COVID-19 IMPLICATIONS: AN INSURANCE CRO‘S PERSPECTIVE

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Expectations

Scenario analysis results based on SARS / MERS

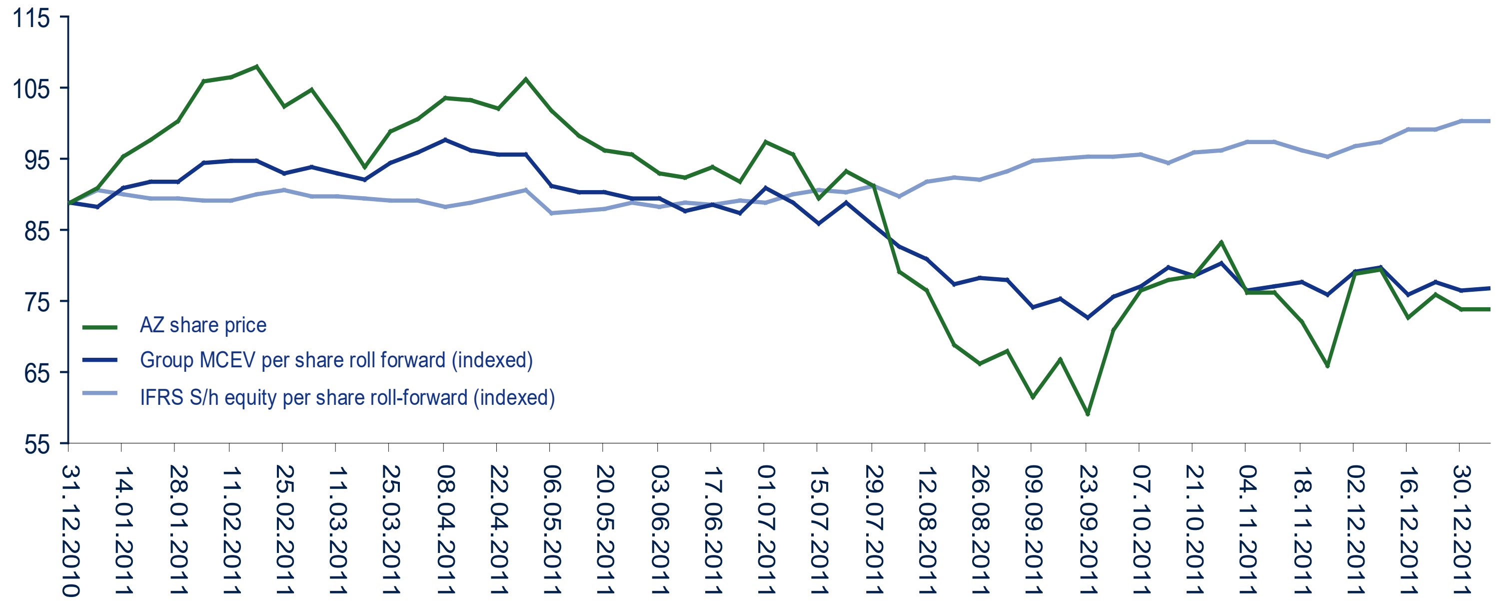
- Financial market impact 1-2 orders of magnitude higher than the impact on liabilities
- LH direct mortality and health limited, offset by longevity
- PC generally not affected due to pandemic exclusions

Insurer valuations during a financial crisis:

- From a solvency and liquidity perspective, most insurers have focused on resilience since 2008 crisis so not an existence threatening event
- However, insurer valuations are driven by economic-, as opposed to accounting-values during financial crisis
  - In Europe, economic drivers tend to be interest rate / duration gap, general account EQ positions vs fixed guarantees, CS & Migrations / Defaults
  - In US, drivers tend to be EQ / VA and FIA, CS & Migrations / Defaults
- Financial crisis happen regularly, e.g. 2001-2 equity market, 2008, 2011/12 European, 2020 covid-19.
- From a shareholder perspective, if you don’t like the volatility, don’t run an economic mismatch
- Outlook: Equity market stabilization (possible dip), Central Bank ‘bazooka’ keep rates low / declining, negative credit developments over next 2-4 quarters

Valuation during a crisis: Market Consistent vs Accounting metrics

AZ share price vs. economic & IFRS roll-forward[1] (EUR)



$$\Delta V = \sum \frac{\partial V}{\partial index_i} \Delta index_i$$

- Economic view clearly outperforms IFRS metric in tracking our share price, both visually and statistically.
  - Comparison of regression R-Squareds, share price-to-MCEV versus share price-to-IFRS: 94% vs 72%!
  - Sign of correlation and regression coefficient also supports: Share price increases with MCEV roll-forward values (positive coefficient) but decreases with IFRS shareholders' equity (negative coefficient)!
- Higher reflection of sensitivity to major risk exposures like interest rate and credit spread environment

1) Roll-forward based on 2010 year-end Group MCEV and IFRS S/h equity and disclosed sensitivities (i.e. equities & rates) but without quarterly rebalancing.

Wilson, T., 2015, Value and Capital Management: A Handbook for Finance & Risk Professionals, John Wiley & Sons

Valuation during a crisis: Market Consistent vs Accounting metrics

Comparison, adjusted MCEV Roll-Forward vs. ΔTNAV and ΔShare Price

Company	2009	2010	2011	2012	2013
1. Allianz		✓	✓		✓
2. Aviva	✓	✓	✓	✓	✓
3. Axa	✓	✓	✓	✓	✓
4. CNP	✓	✓	✓	✓	✓
5. Generali		✓		✓	
6. Prudential	✓	✓	✓	✓	✓
7. Zurich	✓	✓	✓	✓	✓

Better in 86% of the cases

Adjusted MCEV Roll-Forward vs. unadjusted MCEV Roll-Forward

Company	2009	2010	2011	2012	2013
1. Allianz	✓	✓	✓		✓
2. Aviva	✓	✓	✓	✓	✓
3. Axa	✓			✓	✓
4. CNP	✓	✓		✓	✓
5. Generali	✓	✓		✓	✓
6. Prudential	✓	✓		✓	
7. Zurich	✓		✓	✓	

Better in 75% of the cases

Wilson, T., 2015, Value and Capital Management: A Handbook for Finance & Risk Professionals, John Wiley & Sons

What’s unexpected and what response?

What’s new for this crisis? PC segment has seen a higher impact

- Direct exposures, e.g. trade credit, non-property BI, entertainment / cancellation
- Political pressure on property BI to expand scope retroactively, contestable wordings trigger claims arbitration
- Further political pressure on premium reductions / holidays
- Lagging tail of potential “conduct” claims of policies failed to respond as ‘expected’

Implications for Monetary / Fiscal / Regulatory Policies

- Regulatory capital and oversight:
  - No need for industry capital reforms or emergency measures: Continue to encourage financial resilience
  - Do not use blanket approach for capital management / dividend policy, compensation restrictions, etc.
  - Promote industry-wide clarity and finality on PC wordings
  - Support a “pool” or risk sharing mechanism for pandemic BI accumulations, potentially with a gov backstop
- Monetary & Fiscal Policy:
  - As long-term investors with an abundance of liquidity, the focus of monetary policy on providing liquidity and stabilizing asset values short term are neutral for insurers.
  - In contrast to the previous financial crisis driven by systemic banks, this crisis has directly impaired real GDP and will potentially absorb small businesses with longer lasting impacts on employment and demand
  - As such, support a rapid recovery in the real sector and structural reforms without damaging the system, e.g. no nurturing “zombie” companies, thoughtful expansion of the public sector, etc.

All views are those of the presenter only

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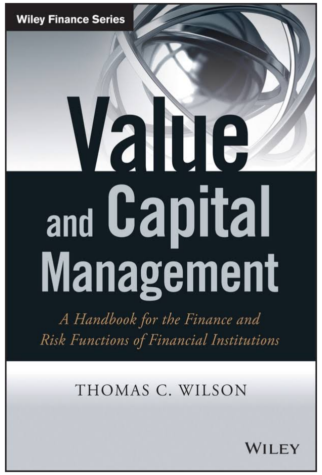

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(2015 Wiley Finance, 2017 Korean, 2018 Chinese, 2019 Japanese Kanzai Publishing)