

The logo for AFIR MUNICH LIFE 2009 features a vertical line on the left with a German flag (black, red, and gold) at the top. To the right of the line are two stylized domes. The text 'AFIR' is in blue, 'MUNICH' is in black, 'LIFE' is in blue, and '2009' is in red script.

AFIR MUNICH
LIFE 2009

Market Value Management



DAV

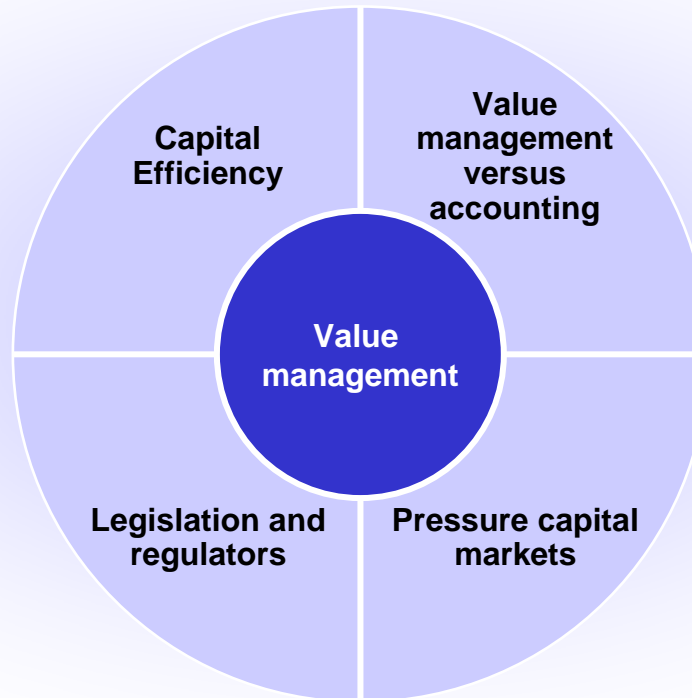
**DEUTSCHE
AKTUARVEREINIGUNG e.V.**

Agenda

- What is Market Value Management?
- Reasons to implement?
- Example project approach
- Key learning points so far

Stakeholders in the insurance sector are demanding better risk management, more transparency and higher returns...

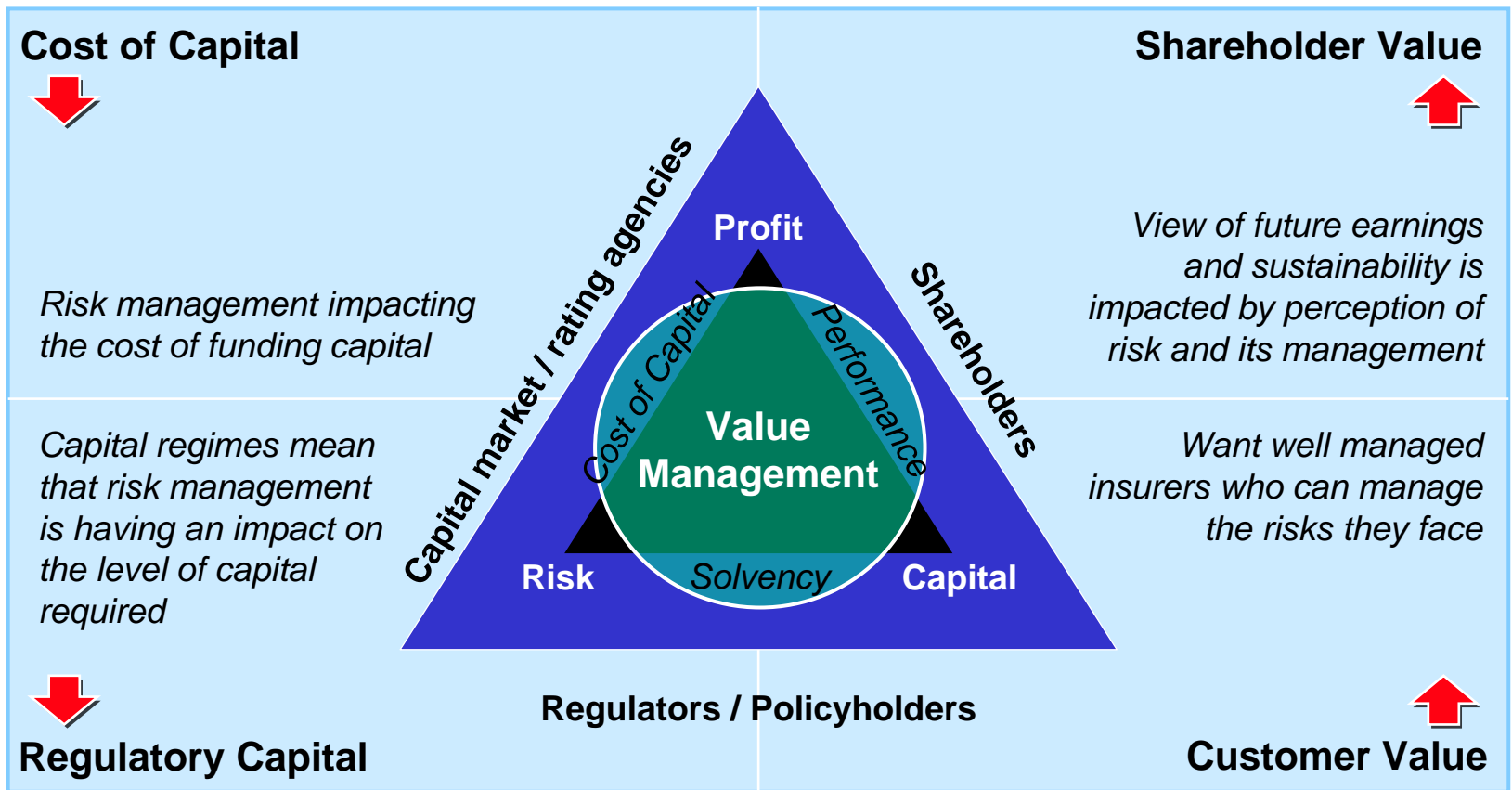
- Optimising costs of capital
- Risk transfer via capital markets
- Direct relation between risk management and cost of funding
- Optimise (transferable) free surplus
- IFRS 4 Phase II
- Solvency II
- MCEV
- Single European financial market
- API



- Transparency and comparability
- Selective risk taking
- Benchmarking insurers
- Consumer protection ("fair price")
- Maintain / improve rating
- Increasing requirements rating agencies and analysts
- Not only performance but also risk (bearing, mitigation and management) impacts the relation to capital

...which requires integration of performance, risk and capital management

Balancing capital adequacy and capital efficiency benefits various stakeholders...

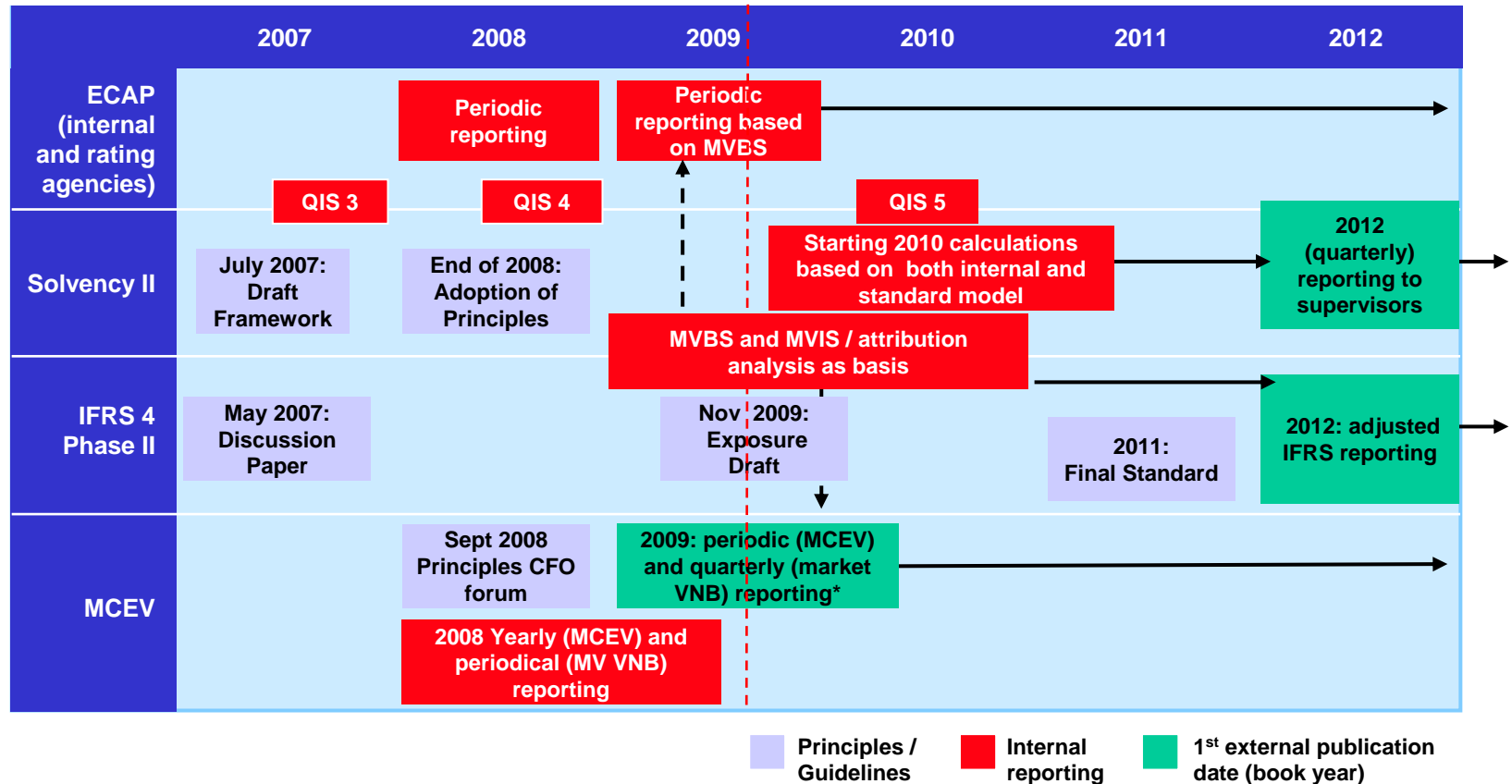


...requires a common denominator: Market Value Management

Agenda

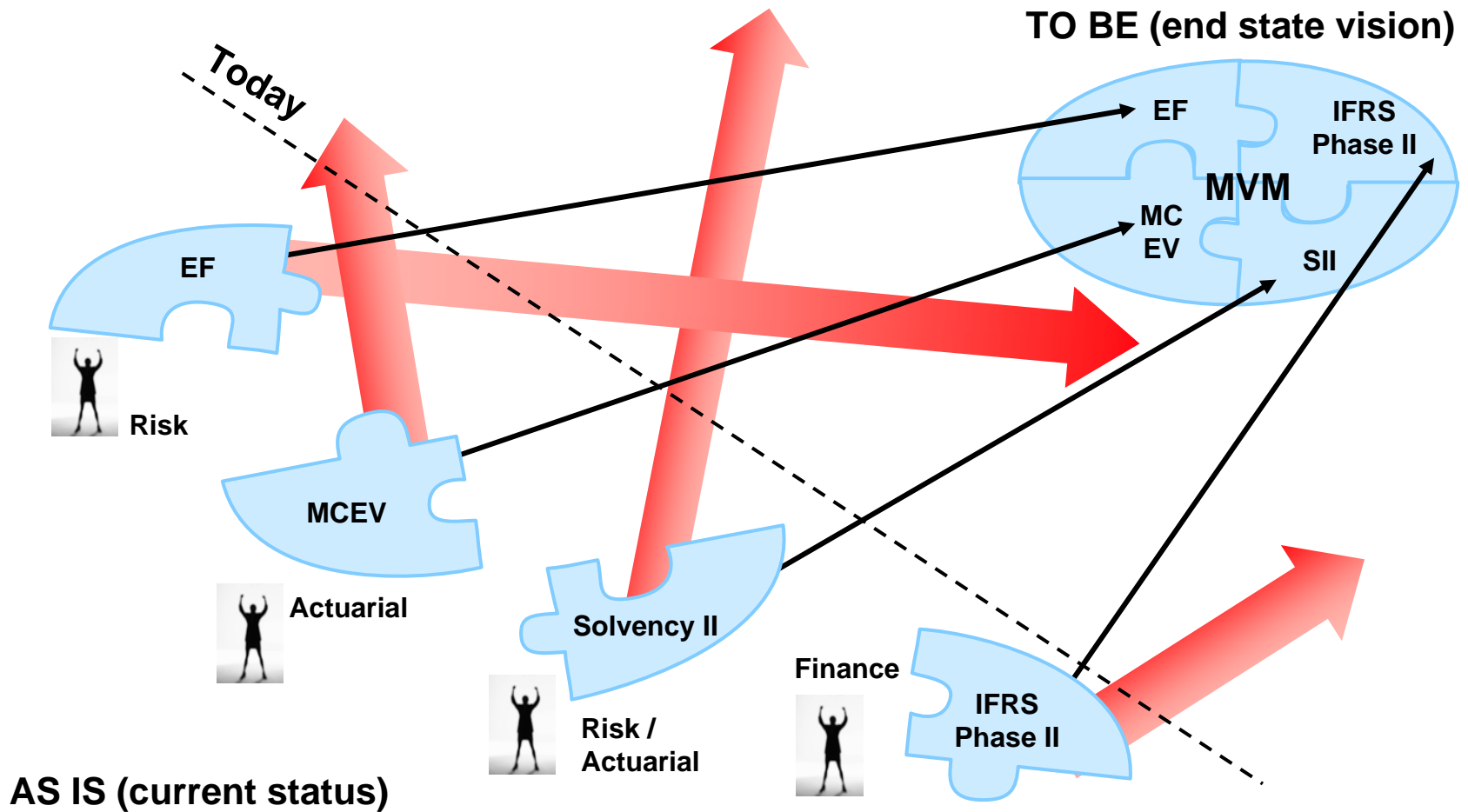
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Timelines from a compliance perspective – Where are the milestones?



* For companies publishing EEV; For CRO members optional starting 2008

Market Value Management leads to a shared vision across the business ...



Balancing business benefits and compliance

Business benefits

Price

- Lower required capital due to usage of internal model
- Diversification benefits
- Increase performance by risk selection
- Competitive pricing
- Lower cost of capital by maintaining or improving rating
- Eventually, decrease workload for Finance, Actuary and Risk Management staff

Volume

Compliance

- Compliance MCEV, Solvency II and IFRS 4 Phase II
- Harmonisation of financial reporting, solvency management and business strategy
- Embedding in performance management
- Understanding and reconciling results
- Audit trail: assumptions, methodologies, data, systems. validation, consolidation, etc.

...balancing business benefits and compliance

Differences and similarities in reporting methods

DIFFERENCES

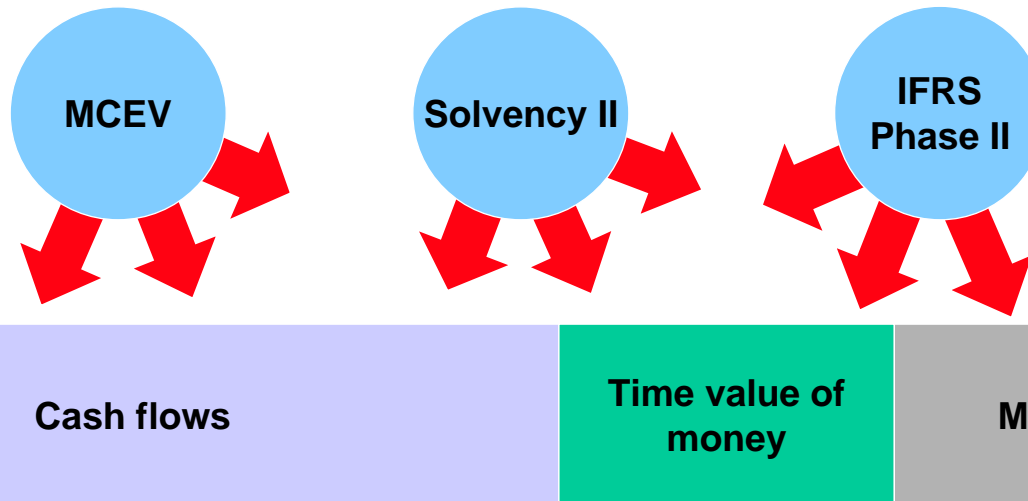
Each includes a different population of contracts

- IFRS II comprises only IFRS 4 insurance contracts (and contracts with dpf)
- Solvency II comprises all 'regulatory' insurance business
- MCEV comprises all life business, and potentially mutual funds and service companies

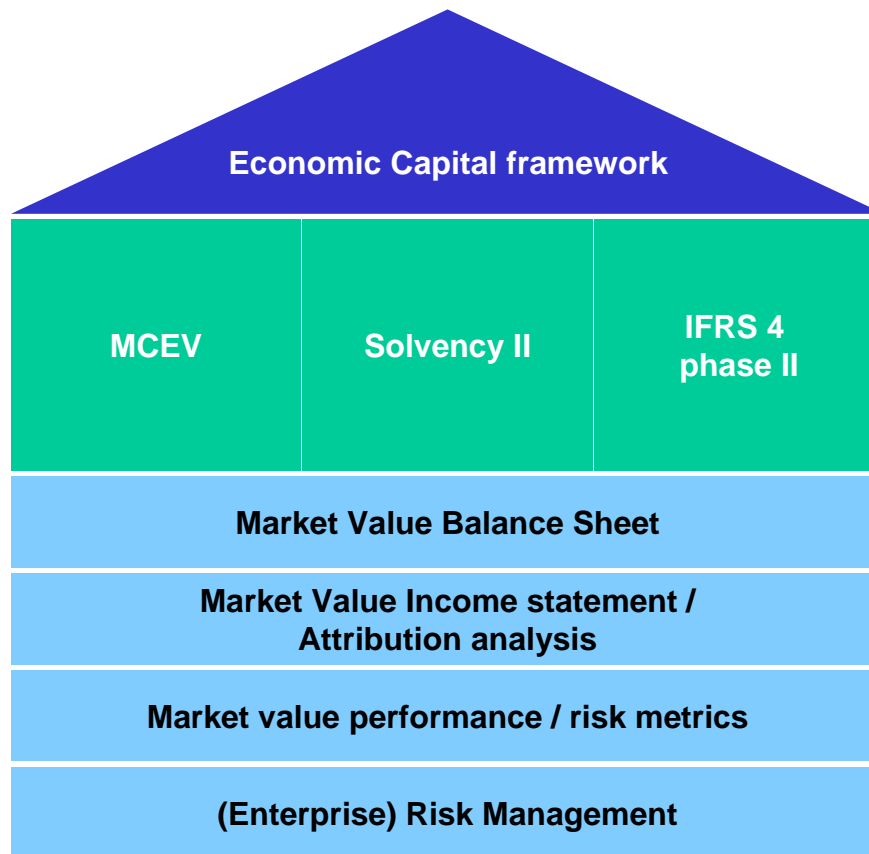
Different definitions for cash flows

- S-II - Probability-weighted average of future cash-flows
- IFRS Phase II - Expected present value (probability-weighted average)
- MCEV - Best estimate assumptions

SIMILARITIES

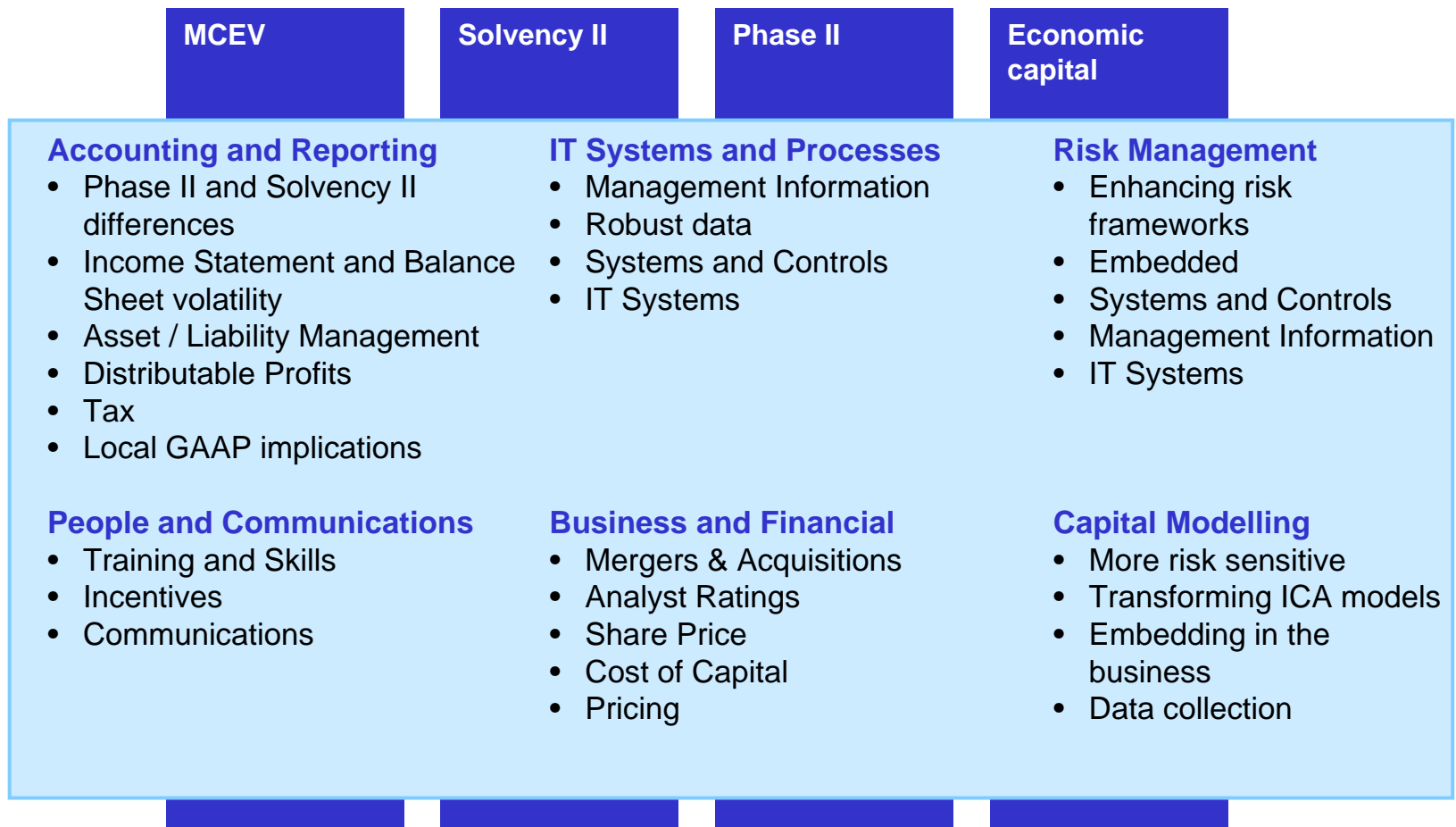


Overlap in shared framework...



- ECAP is required to measure market value liabilities
- MVBS is required to achieve integrated view
- IFRS start point is market value of insurance liabilities
- Need risk adjusted performance numbers
- Need to implement the use-test
- Equally holds for “adequate”/ “strong” ERM rating

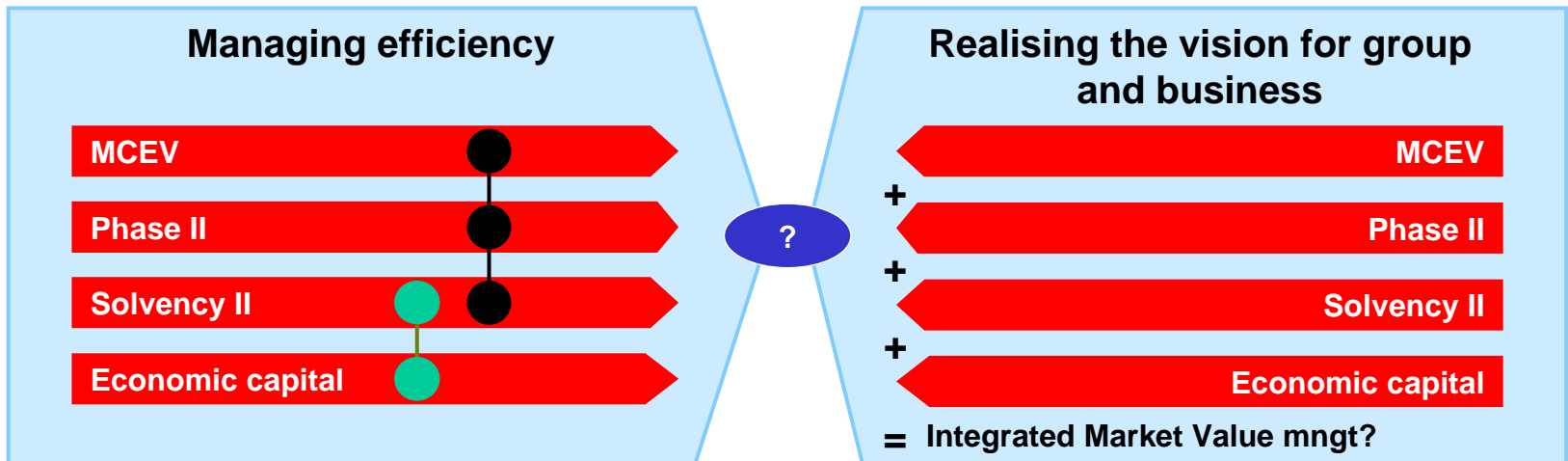
Reporting methods have shared drivers and dependencies



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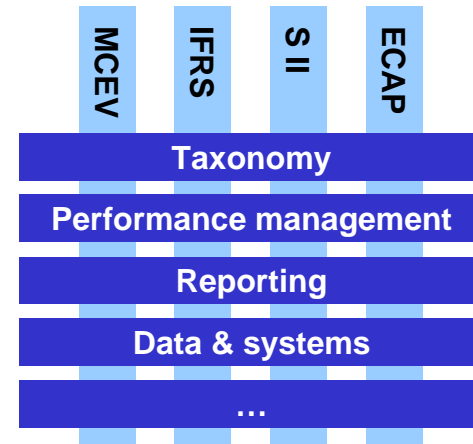
Managing the overlap ...



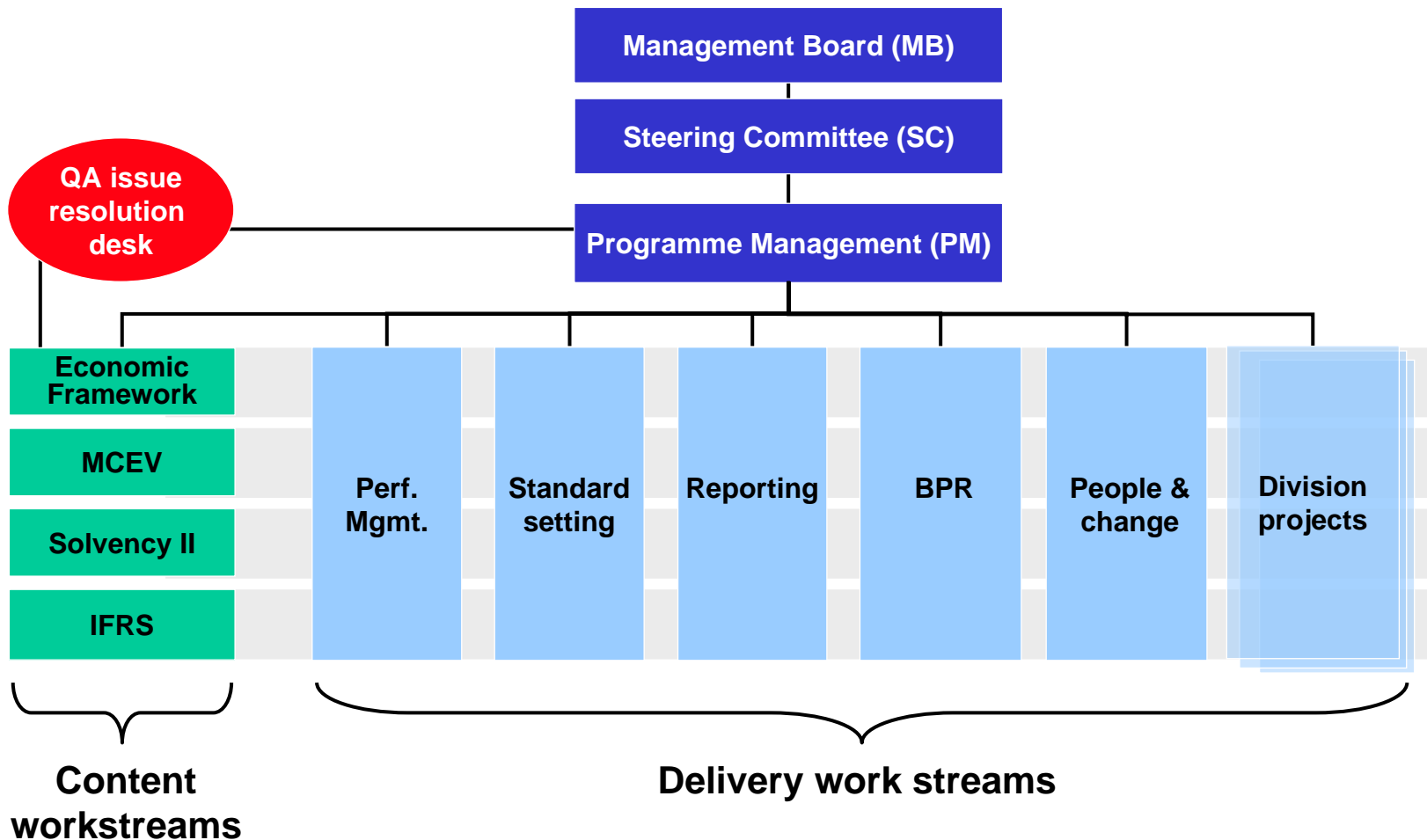
There are real challenges in organising the programme to deliver consistent, efficient and aligned solutions across the business fitting in the group framework

SOLUTION:

- Organise the programme into function-led work streams, rather than technical and segmental
- Multi disciplinary work streams: various group functions as well as business



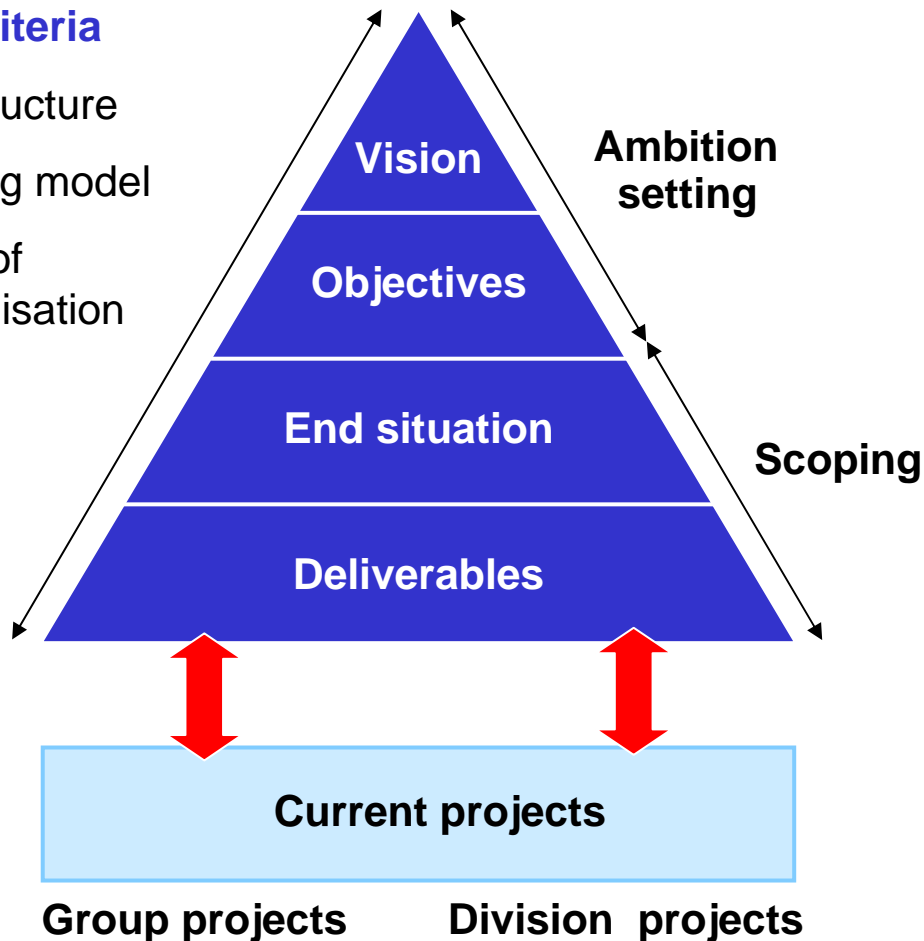
Example organisation of an MVM programme



Mobilisation from vision to work programme

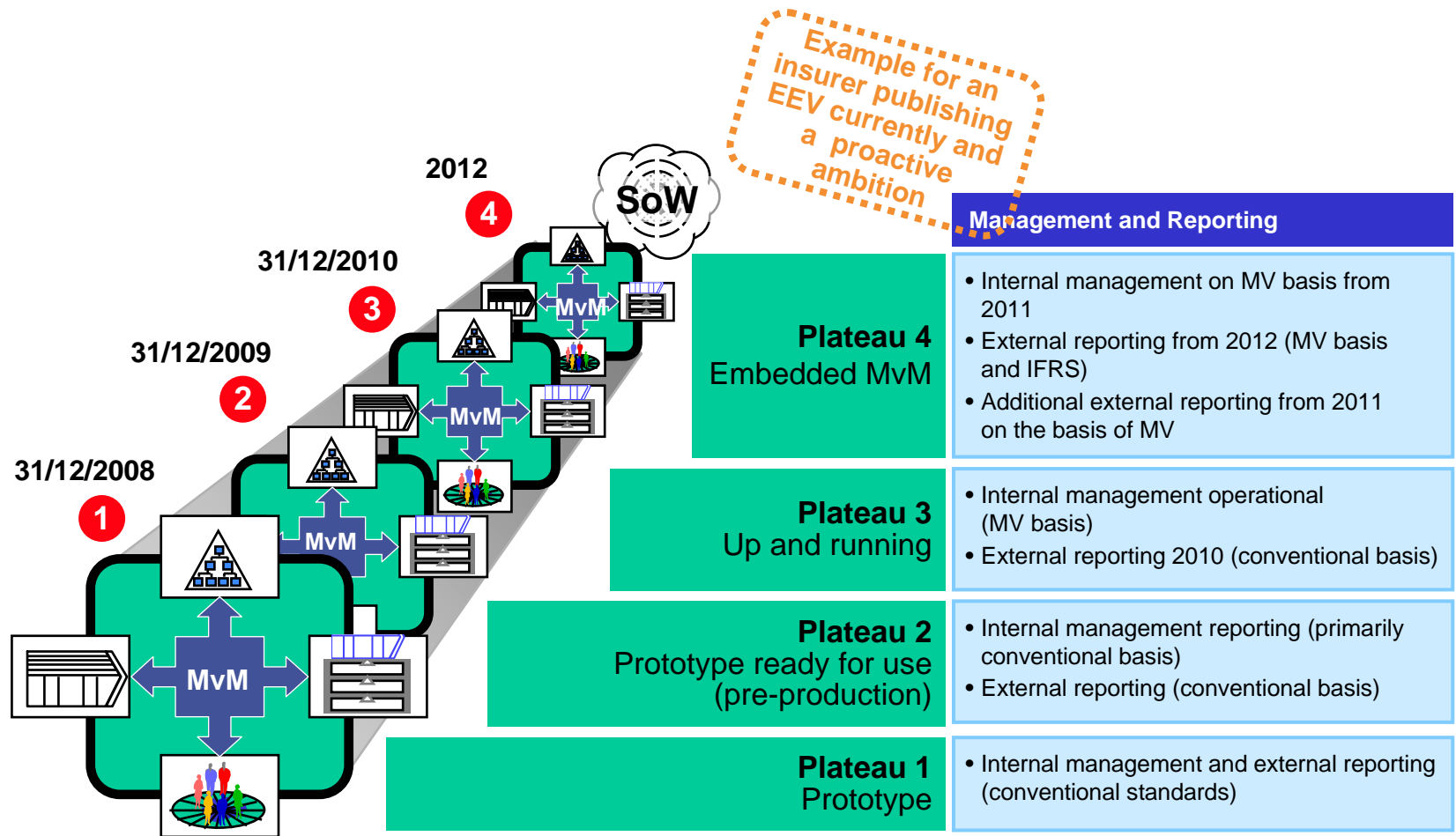
Design criteria

- Legal structure
- Operating model
- Degree of standardisation
- ...



- Ambition drives vision and objectives
- This then forms the to-be situation
- The work programme can be established
- The top-down objectives and deliverables should be regularly updated

Workflows mapped to deliverables and plateaus



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Lessons learned from ongoing projects

Programme

Important aspects:

- Effort balanced across data, model and process embedding
- Modelling should be pragmatic.
- Calculation should be designed to be as frequent as possible
- Phased design to allow for external development
- Gap analyses, redesign and implementation iterative
- A three-step approach should be adopted
 - 1) Design of company wide framework
 - 2) Add detail for business segments
 - 3) Tailor design to division specifics

People

For the people involved the following have proved to be important:

- Participation and buy-in from all involved
- Leadership by senior team
- A multiple team structure needs to be in place
- Market value remuneration base
- Ensure understanding of results by management

Questions to consider

- How to avoid focusing purely on compliance?
- How to manage business on MVM?
- How to involve all parts of the company?
- What exactly are the market / analyst reqs?

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