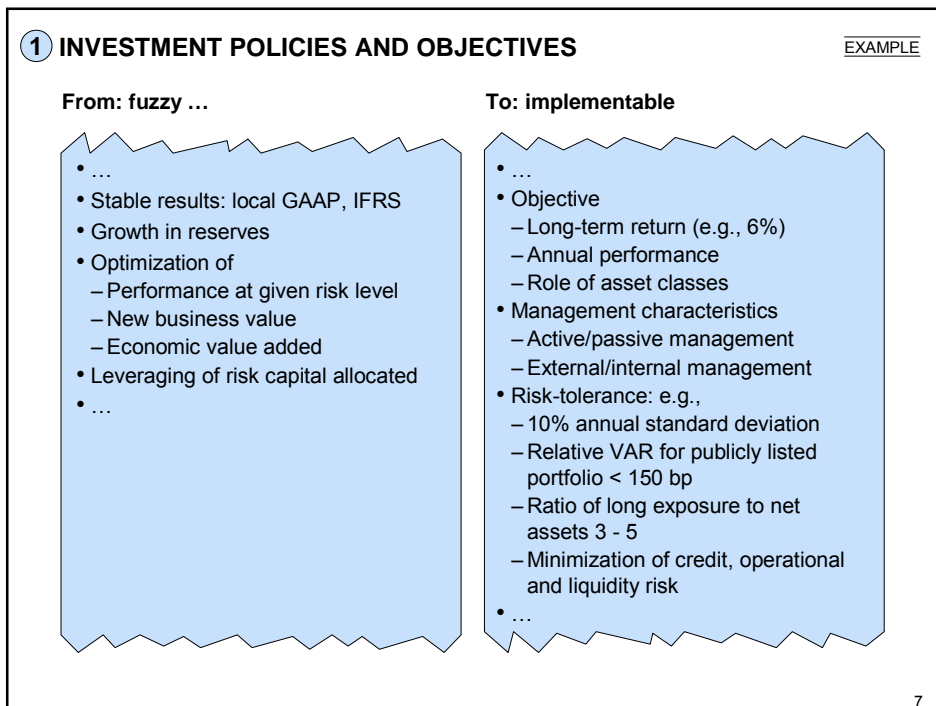
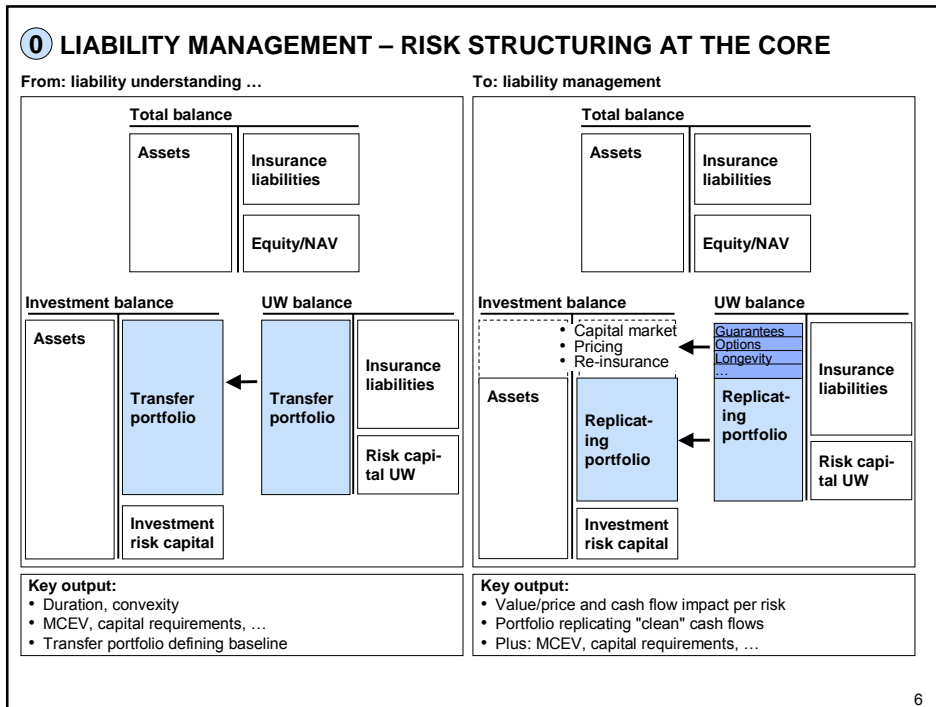
Source: Company reports

4

INSURERS SHOULD DEFINE FIVE ELEMENTS



5



2 ASSET ALLOCATION – FROM: BARRAGE OF RESTRICTIONS...



Asset class	Percentage of guarantee assets (Deckungsstock)	§ § AnIV
<ul style="list-style-type: none"> Real estate, directly and indirectly held Shares and profit-sharing rights outside the EEA 	<ul style="list-style-type: none"> ≤ 25% ≤ 10% 	<ul style="list-style-type: none"> §1 (1) Nr. 14 §2 (2)f
<ul style="list-style-type: none"> Total of claims held directly or indirectly from subordinate debt, profit-sharing rights, shares 	<ul style="list-style-type: none"> Total: ≤ 35%, of which <ul style="list-style-type: none"> Non-publicly traded securities: ≤ 10%* Share capital* of a company: ≤ 10% 	§2 (3)
<ul style="list-style-type: none"> Mortgage bonds, municipal bonds, other bonds issued by banks, subject to public supervision, if funds raised are invested in special fund of asset existing by virtue of law <ul style="list-style-type: none"> Bonds/debentures traded in regulated market Bonds/debentures/promissory notes (other) 	<ul style="list-style-type: none"> None ≤ 10% ≤ 5% 	<ul style="list-style-type: none"> §1 (1) Nr. 6 §1 (1) Nr. 7 §1 (1) Nr. 8
<ul style="list-style-type: none"> Loans <ul style="list-style-type: none"> Loans secured by liens on borrowers' property Loans to foreign regional governments*** Securities loans Policy loans Shares of securities as separate trust assets 	<ul style="list-style-type: none"> None ≤ 10 %** ≤ 5% None None 	<ul style="list-style-type: none"> §1 (1) Nr. 7 §1 (1) Nr.30 §1 (1) Nr. 2 §1 (1) Nr. 5 §1 (1) Nr. 15
<ul style="list-style-type: none"> Investments with EEA central banks ABS (from companies in the EEA) 	<ul style="list-style-type: none"> None ≤ 5% 	§1 (1) Nr. 20
<ul style="list-style-type: none"> ABS and credit-linked-notes together 	<ul style="list-style-type: none"> ≤ 7.5% (R 1/2002 A II 2 b.) 	
<ul style="list-style-type: none"> Investments covered by the escape clauses Investments with one issuer (debtor) 	<ul style="list-style-type: none"> ≤ 5% (with BaFin permission: ≤ 10%) ≤ 5%**** 	<ul style="list-style-type: none"> §2 (2)g §3 (1)
<ul style="list-style-type: none"> Loans and debt instruments with one debtor 	<ul style="list-style-type: none"> ≤ 30%**** 	§3 (2)
...

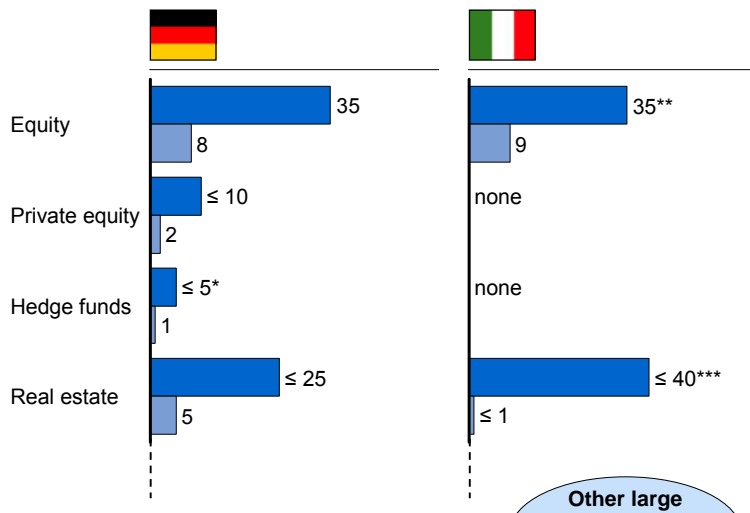
* Investments may not exceed 10% of the share capital (also known as nominal, registered, or authorized capital) of a company
 ** Percentage of guarantee assets (Deckungsstock) (also known as cover fund, premium fund, mathematical reserve fund, premium reserve stock, etc.)
 *** Loans to other regional governments and local authorities of a state belonging to the EEA outside Germany
 **** Percentage of "übriges gebundenes Vermögen"

Source: Anlageverordnung-AnIV (Ordinance on the Investment of Restricted Assets of Insurance Undertakings) (Status 08/2001), R 1/2002

2 ... TO FULL LEVERAGE OF ACCESSIBLE UNIVERSE

2004

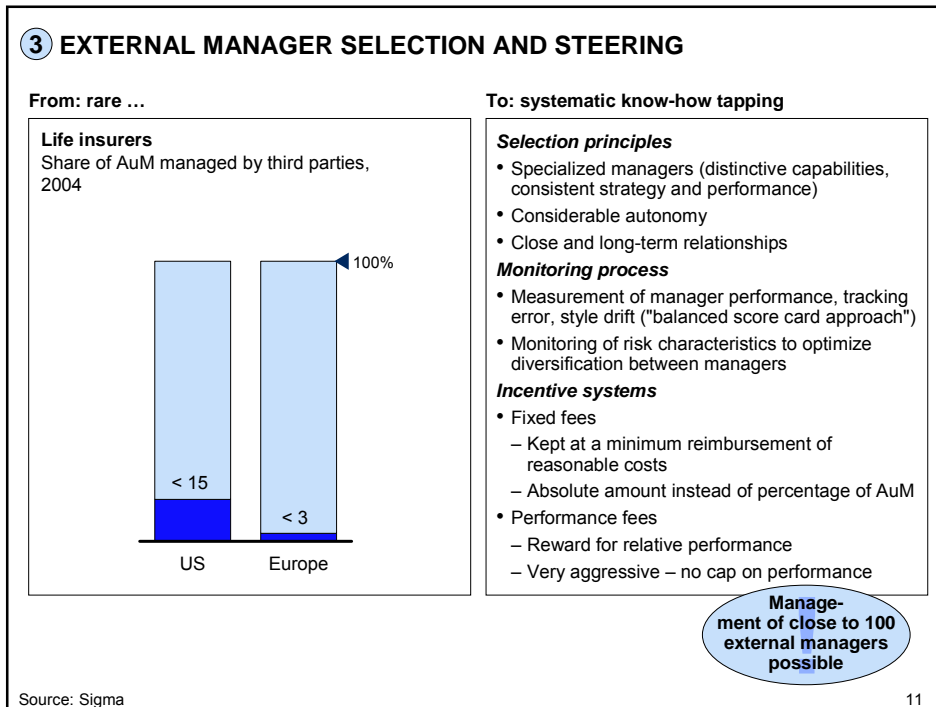
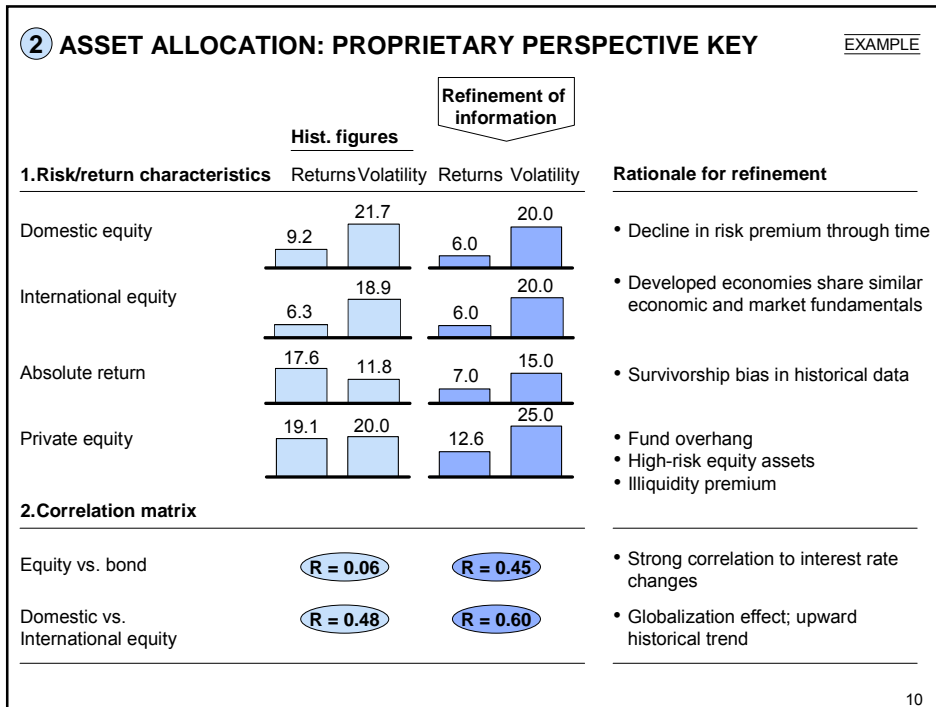
■ Possible
 ■ Used

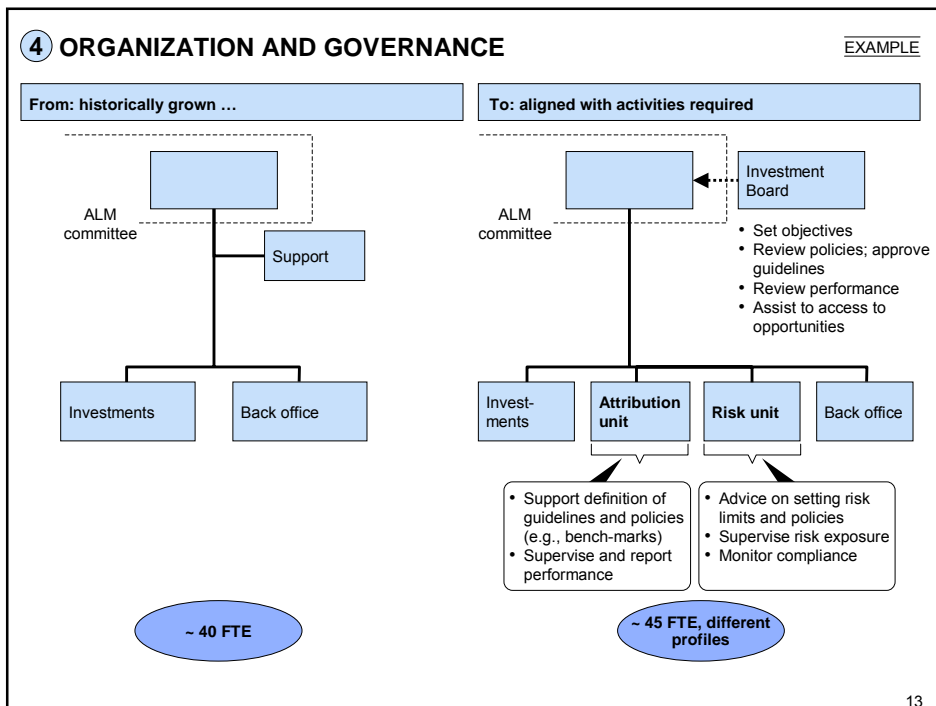
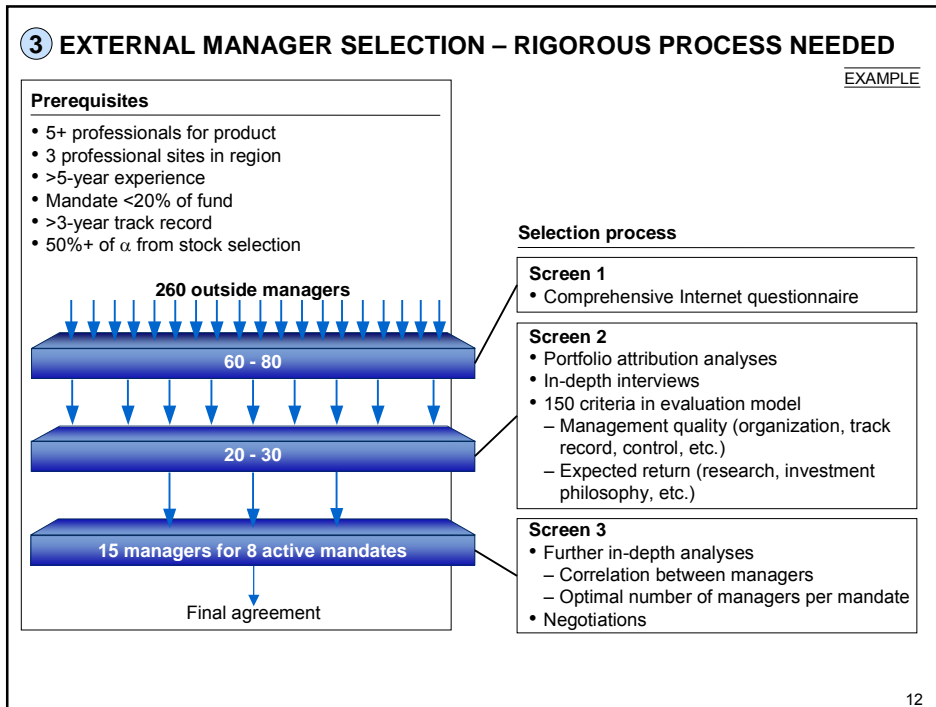


Other large and liquid assets as credit risk not even considered

* Only ≤ 1% in one hedge funds
 ** Warrants ≤ 3% closed mutual funds ≤ 5%, ...
 *** Real estate closed funds ≤ 5%

Source: National insurance legislations, GDV, ANIA





SUMMARY

- Insurers have the intrinsic to be the top-performing investors, even within the restrictions they face
- To become a top performer, the insurance industry needs to put essential elements in place
 - Disaggregation and valuation of risk
 - Management of risk: pricing, financing and interplay
 - Operative excellence in investment management
- The theory is surely understood, the issue is thorough implementation

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