

Finger on the Pulse 2012

The Changing Landscape of the Alternative Asset Management Industry

Thursday, 2 February 2012

Welcome & introduction

Pat Candon

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Agenda

Welcome & introduction

Insights into the US Asset Management industry

Panel of Industry Participants

Solvency II- Implications for Asset Managers and Service Providers

Panel of Tax Participants

Close

Drinks and canapés

Insights into the US Asset Management industry

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PwC Global Alternative Investment Assurance
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Panel of Industry Participants

Olwyn Alexander, PwC Ireland

Andrew Baker, AIMA

Simon Kempton, Deutsche Bank

Martyn Ryan, Genesis Investment Management

Mark Casella, PwC US

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Solvency II- Implications for Asset Managers & Service Providers

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Agenda

Solvency II Objective

Background to Solvency II

Implications of Solvency II on
the Asset Management
Industry

Where to from here?

Solvency II: Objective

‘The overarching objective of Solvency II is to bring about a fundamental change to the solvency and risk management standards for the European insurance industry, with the intention of significantly strengthening the prudential standards to which European insurers adhere. The consequence of these improvements should be a significant reduction in the probability of firm failures and a resultant significant improvement in policyholder protection.’

Hector Sants

Chief Executive Officer, the FSA

Speaking at the “future of insurance regulation”, 9 February 2011

Solvency II – what is it?

- Solvency II is expected to be implemented on 1st January 2014
- Increases the governance, risk management and disclosure demands on insurers and will require them to review and possibly re-think their investment strategies
- 45% of institutionally managed assets are held by insurers plus a further 25% are managed by pension funds
- A significant number of the requirements are closely linked to the asset and liability side of the insurers balance sheet, hence the direct/indirect impact on asset managers
- Set to have a powerful knock-on impact on asset managers
- Also, valuable opportunity for asset managers to differentiate themselves to create Solvency II – ready operational capabilities and investments strategies for their insurance clients

Overview of Implications for Asset Managers & Service Providers

Providers to insurance entities will be impacted by the following:

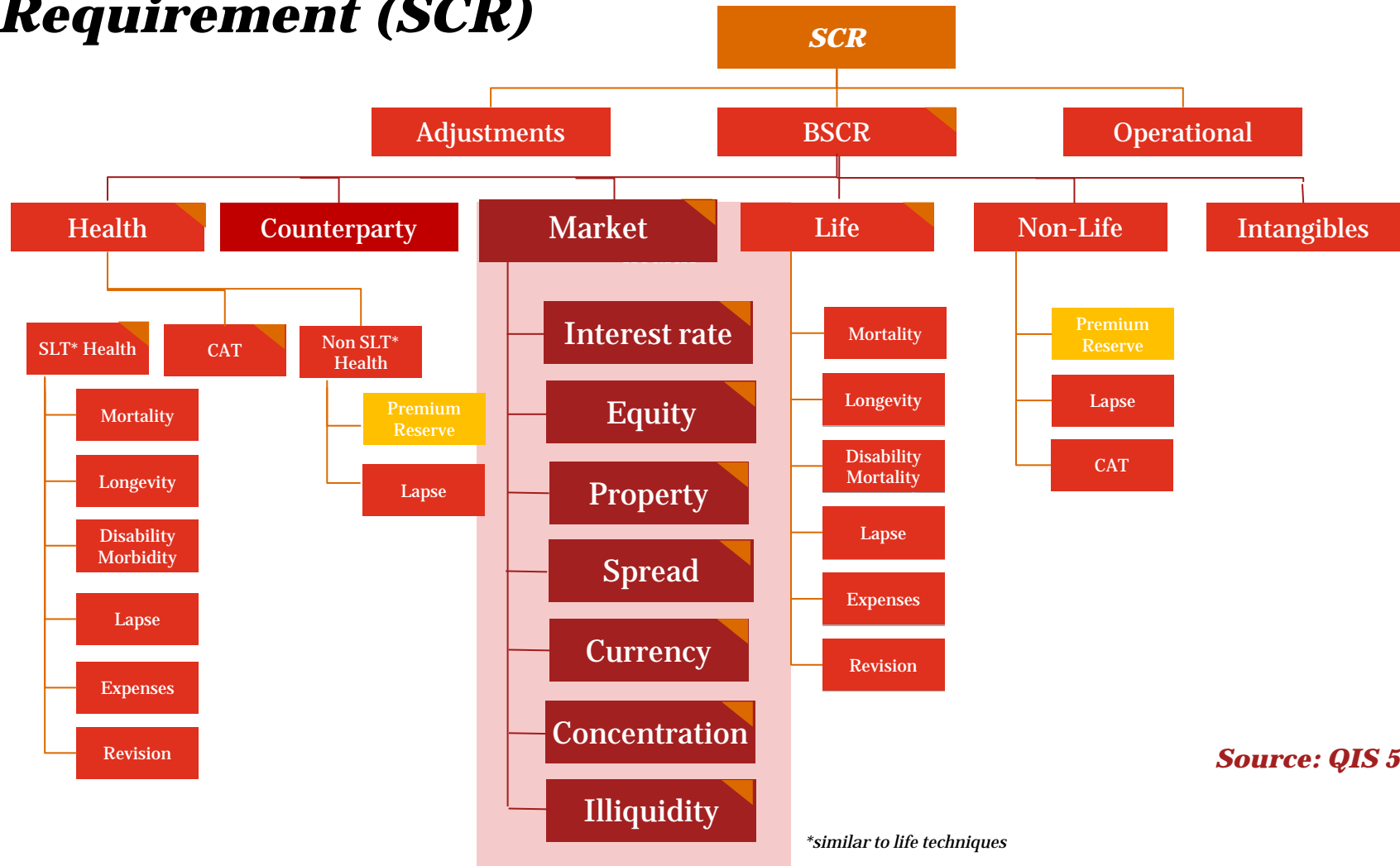
- Radically different capital regime for insurers:
 - Charges on different types of assets
 - Diversification benefit
 - Look through principle
- Data:
 - Transparency of quality standards applied to asset data
- Reporting:
 - More granular reporting and shorter reporting timescales
- Mandates and Service Level Agreements:
 - Changes to contractual agreements to meet the above

Significant impact on asset allocation and products

Insurer Capital Requirements- Implications for Asset Managers and Service Providers

- The “standard formula ”regulatory capital requirements are based on a specified scenario or “shock” on the assets of the insurer
- QIS 5 highlighted higher loading on the following investments relative to assets with similar risk profiles:
 - Property
 - Hedge Funds (and other equities including, commodities and equities not listed in the EEA)
 - Sovereign bonds in non-domestic currencies
 - Structured products e.g. residential mortgage-backed securities
- Insurance companies may change their appetite for certain investment strategies, depending on SCR implications
- Insurers will gravitate to asset managers who can assess their investment risks and risk adjusted returns more effectively
- Provision of “Look through” information will be a necessity

Insurer Capital Requirements- Solvency Capital Requirement (SCR)



Source: QIS 5

Insurer Data Requirements- Implications for Asset Managers and Service Providers

Key input into the Standard Formula or Internal Model

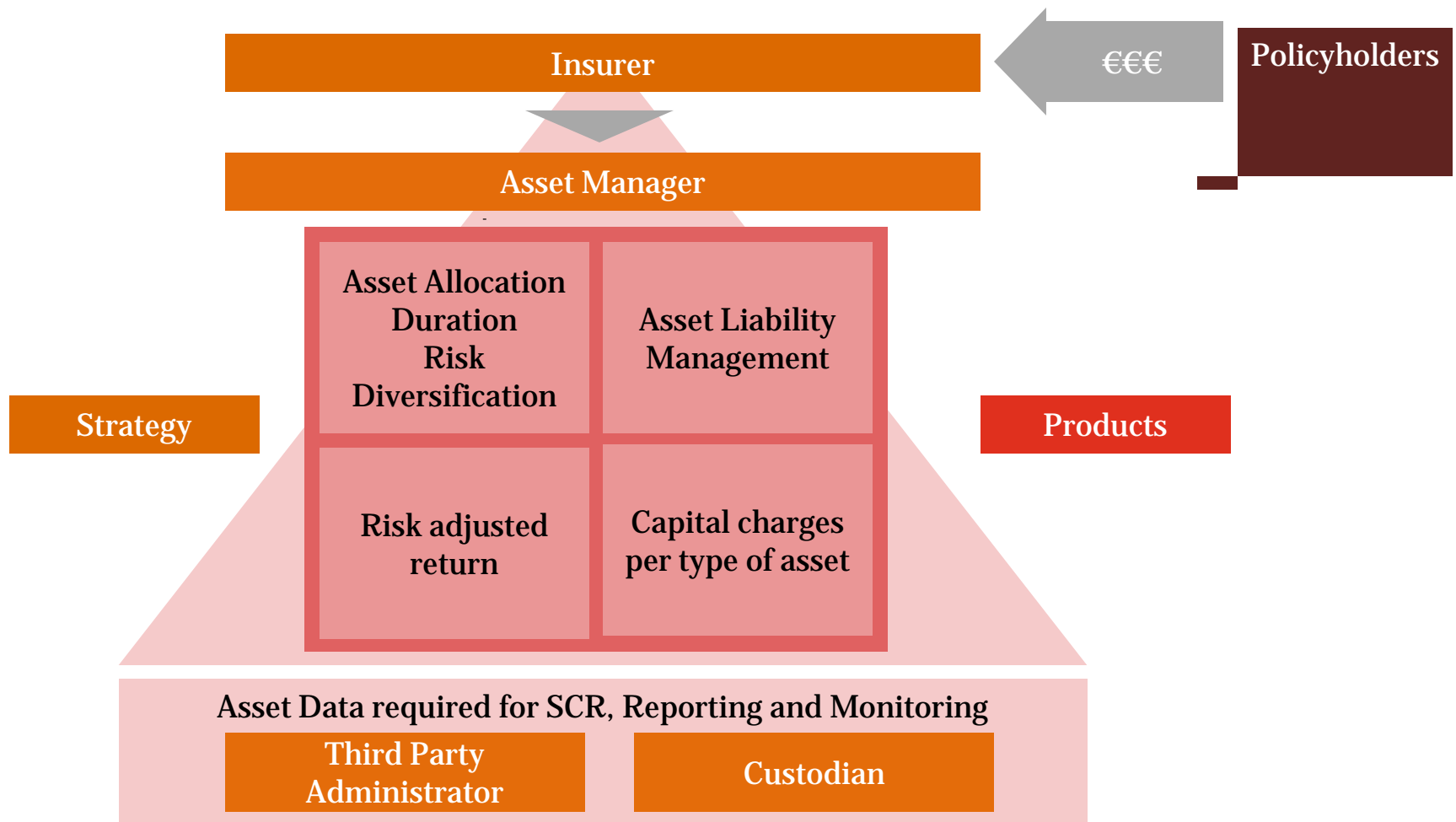
Main challenges for Asset Managers and Service Providers are:

- Asset data quality
- Look-through principle
- Fair Value measurement for all assets
- Granularity for model and reporting
- Timeliness within 4-6 weeks after quarter end for insurers, but life insurers will expect to receive this information from asset managers within a much shorter time frame

Insurer Data Requirements- Sample of Asset Data Points:

Asset Data Points
Description of Assets (E.g. Name)
Rating Class (E.g. AAA)
Original Currency
Original Currency Book value
Original Currency Market value
Collateral (Original Currency)
Risk Weight – Residential
Risk Weight – Commercial
Coupon %
Coupon Frequency p.a.
Redemption Date
Redemption Amount (Original Currency)
Attachment point of tranche
Detachment point of tranche
Ultimate Parent Company of Issuer
Past – Due status

Strategic Implications for Asset Managers

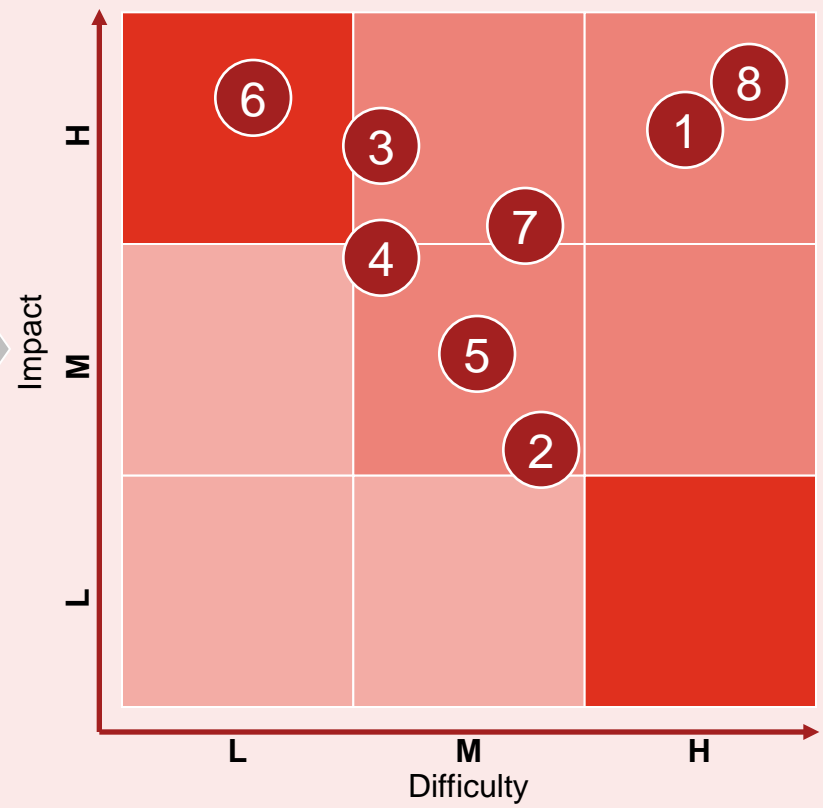


Biggest challenges to Asset Managers

An industry perspective

Challenges

- 1 Operational impact on benchmarking
- 2 Implement changes to Mandates and Service Level Agreements
- 3 Development of new investment strategies
- 4 Operational / IT changes from Look-through principle
- 5 Market Value reporting
- 6 Faster and more frequent reporting cycles
- 7 Risk management
- 8 Cultural change to insurer- asset manager relationship



Where do Asset Managers and Service Providers go from here?

- ❖ Assess relevance of Solvency II on your business i.e. do you currently or plan to have insurance clients?
- ❖ Identify impact of Solvency II on your organisation- asset profile, data capabilities, risk measurement infrastructure etc
- ❖ Research into competitors offerings and customer likely expectations (asset managers and insurers)
- ❖ Develop strategic plan regarding insurance clients e.g. identifying possible defensive and aggressive strategies, along with an analysis of current skills
- ❖ Develop detailed plan **Note:** implementation 1 January 2014- requirements and capability checks will come much sooner

Panel of Tax Participants

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William Taggart, PwC US

Oscar Teunissen, PwC US

Pat Convery, PwC Ireland

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In conclusion . . .

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Drinks & canapés...

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