Capital Management for Shareholder Value

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1. What is the Name of the Game?
2. The Rules of the Game are changing
3. The new Game Plan
4. A different Playing Field
5. Conclusion

What does SAM mean to shareholders?

The Objectives of a risk-based regulatory framework

- To protect policyholders and beneficiaries
- To ensure financial soundness
- Regulatory capital requirements should reflect the underlying risks of the insurer
- To provide incentives to adopt more sophisticated risk management tools and techniques

Ultimately an increased level of transparency and comparability of capitalisation across the industry

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The relationship status of solvency coverage ratios and dividends…

… just became complicated

- Old rule: Solvency ratios are disclosed on a FYI-basis

- New rule: Solvency ratios and their sensitivities are key disclosures

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Less is more

... for the same profits

- Old rule: more capital is more
- New rule: less capital is more

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Healthy parent, lean but resilient children

Where should capital buffers be held and how should they be determined?

- Old rule: target capital ratios are determined using simple approaches

- New rule: target capital ratios are linked to resilience of regulatory capital

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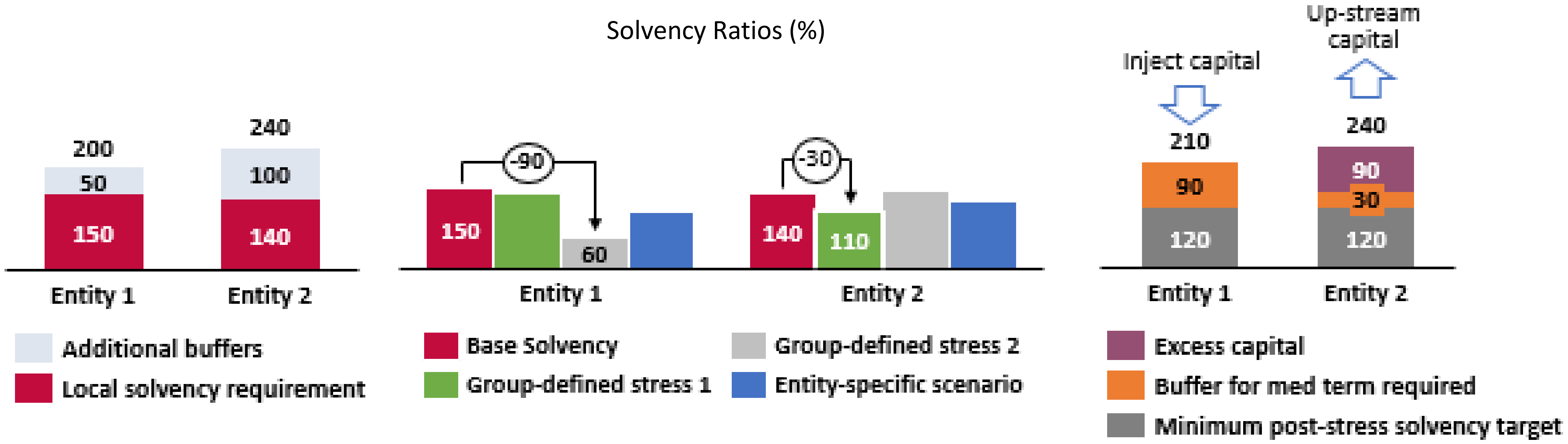
Healthy parent, lean but resilient children

How can risk-based buffers be determined?



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Keep your eye on the ball

What will the focus be on?

- Predictable and sustainable dividend distribution
- Transparency about resilience of solvency capitalisation
- Capital generation
- Capital efficiency and capital efficient growth

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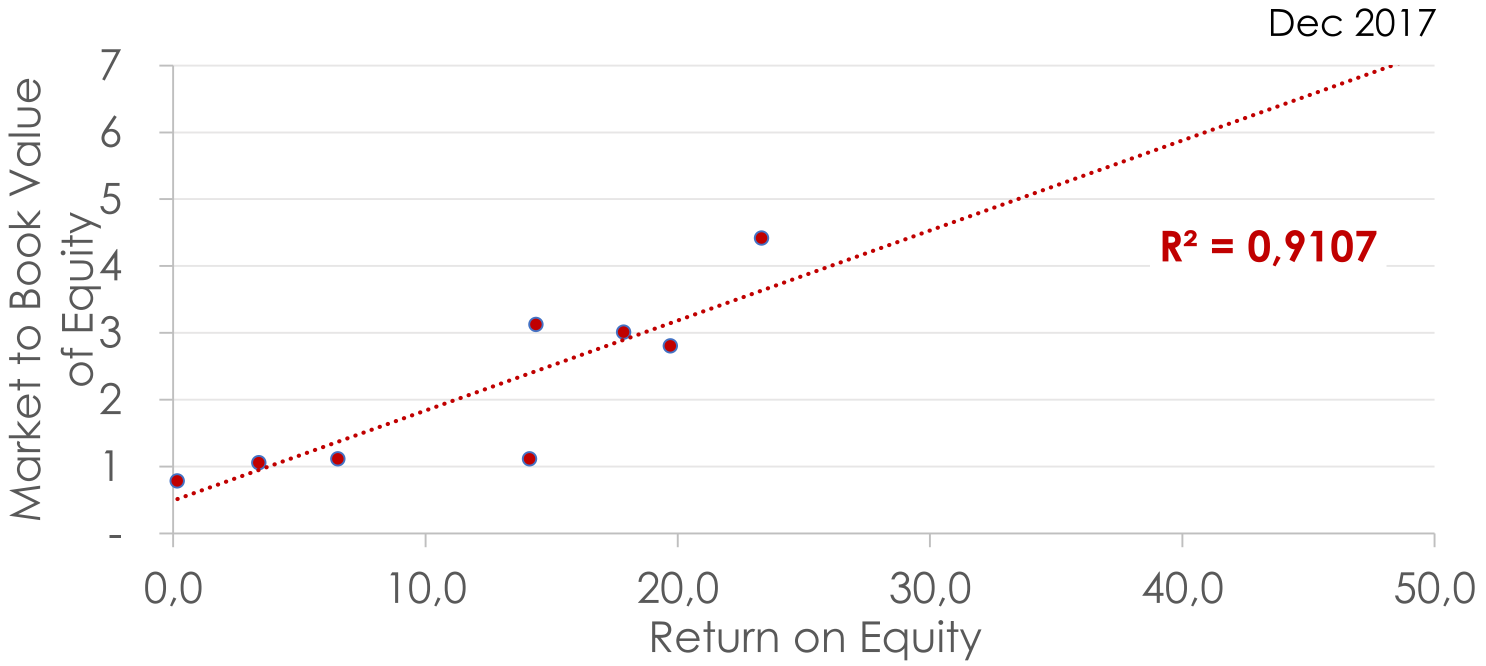
Keep your eye on the ball



- Alexander Forbes Group Holdings
- Clientele
- Discovery Holdings
- Liberty Holdings
- Old Mutual
- MMI Holdings
- RMI
- Sanlam
- Santam

Market to Book Value = 1 + (RoE – CoC) / (CoC – Growth)

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How will the ball curve?

How will the business change?

Changes observed under Solvency II:

- Asset allocation
- Product (re-)structuring and (re-)pricing
- Use of economic capital
- Capital optimisation and risk transfer

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Dropping the ball

What could go wrong?

- Trying to explain the inexplicable
- Not being able to anticipate the outcome
- Disclosures not being indicative of final position
- Inability to disclose required information
- Challenges to embed another KPI into business decision-making

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How do you win the game?

RISK MANAGEMENT MEETS STRATEGY

- Align company and management targets to shareholder value
- Establish a Capital Management approach linked to the Dividend Policy
- Focus on capital efficiency by centralising and optimising capital
- Ensure the approach to determine the capital buffers meets its purpose
- Introduce appropriate and sufficiently granular business steering KPIs

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The Risk Function of the Future

How does it look?

- A senior partner in the business
- Technical as well as business insight
- Focused on supporting long-term, sustainable value creation
- Listens and critically challenges when necessary
- Balanced between IQ and EQ

Thank you