

Risk and capital management: the changing environment

Andrew Moss

Group Finance Director

Aviva plc

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Sector remains undervalued?

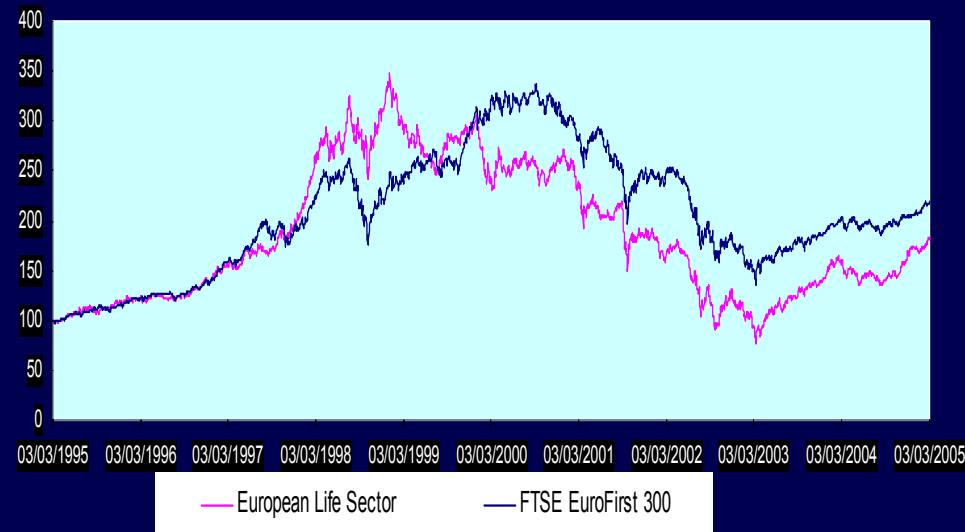
The insurance sector experienced heavy falls during the recent bear market

Historically there have been a number of legitimate concerns underpinning sector valuation discounts

Developments in risk and capital management over the last few years have been directed at many of these concerns

Whilst some recovery has taken place, simplistic valuation models suggest discounts are still being applied to the sector

Performance of European Life Sector vs FTSE Eurofirst 300 over 10 years

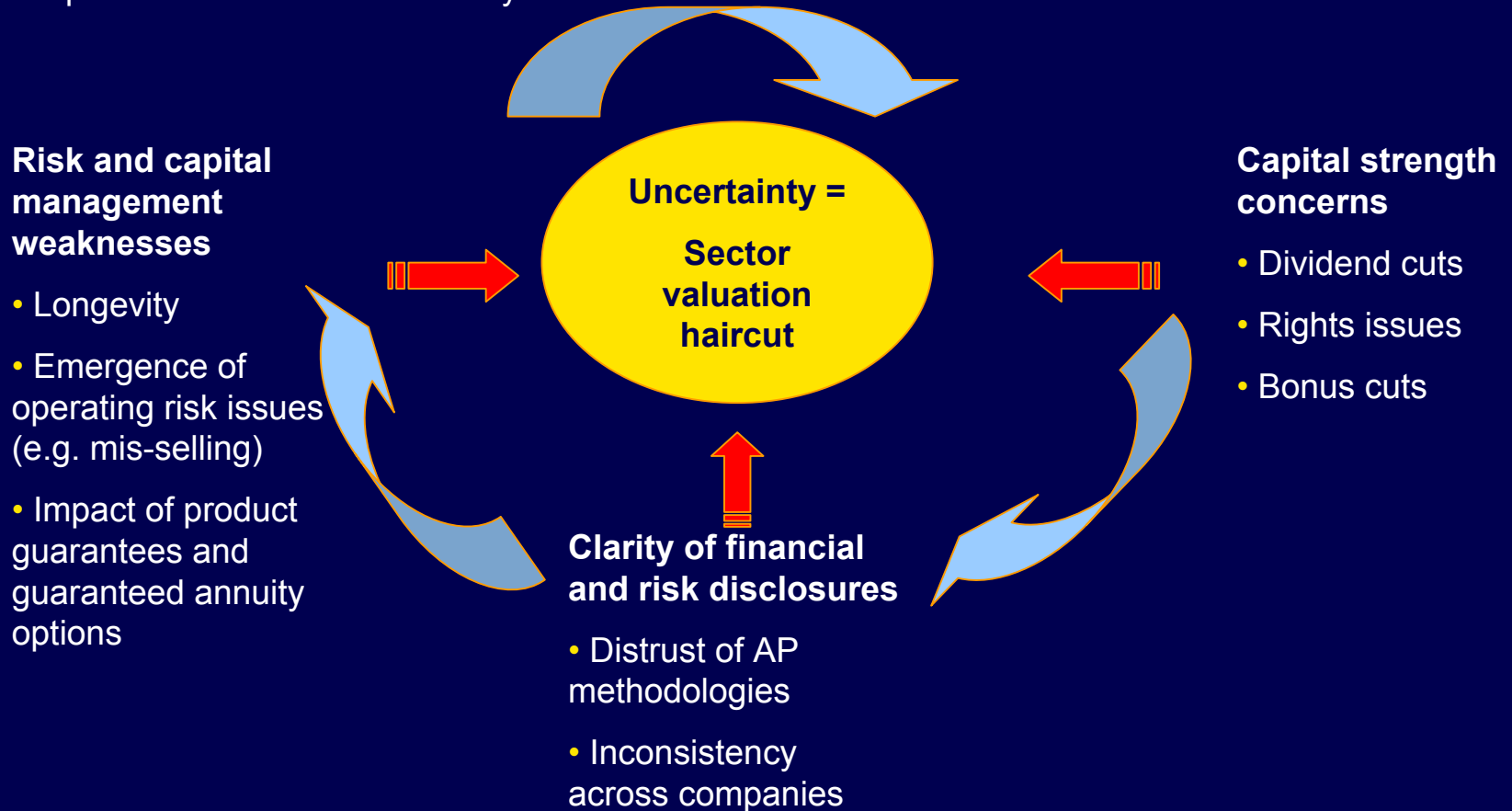


Source: Datastream

Are sector valuations giving full credit for recent risk and capital management developments?

Drivers of market under performance

Under performance driven by falling equity market acting as a catalyst for concerns over risk and capital issues within the industry



Sector is rebuilding confidence through strengthened risk and capital management – this has been partly driven by regulatory and market pressure

Regulators' and markets' response to sector shortcomings

Issue	Risk and capital management weakness	Lack of transparency
Driver	Regulator – policyholder protection focus	Markets – both industry specific and cross sector
Changes	FSA (UK) Prudential sourcebook Europe – IGD/ FGD Solvency 2 PVK (Netherlands) Focussed on: <ul style="list-style-type: none">• Establishing robust risk management systems and controls• Board accountability for risk and capital• Moving towards economic risk and capital assessment	EEV IFRS Focussed on increased transparency and consistency

External stakeholders have set a clear agenda for change

Risk and capital management response to challenge

VISIBILITY

Risk types

- Asset risks
- Liability risks
- Operating Risks

Reporting/ Process

- Aggregation of risks
- Regular monitoring and reporting
- Oversight processes

ANALYSIS

Understand capital and capital requirements

- Regulatory capital
 - Pillar 1
 - Pillar 2 (economic e.g. ICA)
- Economic capital
 - Realistic balance sheets
 - ICA
 - Stochastic modelling
- Rating agency (economic proxy)

Understand risks and interactions

- Risk correlations
- Diversification analysis
- Risk concentrations/significance
- Risk/ return profile

ACTION

Proactive, informed risk and capital management

- Risk Appetite statements
- Risk limits
- Strategic planning
- Mitigate unacceptable risks
- Asset liability matching
- Risk return optimisation
- Capital allocation
- Return targeting

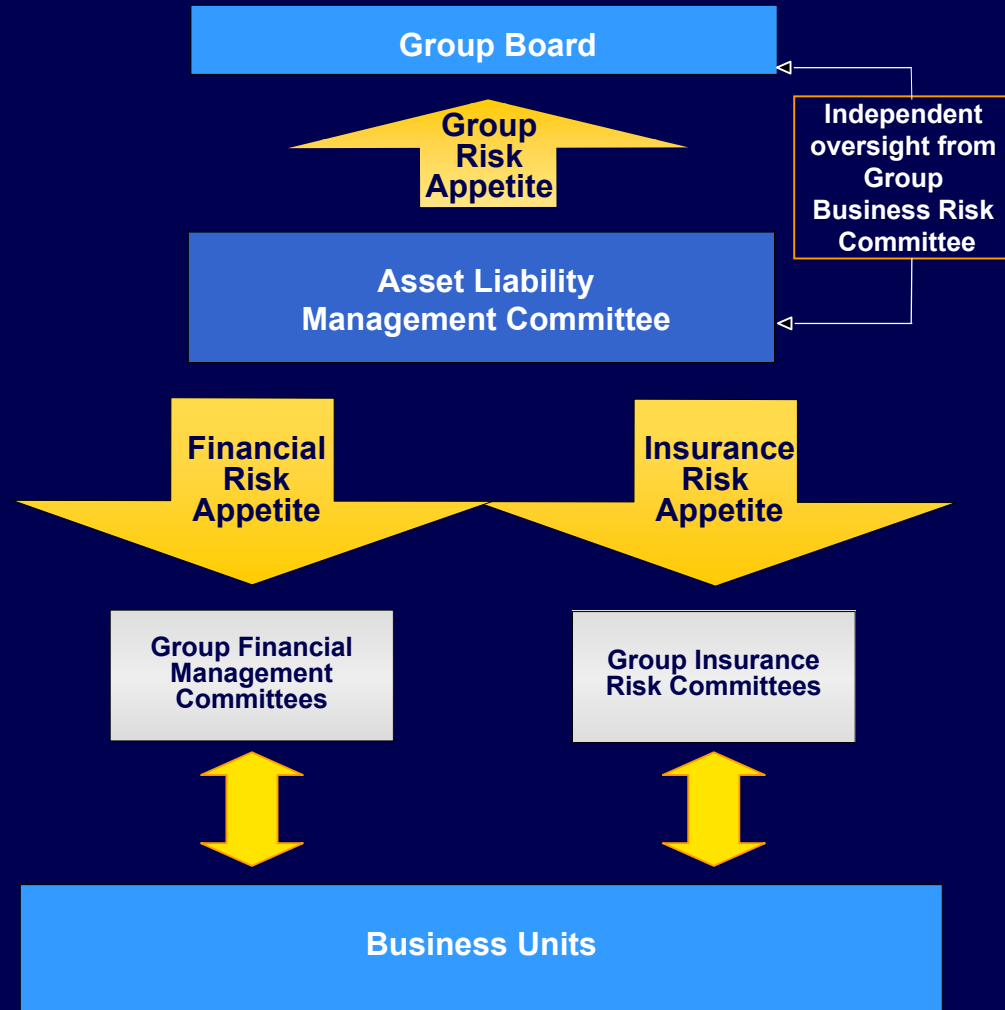
Comprehensive end to end risk and capital management process

Embedding risk and capital management disciplines in Aviva

Aviva's Asset Liability Management Committee responsible for integrating risk and capital disciplines across the Group

- Authoritative action oriented committee
- Supported by governance structures and processes
- Business unit and Group risk profiles and capital assessments are challenged and aggregated
- Concentration of risks managed / diversification benefits assessed

Risk and capital management is part of regular performance review and planning cycles



Robust governance structure and process established for risk and capital management

Clarity of Financial Disclosures - EEV Principles

One common set of 12 principles covering:

1. What is EEV

2. Business coverage

3. Definitions

4. Free surplus

5. Required capital and cost of capital

6. Value of inforce covered business

7. Financial options and guarantees

8. New business and renewals

9. Assumptions

10. Economic assumptions

11. Participating business

12. Disclosures

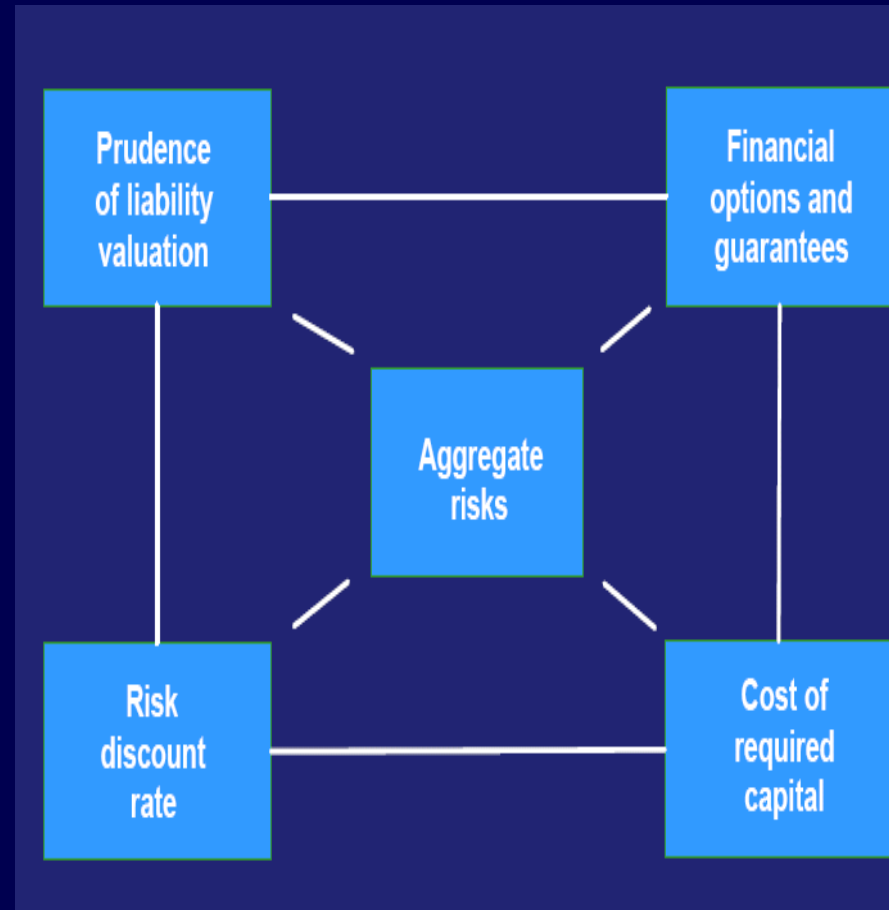
Evolution from achieved profits reporting – consistent adoption will create greater transparency and comparability for investors

EEV disclosures - Allowance for risk

Achieved profits – allowance for risk captured mainly through Risk Discount Rate (RDR)

Under EEV risk is allowed for

- In margins in policy liability calculations
- Explicit assessment of cost of financial options and guarantees
- Allowance for the cost of holding capital above Regulatory minima
- EEV RDR is residual risk after these allowances



Adoption addresses issues in traditional EV approach and addresses criticisms in the allowance of risk in performance reporting.

Commercial benefits of risk and capital management in Aviva

Example - 1

Capital generated across Aviva businesses pooled and redeployed with objective of optimising risk/reward trade-off

Focus on capital efficiency and value generated from capital invested in Life and GI new business

- Example shows capital deployed into life new business in 2004

Both new business and existing business management underpinned by enhanced understanding of economic risk and capital requirements

- Stochastic modelling of costs of options and guarantees
- First company to adopt EEV principles in our external results

Example – 2004 Capital Invested into Life New Business

	Total Invested Capital 2004 £ m	NBC Before Tax £ m	IRR Post Tax
UK	569	215	11%
France	108	54	11%
Ireland	50	16	12%
Italy	49	34	15%
Netherlands	108	43	9%
Poland	12	9	18%
Spain	68	121	24%
Other Europe	44	0	8%
International	50	24	15%
Group	1,058	516	12%

Source: Aviva 2004 preliminary announcement

Note: NBC is shown before tax and minorities and after the effect of required capital under EEV principles

Within business units, risk and capital management is playing an integral part in operational decision making

Commercial benefits of risk and capital management in Aviva

Example - 2

General Insurance Business successfully re-positioned to deliver high quality earnings through leveraging scale and volume

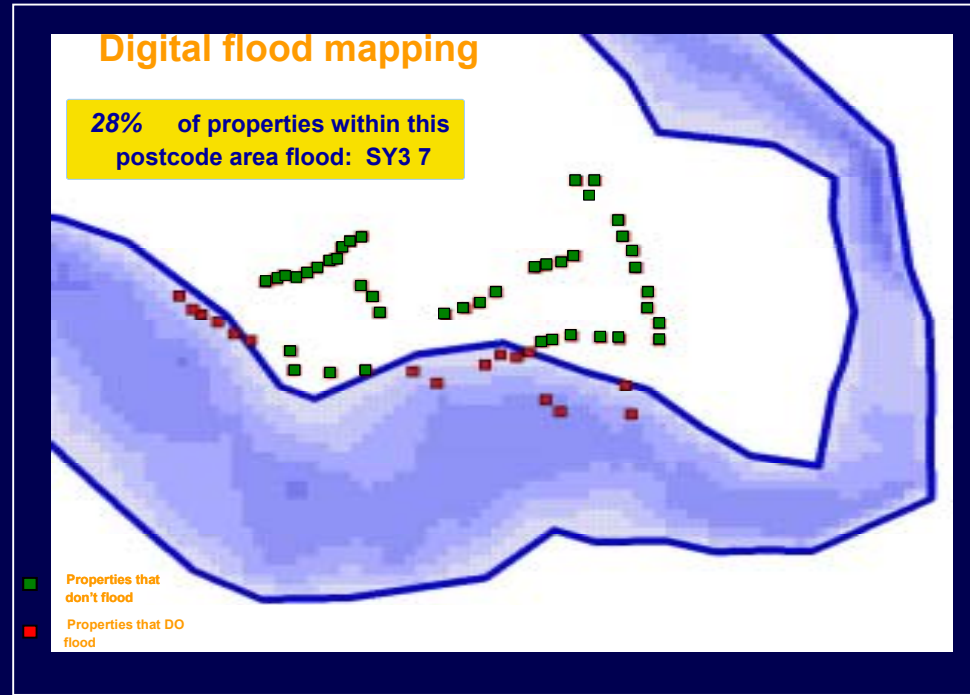
Creating competitive advantage through increasingly sophisticated and market leading risk measurement and selection techniques

- digital flood mapping
- telematics

Exit from businesses which do not meet strategic fit and desired risk/ return profile

Focus on reducing COR and maximising RoCE to offset reducing investment returns

- pricing for value
- cost efficiency



Improved practices address stakeholder concerns as well as delivering competitive advantage

Aviva: Emerging benefits

External perspective

High quality, diversified business model

Strong capital position: EU Insurance Groups
Directive excess of £3.6bn at end 2004

Strong growth in profitability in 2004

- New business contribution +11%
- COR improved to 96.7% (2003 100%)
- Return on Equity 14.4% (2003 13.1%)

Healthy dividend growth and cover

Self – financing business model

Improved transparency

Internal perspective

Economic capital requirement of Business Unit
risk positions

Relative returns on risk adjusted capital

Changes in risk profile and impacts on portfolio
optimisation

Risk selection and specialisation

Opportunities for return enhancement visible
from under / over exposed risk positions

Embrace the changes and leverage the commercial benefits

Risk and capital management:
the changing environment