

**MEMORANDUM**

TO: IAA LIFE Scientific Committee

FROM: Heinz Holler, Aktuar DAV

DATE: March 27th, 2009

**RE: *Submission of talk for the IAA LIFE Colloquium 2009 in Munich***

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Dear Sirs,

Milliman would be delighted to present at the IAA LIFE Colloquium 2009 in Munich. Please find below our suggested topic to be presented by **Ed Morgan**, who is a principal at Milliman and **Matthias Bonikowski**, Senior Consultant at Milliman Germany.

**Title: The role and structure of profit participation products in the European Life Insurance market following Solvency II**

**Abstract:**

The offering of life savings products has expanded greatly in the 15 years since the Third EU Life Directive was introduced. However participating products (with important local variations) continue to be easily the most important product in all main European markets. This position has further strengthened in the financial crisis of 2008. At the same time Continental European participating products present some difficult risk management and ALM issues and these will become more apparent under a fair value accounting basis such as Solvency II (although Solvency II does make explicit reference to the risk mitigation possibilities of participating business).

The authors believe that participating business will continue to be one of the mainstays of the European life insurance industry in the post-Solvency II world, but that the nature of the product and the way in which it is managed are likely to undergo some mutations.

1. What will an ideal participating product design look like under Solvency II?
  - nature of guarantees
  - surrender value rules
  - profit sharing basis
  
2. How can we optimise the product design to take account of commercial and risk management considerations as well as the Solvency II rules?
  - guarantee levels
  - asset allocation

- charging levels
  - solvency requirements
3. How can modern risk management techniques be applied to managing participating business?
- Acceptable level of risk in product design
  - ALM to take account of dynamic asset-liability interactions
  - Hedging of embedded guarantees
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4. What regulatory constraints are likely to continue to exist and what are the strategic implications for life insurers.
- Obligation to pay common rates of bonus for different generations
  - Asset accounting rules
  - Obligation to pay minimum rates of profit sharing

We will look at these issues considering 2 main European markets as examples (Germany and Italy) and comment briefly on how they vary in a number of other countries.

We thank you for your consideration and offer my time to address any questions or concerns that you may have.



Heinz Holler

CC: Ed Morgan, Matthias Bonikowski