

# The art of ART: Non-traditional solutions as a powerful risk management tool

August 28, 2009 – Kathrin Anne Meier – Presentation to SAV Frauen

**Allianz** 

# The art of ART

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## Key Features of ART

- Provider of non-traditional structured (re)insurance and finance solutions
- Established by Allianz SE in 1997 to be the global center of competence for the alternative risk transfer business and to develop synergies between banking and insurance
- Wholly-owned subsidiary of Allianz Global Corporate & Specialty AG
- Allianz Risk Transfer AG (Zurich) Rated AA (long term) and A-1+ (short term) by S&P
- 55+ employees worldwide
- Figures 2008: Net earned premiums: CHF 1'111m, net income CHF 34m, total assets CHF 2'805m, total shareholder's equity: CHF 506m

# ART Organization



<b>License</b>	<ul style="list-style-type: none"> <li>Insurance / Reinsurance</li> </ul>	<ul style="list-style-type: none"> <li>Class 3 Re/Insurer</li> <li>Parental Guarantee by ART Zurich</li> <li>Asset Mgmt</li> </ul>	<ul style="list-style-type: none"> <li>EU Re/Insurance</li> <li>Parental guarantee by ART Zurich</li> </ul>	<ul style="list-style-type: none"> <li>Insurance intermediary</li> <li>Service company</li> </ul>	<ul style="list-style-type: none"> <li>Reinsurance intermediary</li> <li>Service company</li> <li>Asset Mgmt</li> </ul>
<b>Employees</b>	30	8	Shared Staff	4	16



## Range of ART Solutions

Global retention management programs

Multi line / multi year

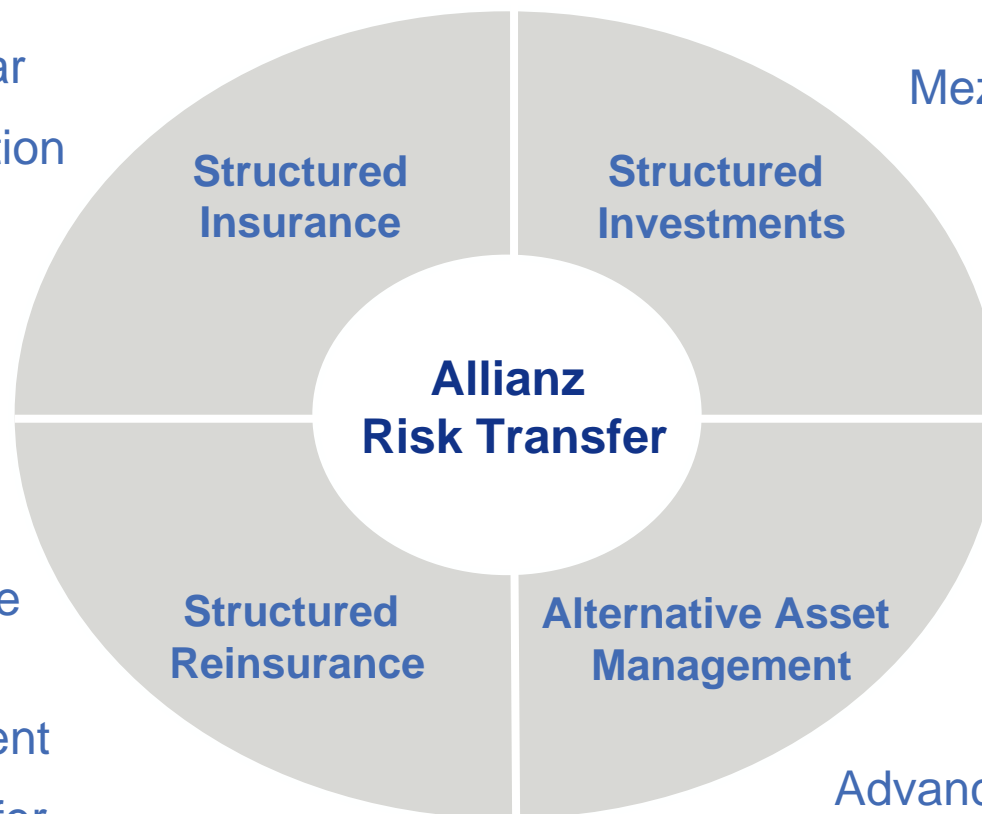
Captive B/S protection

Global fronting

Equalisation reserve volatility

Adverse development

Loss portfolio transfer



Debt  
Equity  
Mezzanine Enhancement  
Future Flow  
Placement  
Hedging  
ILS

Advanced risk intermediation  
Insurance risk transformation

## Value to the ART Customer in ART's Business Segments

### Corporate Solutions

- Solutions driven by clients motivation
- Manage client's overall risk in line with their risk appetite
- Fill gaps not catered for by traditional markets

### Reinsurance

- Solutions driven by clients' desire to manage risk over longer period of time
- Manage client's overall risk in line with their risk appetite
- Transformation of insurance risk to financial markets

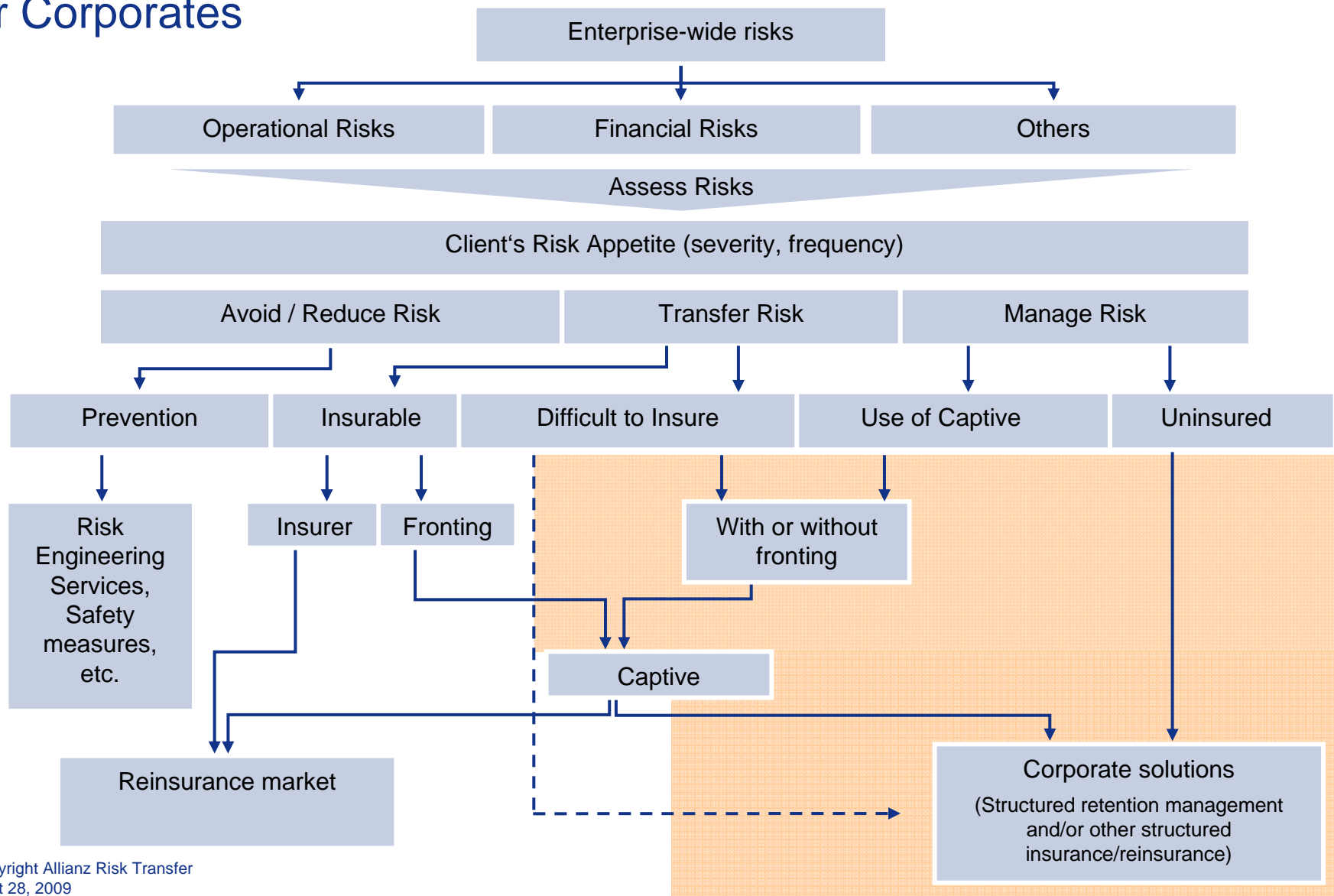
### Insurance Linked Markets

- Insurance Risk seen as an excellent risk diversifier
- Facilitate investor access to insurance risk
- Regulatory reasons why buyers cannot hedge directly with investors
- Enables hedging through non-traditional products
- Bermuda balance sheet, as regulatory environment allows for transformations

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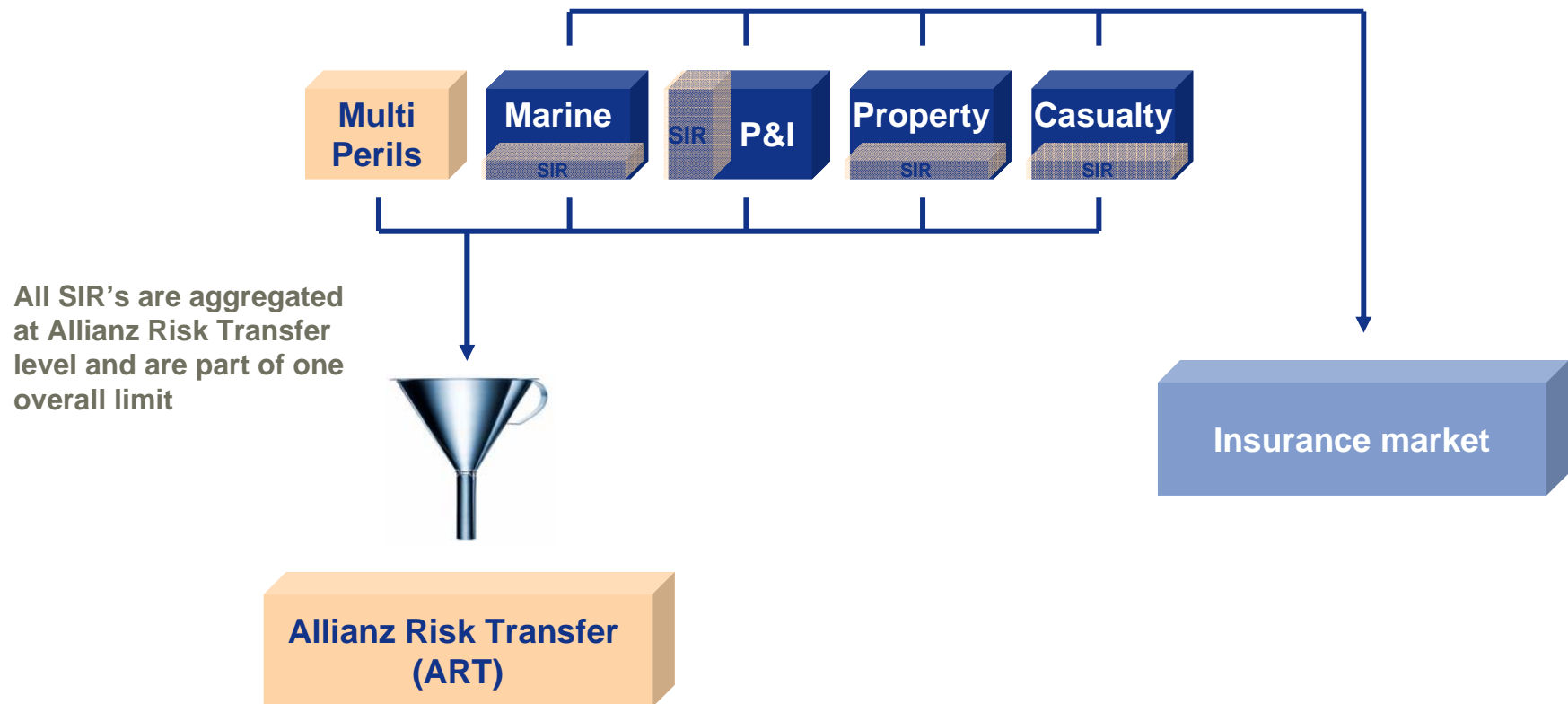
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# Alternative Risk Transfer as a Risk Management Tool for Corporates

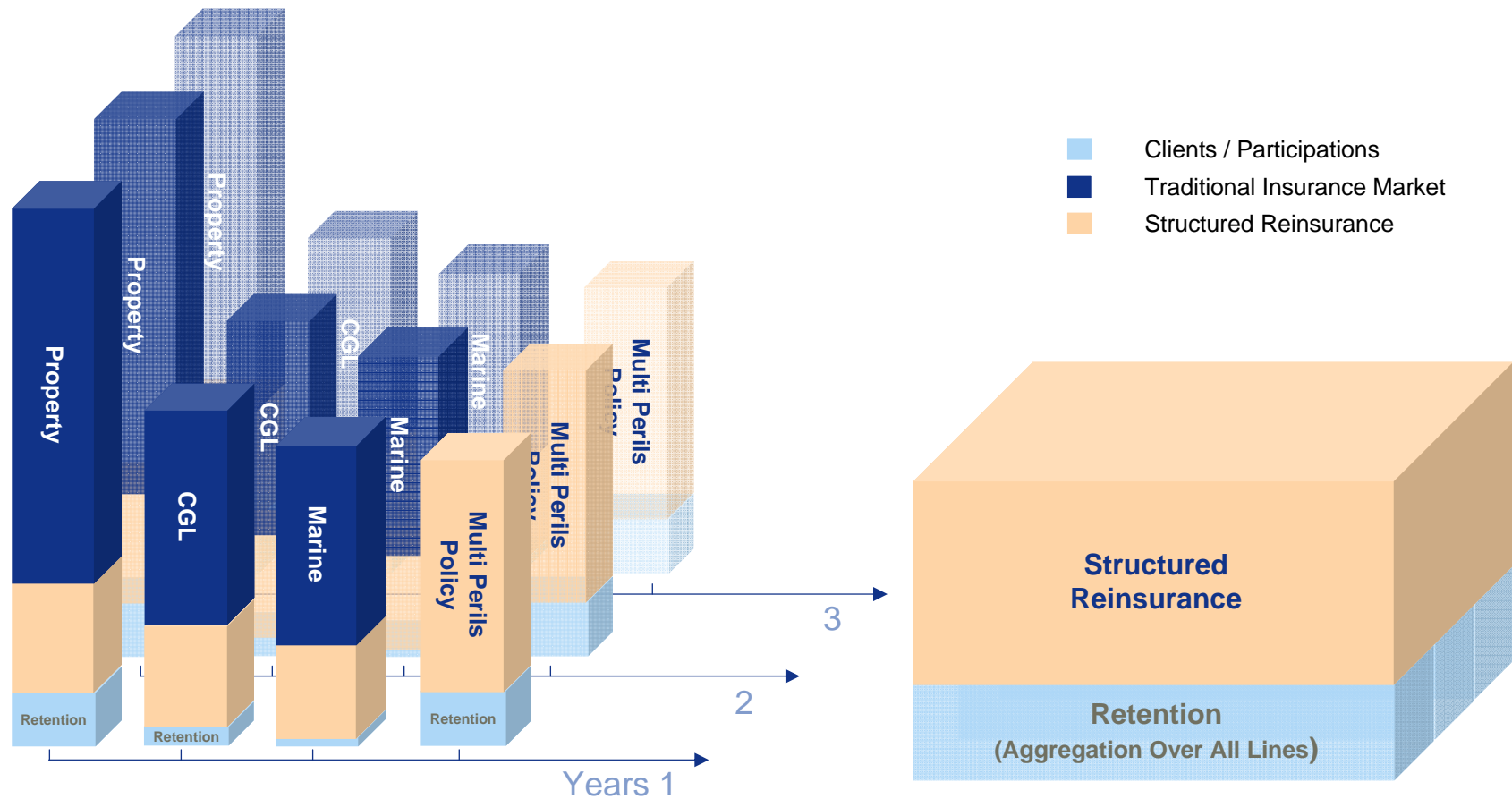




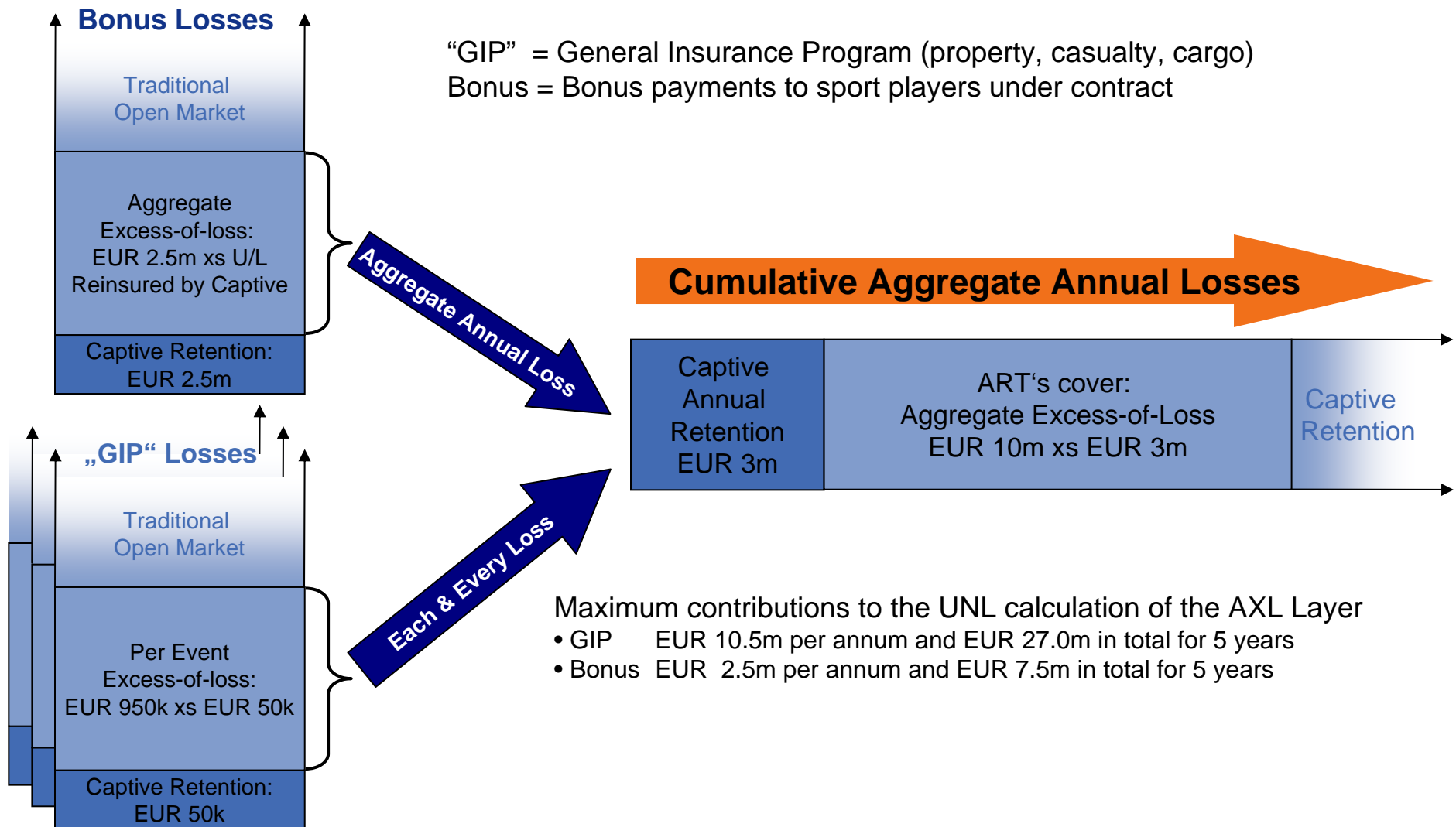
# Multiple Risk Protections Funnel SIR's and Multiple Perils into one ART Aggregate Cover



# ART Structure Provides Significant Multi-Year Protection



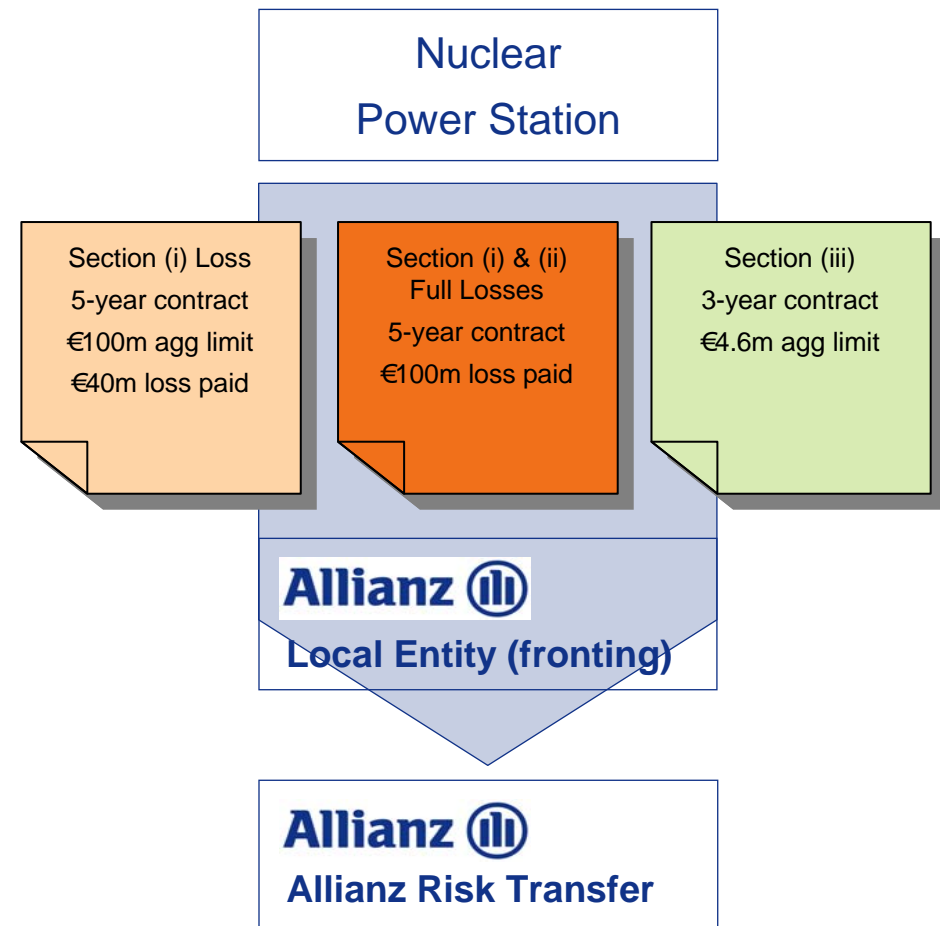
## Example: Manufacturer of Sport Equipment



## Example: Nuclear Power Plant

### Business Interruption for Nuclear Power Station

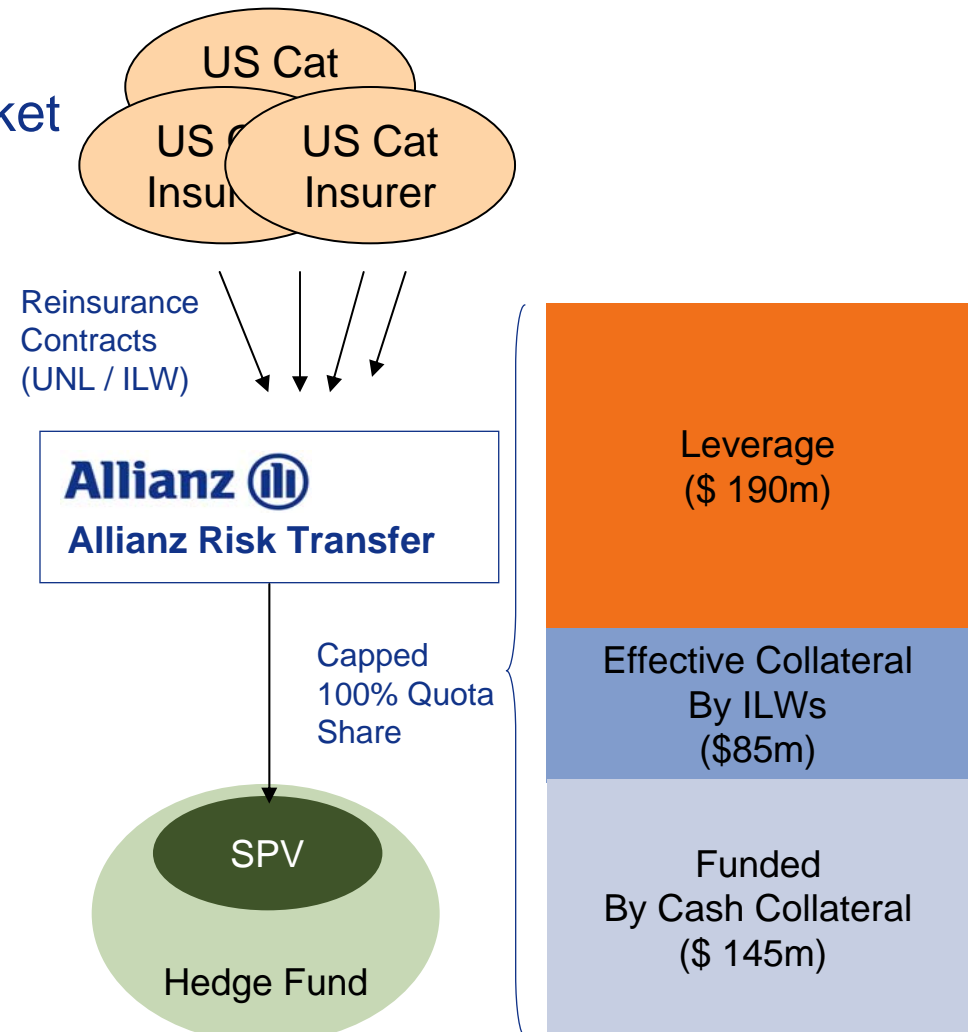
- Accident left damaged fuel rod elements in a sealed chamber
- No insurance available for clean-up
- ART structure multi-section cover:
  - i. €40m property / BI during clean-up
  - ii. €20m pa / €60m agg BI on other units if claim under (i) for 4 further years
  - iii. €4.6m BI on all units if (i) commuted for 2 further years
- Premium: (i) initial payment at inception, adjustable upon loss to section; (ii) annual premium; (iii) nil (included in premium for (i))



## Example: Insurance Linked Solution

### Investor Access to Cat Insurance Market

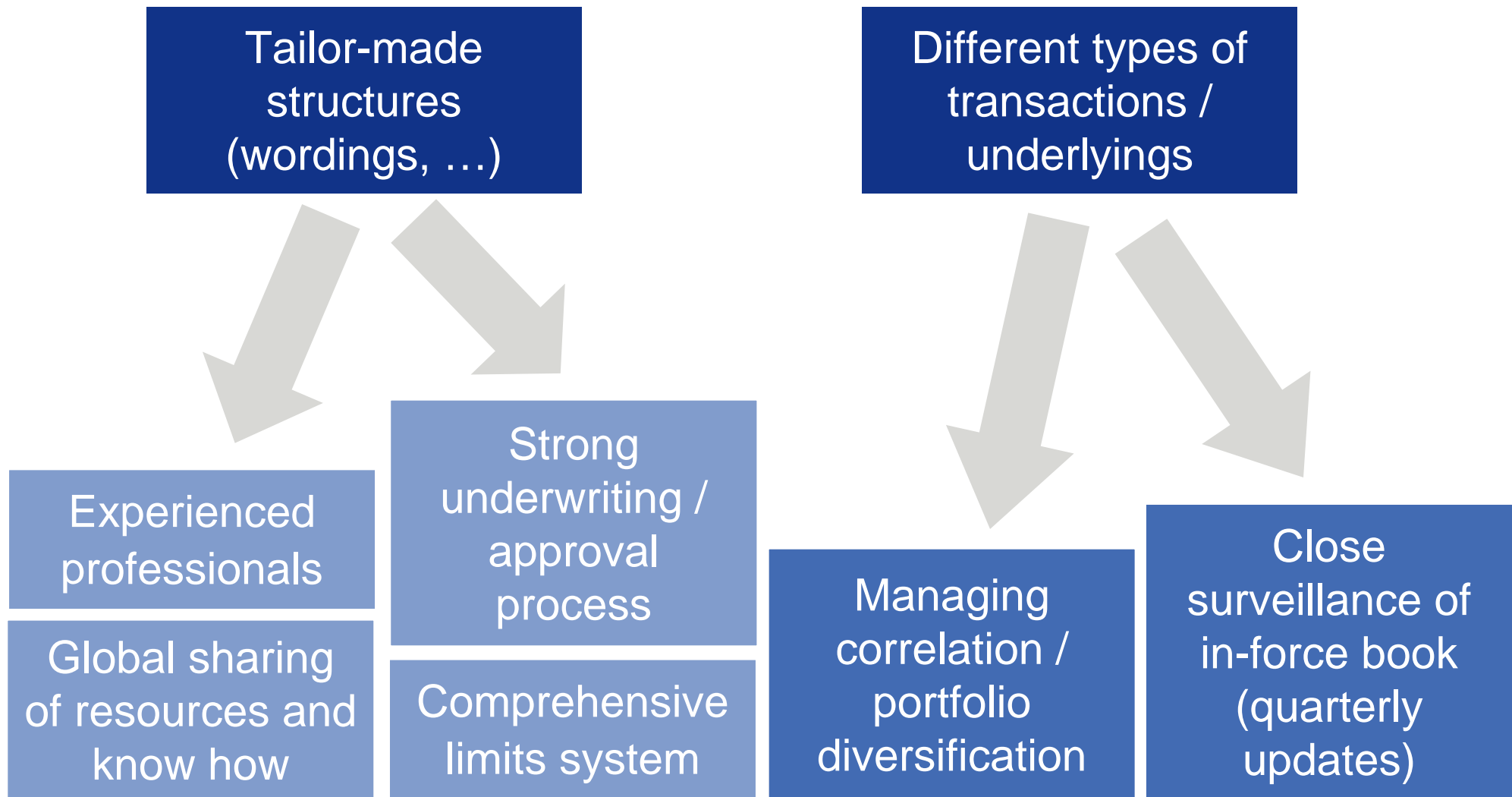
- ART writes portfolio of US cat reinsurance and cedes it to special purpose vehicle via capped quota share.
- Quota share limit is above 100% of gross modeled loss of portfolio (max(AIR, RMS)).
- Collateral as security under the quota share:
  - cash collateral in the amount of 100% net modeled loss
  - additional collateral in form of reinsurance (ILWs)
- ART participates in margin on reinsurance contracts, charge for leverage provided and profit commission



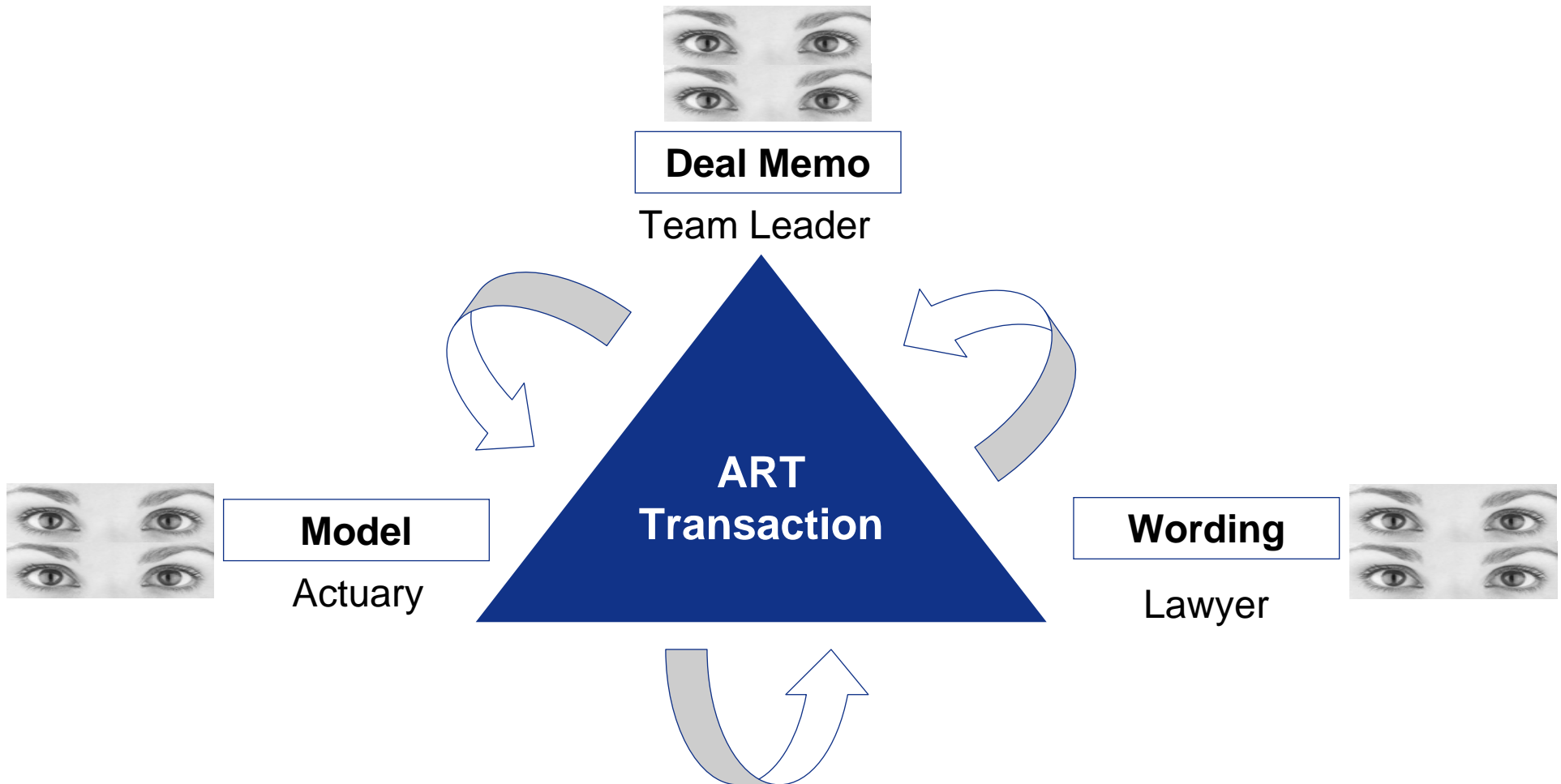
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## Risks and Mitigants at ART



## Multiple Sign-Offs are part of the Underwriting Process



In addition: Finance & accounting sign-off, compliance tests (financial crimes risk assessment), overall executive sign-off



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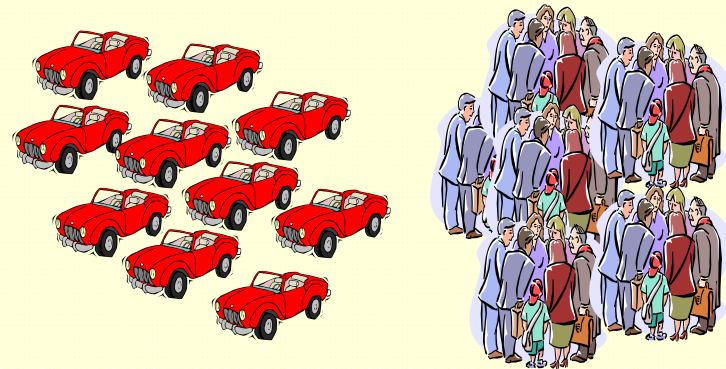
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# ART's Portfolio Management Approach

- **Law of Large Numbers**

- Portfolios of many like risks

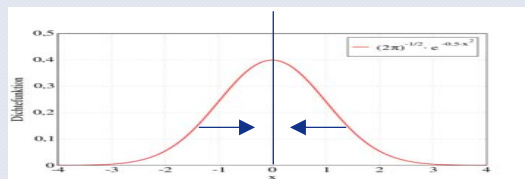
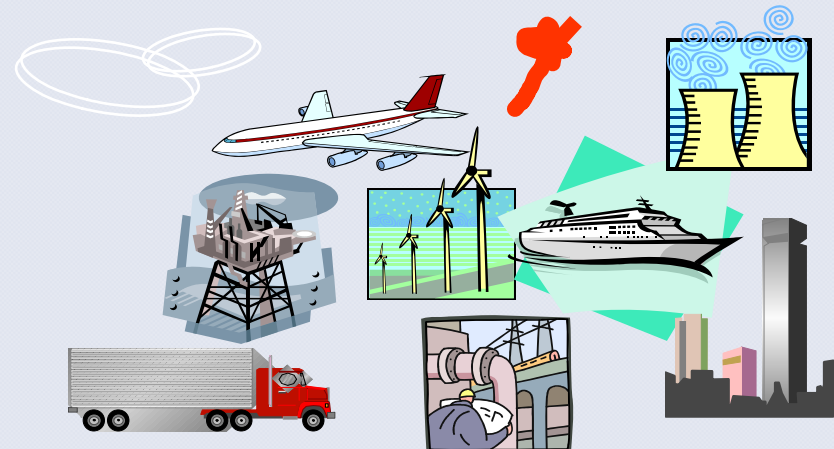
**Traditional insurer:**



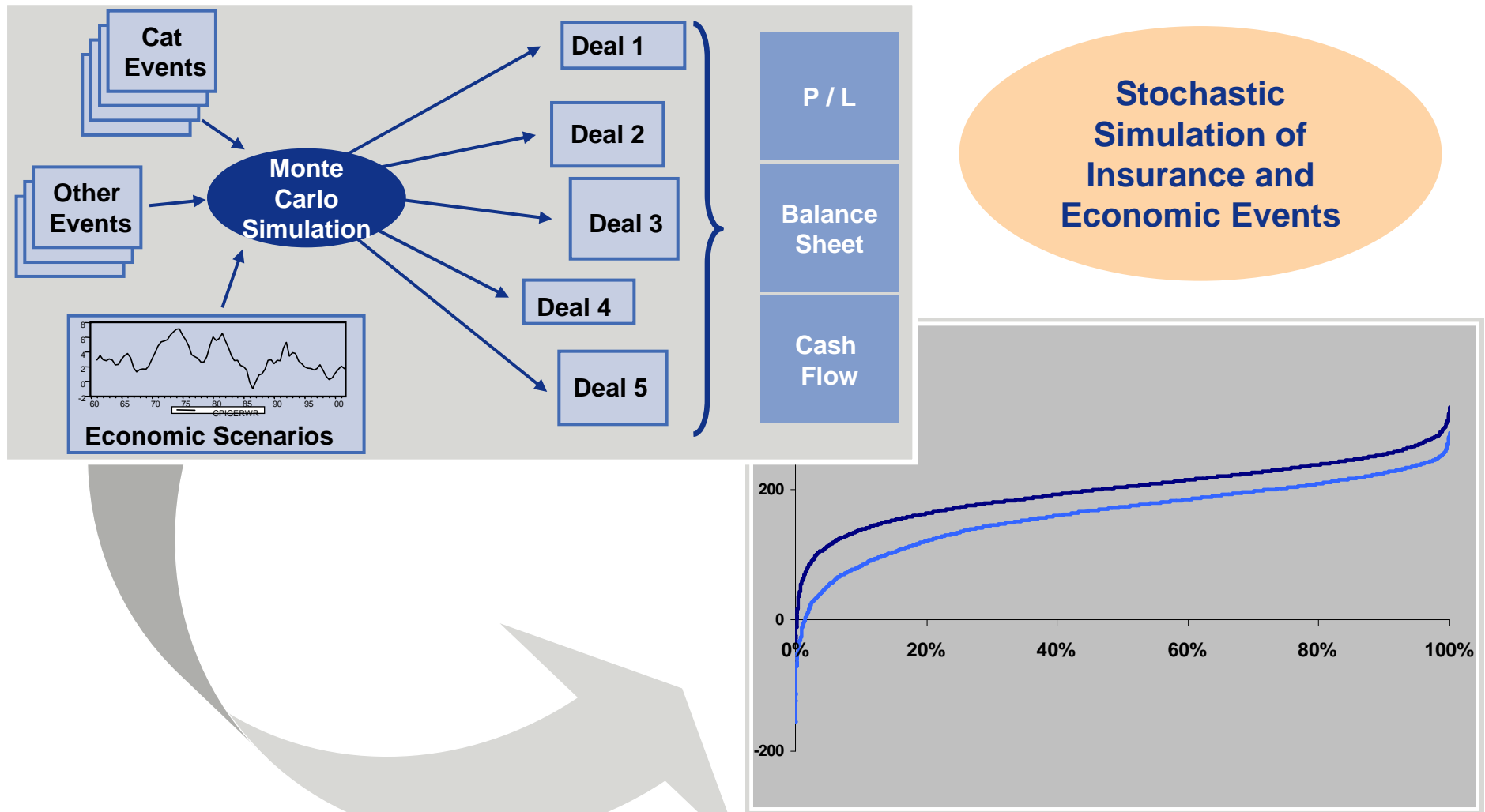
- **Portfolio Theory**

- Portfolio of many unlike risks
- Correlation of risk
- Sub-limits for risk sources

**ART:**



# ART's Modeling Methodology



## Events Are the Basis of the ART Portfolio Model

### Economic and financial scenarios (barrie+hibbert Economic Scenario Generator)

- Interest
- Equity Indices
- FX
- Credit Default Rates
- GDP, CPI

### Cat scenarios

- RMS based for main regions and perils, tailored to fit with ART Portfolio Model
- additional own Cat scenarios

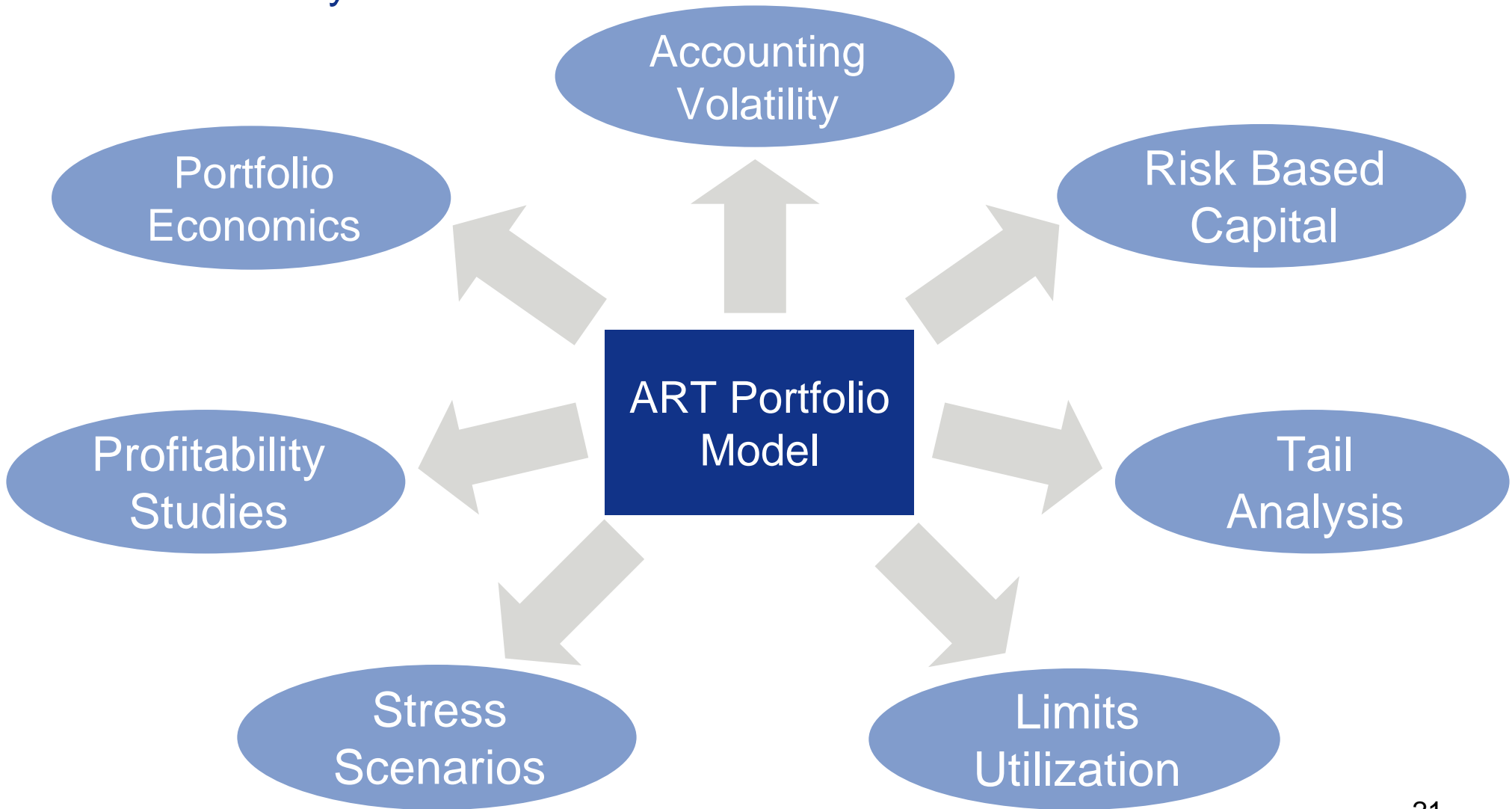
### Other market event scenarios

- Per risk industry loss
- Aviation
- Accountants liability

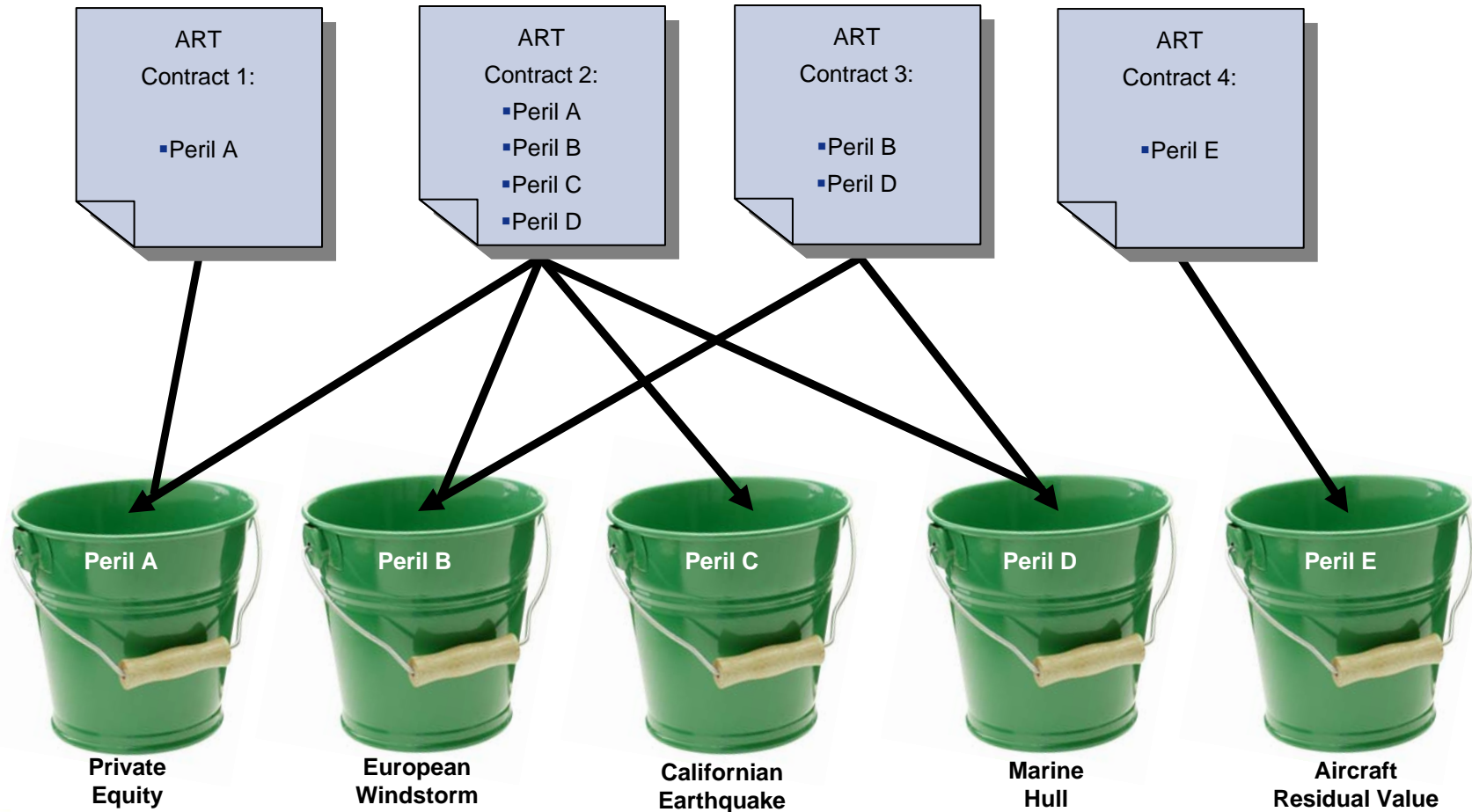
### Deal-specific events (uncorrelated)

General principle: All potentially volatile components are modeled stochastically, however focused on identified main risk drivers.

## The ART Portfolio Model Allows for Sophisticated Portfolio Analysis



# ART's Risk Bucket Approach



Maximum Exposure per Risk Bucket = planned annual operating profit  
"Full is full"

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## Conclusion

### ART transactions are a powerful risk management tool

- Structured solutions to fit client's needs
- Tailor-made to client's risk appetite
- Inclusion of „uninsurable“ risks
- Access to banking and insurance market

### ART's clients benefit from ART's approach to assess and manage risk

- Experienced professionals from reinsurance, insurance and banking
- Experts in accounting, actuarial and legal
- Strong UW process, incl. approval process
- Sophisticated portfolio modeling
- Comprehensive limits system
- Proactive portfolio management



# Thank you for your attention

For more information please contact [kathrin.meier@art-allianz.com](mailto:kathrin.meier@art-allianz.com)

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