Allianz

ALLIANZ GLOBAL CORPORATE & SPECIALTY®

ALTERNATIVE RISK TRANSFER

Financial risks

Insurance is increasingly an important part of the capital stack of Financial Institutions. Adding to the traditional insurance property and casualty covers, Financial Institutions are partnering more and more with insurers to manage risk and regulatory capital in an optimized fashion. The Financial Risks offering from ART helps our FI clients to achieve the right balance of return, risk, and capital for their businesses

Financial risk business comprises transactions in which the risk transfer (associated with either non-insurance or insurance risks) is not the main objective of the transaction.

Financial risk business

- uses ART expertise and the Allianz fortress AA-rated balance sheet;
- employs Allianz paper to liberate client capital in a win-win fashion; and
- the motivation is more capital relief than traditional risk transfer.

and has several dimensions:

Objectives adressed

- Regulatory capital requirements
- Rating agency capital requirements
- Securities rating requirements
- Unlocking value of unusual collateral
- Investor requirements

Underlying risk

- Financial (such as default amount of a mortgage portfolio or credit default of a borrower)
- Collateral value in a default scenario (such as value of commercial real estate or intellectual property)
- Life insurance-related (such as excess mortality or consumer behavior)
- Property/casualty insurance-related (such as aggregate excess reserve development)

Type of customers

- Banks
- Investors, Asset Managers,
- Private Equity
- Securitization Vehicles
- (Re-) Insurance Companies
- REITs

Form of contract

- Insurance/Reinsurance
- Derivative
- Loan
- Contingent Credit Agreement/ liquidity facility
- Letter of Credit Reimbursement Agreement

Each transaction typically is situationspecific, reflects client's objectives and limitations and is consequently individually structured, analyzed, and modelled

Standard & Poor's

AA

A.M. Best

A+

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Example 1

A US-based life insurance company had to set up reserves for its portfolio of individual fixed annuities. The reserves we mandated by the regulators, were based on the unreasonable assumptions, and were in excess of the economic reserves. The difference between the regulatory reserves and excess reserves was financed by a bank by issuing a contingent letter of credit As the annuity portfolio grew, the size of the letter of credit exceeded the bank's exposure limit. ART co-participated on the letter of credit, which reduced the bank's net exposure and allowed it to continue to expand the business.

Example 2

A Bermuda-domiciled property and casualty reinsurer provided a USdomiciled subsidiary with a quota share reinsurance, which required it to post a significant amount of assets in a creditfor- reinsurance trust. Due to regulatory requirements, the assets in the trust were limited to high quality low yielding securities. ART procured a letter of credit on behalf of the reinsurer and posted it into the credit-for-reinsurance trust. This allowed the reinsurer to free up some cash trapped in the trust and invest it into higher-yielding instruments. In turn, the reinsurer had an obligation to reimburse ART for any draws on the letter of credit, posting the higheryielding investment portfolio as collateral.

Example 3

The client is in the business of providing liquidity facility agreement ("LFA") for securitizations. Under the Basel III rules, the capital treatment of the LFA follows that of the most senior note in its corresponding securitization, somewhat regardless of the particular features of the LFA and indeed the securitization. Owing to ART's ability to recognize the very strong overcollateralization of the LFA, ART was able to provide the client with regulatory compliant paper which allowed it to treat the LFA as AA-rated, thereby materially improving the capital treatment of the underlying business.

Example 4

A portfolio of green energy loans has been securitized, with a rating agencymandated interest reserve facility. The reserve facility was trapping some of the cash that could be used to extend new loans. ART provided a non-cash liquidity facility utilizing its high credit rating. The facility allowed the sponsor to free up the needed working capital.

Example 5

Under Solvency II, our client was required to hold material amounts of capital against its book of lifetime mortgages. Looking through the book, ART was able to evaluate the underlying business and offer the client a tailored solution to allow it to recognize the value of the AA-rated Allianz paper on its balance sheet thereby strengthening further its robust capital position.

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