

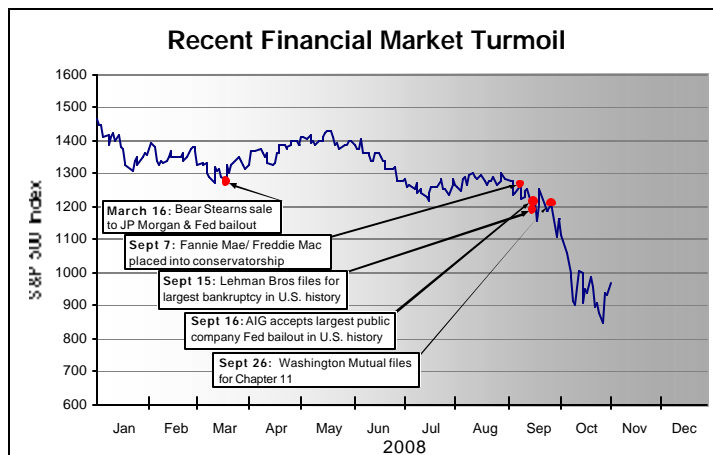
Financial Strength: The math behind the might

Allianz Life Insurance Company of North America



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Recent News



Company facts source: Wikipedia
Chart source: www.yahoo.finance.com

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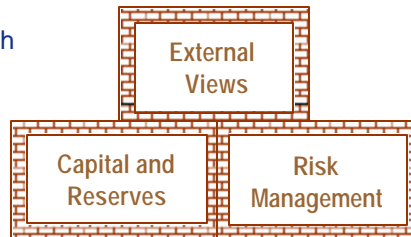
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Overview

Building Blocks of Insurer Financial Strength

- Capital and Reserves
- Risk Management

External Views of Insurer Strength



Insurance Company Capital and Reserves

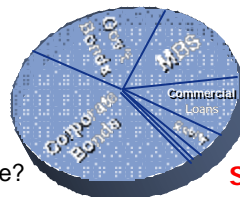
Capital vs. Reserves

- Insurance company reserves vs. bank reserves

Bank Example: 10% reserve requirement

\$1,000 →

- Difference between insurance company reserves and capital
- What are the reserves invested in?



- What other support does a company have?
 - Parent/ global backing
 - Government bail-outs/ State guaranty funds

Sub-prime?

Guarantees are backed by the financial strength and claims paying ability of Allianz Life Insurance Company of North America and do not apply to the performance of the variable subaccounts which will fluctuate with market conditions. Allianz SE has no legal obligation to the policies issued by Allianz Life Insurance Company of North America.

Insurance Company Capital and Reserves

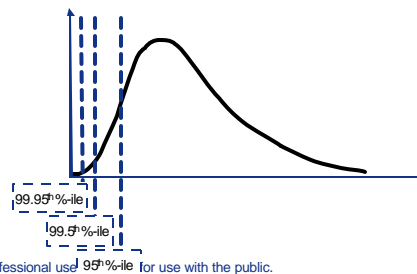
Reserve Requirements

- Types
 - General Account
 - Separate Account
- Reserve Calculations
- Accounting/ DAC Unlocking

3' \$& : UWM GRZO
Company A -Q3 2008 Earnings Announcement DAC write-down: \$900M+ expected Reason: "material asset impairments"
Company B -Ratings Announcement DAC write-down: \$225M Reason: Due to sharp decline in equity performance
Company C -Company Press Release DAC impact: \$63M expected Reason: Adoption of new accounting rule (SOP 05-1)

Capital Requirements

- Types
 - Regulatory
 - Rating Agency
 - Internal Risk Capital



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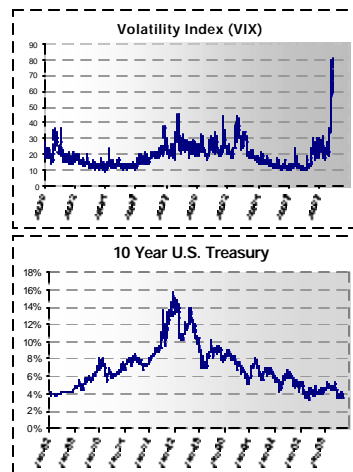
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Insurance Company Capital and Reserves

What can affect a company's capital and reserves?

- Market behavior
 - Interest rates
 - Market volatility
 - Defaults
- Policyholder assumptions
 - Anti-selection
 - Mortality and lapses
- Regulatory environment
 - Reserve and capital requirements
 - Accounting changes
- Other



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Insurance Company Risk Management

How are these risks managed?

- Risk management culture
- Product development, design and pricing
- Asset/ liability Management
- Investments
- Hedging
- Diversification
- Reinsurance
- Oversight

Risk Management

Risk Management Culture

- Personnel, credentials, investment
- Support from parent
 - Core/ non-core
 - Global best practices

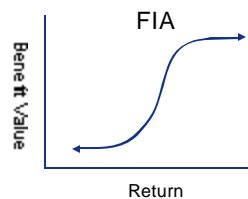
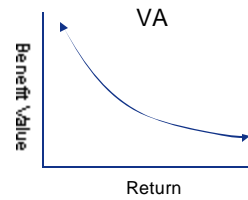


Risk Management

Hedging

- Why do companies hedge?
- How does it work?
- Types of hedging approaches
- What risks are covered and how?
- Greeks

	Delta (Δ)	Gamma (Γ)	Vega (V)	Rho (ρ)
	Change in value to underlying	Rate of change in delta to underlying	Rate of change in value to volatility	Rate of change in value to interest rates
Index Futures	X			
Options/Forwards	X	X	X	X
Interest Rate Swaps				X



Risk Management

Hedge Execution

- Calibration, model validation
- Third party or proprietary
- Monitoring
- Hedge efficiency reporting, recent track record

Risks of Hedging

- Operational
- Counterparty
- Liquidity
- Model
- Basis
- Timing
- Personnel

3+HGJH %JHNDJH~
 Company A –Q3 2008 Earnings Call:
 •“Gross [hedge] breakage in the quarter was a negative \$336 million. “
 •“50% of that breakage was related to basis risk”
 •“performance in the separate accounts versus the indices we used to hedge the liability.”

Risk Management

Diversification

- Product lines (Variable, Fixed, Life, LTC, P&C, etc.)
 - Mono-line vs. Multi-line
- Netting/ pooling of risks, cross hedging
 - Example: Mortality vs. Longevity



Reinsurance

- Reasons companies reinsure
 - Capacity, capital, expertise
- Carrier selection
 - Strength, expertise, aggregate exposure

Risk Management

Oversight

- Established oversight process by function
 - Risk Management
 - Hedging
 - Investments
- Internal/ External
- Risk limits/ breach reporting
- Independence of Chief Risk Officer
- Sign-off procedures

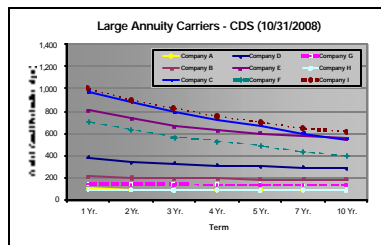
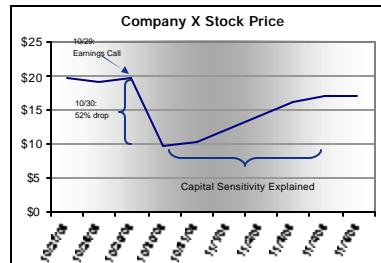
External Views of Insurer Strength

Company Communications

- Reports
- Earnings calls
 - CFO comments
 - Outlook
- Capital consumer/ provider

External Indicators

- Stock price
 - Earnings, growth, outlook
- Ratings
 - Lagging indicator
 - Rating agencies - S&P, Moody's, AM Best
 - Bond prices, credit spreads
- Industry/ corporate analysts
- Sustainability reports
- Audit reports



Conclusion

Summary

- Capital and Reserves
- Risk Management
- External Views

Q&A

