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Oracle Solutions for Insurance Companies

Solvency II in practice

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Oracle's View of the Insurance Industry

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Insurance Industry Drivers

Regulatory Compliance Pressures
- Insurers operate in a highly complex regulatory environment
- Demanding new global regulations such as Solvency II, IFRS, Sarbanes Oxley, Anti Money Laundering
- Still regional regulations
- Regulators require greater transparency, accuracy and more timely information. Senior executives personally held to account

Competitive Pressure
- Many markets highly competitive
- Market consolidation-too many insurers
- Mergers and acquisitions require nimble IT systems, processes and infrastructures
- High cost base - legacy applications and processes are expensive and inflexible
- Need to improved customer retention and take greater share of wallet
- Faster introduction of new products

Corporate Efficiency
- Performance Management
- Customer Management
- Human Capital Management
- Operational Excellence

Customer Demands
- Customers ever more demanding
- Expect much better levels of service
- "Anywhere, Anytime"
- Remote capture and access to information
- Complex distribution models
- Servicing customers through partners
- Personalization based on book of business

Shareholder Scrutiny
- Investors demand greater transparency of company financial performance
- Want better investment returns
- Reduced risk due to improved performance/compliance management

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Where are the largest Insurance companies across Europe investing?

Financial Insights

The biggest growth in IT spending is related to **regulatory changes**, which will come into effect in 2007, when the insurance market will work to new accountancy and solvency rules.

IT investments in **delivery channels** maintain their relevance also in the U.K. insurance market. Insurers would be happy to improve their cross-selling ratios, which are currently very close to 1. Consequently, U.K. insurers are spending and will spend on **customer analytics** to enhance cross-selling ratios in the near future.

The most important conclusion of the study is that the majority of new IT investments by European insurance companies will include **distribution channels** and **core processing**.

Increasing competition and a sales force not always under control will result in an overly complex infrastructure. Demand for **simplicity** and flexibility requires a focus on the **business process**.

Demand for **system integration software**, **data management**, **asset and risk management**, and especially **core insurance applications** (policy administration and claims management) will have a very positive impact in the short/medium term.

In 2005 and 2006, **Web-based solutions** to connect agencies to headquarters will gain strategic relevance because they are expected to become a common communication medium for insurance companies.

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Insurers' response to market challenges – Customer Management Strategies

- Who 'owns' the customer relationship?
- Some insurers have tried to derive a single view of customers – most are nowhere near being able to do this. Both an IT and organisational problem
- Some attempts to understand true customer profitability – many insurers have no clue
- Expensive to attract new customers so focus on customer retention
- Need to increase "wallet share" of existing customers

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For many insurers IT is a major inhibitor to business agility

- Silo'ed systems and data
- Systems are extremely expensive to maintain/enhance (IT spend in Insurance in W.Europe alone estimated to be $11bn in 2005)
- Systems not flexible enough to adapt to business change
- Insurers can't implement their business strategies effectively
- Barrier to successful M&A activity

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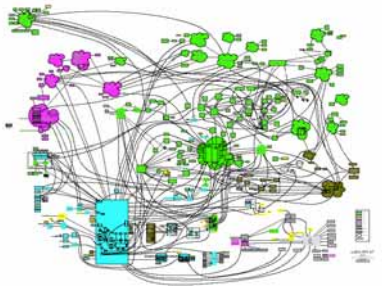
A Typical IT Landscape

The result of Fragmented Systems



Results in:

- **Many Applications**
- **Duplicated & Fragmented Data**
- **Non Standard Interfaces**
- **Range of Technology**

Which Leads To:

- **Poor Management Information**
- **Escalating costs**
- **A management nightmare!**
- **Increased specialised staffing**
- **Inadequate Security**
- **Total dependance on customised integration**

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Oracle Insurance Industry Strategy

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Oracle Insurance Strategy - Closely Aligned to Industry Drivers

Risk and Performance Management	Customer-Centricity	Strategic Cost Management
Enterprise Performance & Compliance	**Customer Insight & Management**	**Operational Excellence**
Enable insurers to better understand their business: risk exposure, profitability, financial results, product and customer dynamics etc. whilst at the same time complying with regulatory requirements.	Help insurers to move from a product centric view to a customer centric view. Enabling distribution strategies that satisfy customer needs from both a sales and service perspective whilst delivering profitable business for the insurer and its distribution partners.	Provide a low cost, highly scalable and reliable IT infrastructure platform that helps rather than hinder insurers in the implementation of their business strategies. Encourage and support leading software solution providers to use this platform.

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Oracle Insurance Solutions

Risk and Performance Management	Customer-Centricity	Strategic Cost Management
Enterprise Performance & Compliance	**Customer Insight & Management**	**Operational Excellence**
•Financial management & control •Corporate Governance - Sarbanes-Oxley etc •Corporate Performance Management •Business Analytics •Balanced Scorecard •**Solvency II**	•Insurance specific CRM solutions •Customer analytics including profitability analysis •Single customer view (Customer Data Hub) – strong data quality management tools	•Market-leading policy administration and claims solutions run on Oracle technology •Oracle Fusion Architecture for Insurance

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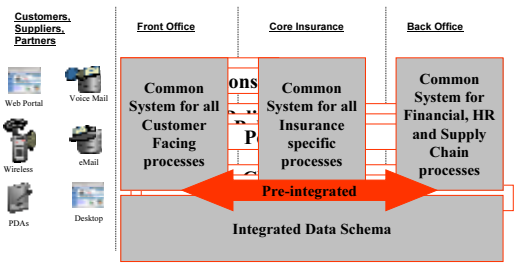
Insurance Architecture – Tomorrow



Separate the business functions and consolidate across business lines

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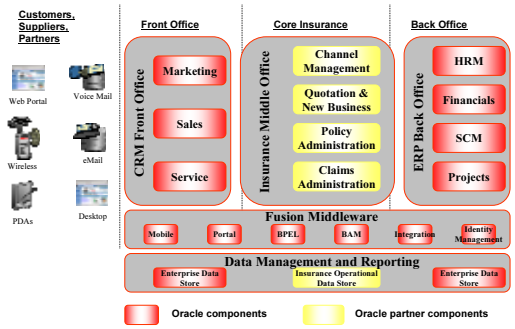
Oracle Fusion Architecture for Insurance



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Solution Overview – Fadata
Life / Non-life

Fadata's INSIS system covers the full insurance cycle.

This includes:

1. Policy underwriting
2. Policy administrations (changes, annexes, cancellations etc).
3. Premium processing (collections, GWP)
4. Claim processing (registration, evaluation, indemnity calculation, payment, recourse recovery)
5. Agent remuneration (Commissions, overrides, bonuses)
6. Reinsurance (Proportional, Non-proportional, Facultative, Fronting, Coinsurance)
7. Actuarial (all types of reserves and related mathematics)
8. Insurance accounting - all transactions related to the insurance activities supported by the system.

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Some Customer Examples

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Oracle is a major supplier to the Insurance Industry

12 of the top 15 Global Life Insurers run Oracle Applications

6 of the top 10 Global Property & Casualty Insurers run Oracle Applications

* Includes Financial, Human Capital and Customer Management Applications.

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Some major Oracle customers

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Oracle's Commitment
Insurance Industry Market Penetration
EE & CIS

PZU Zycie (PL largest life insurer)	**(TECH, EBS, AS – Reports, Portal)**
Allianz Polska (PL)	**(Financials, OFA, GL)**
Commercial Union (PL)	**(OFA, OSA)**
Komercni pojistovna (CZ)	**(BI)**
Ceska pojistovna (CZ)	**(DB)**
QBE (SVK)	**(Financials, GL, Discoverer)**
AEGON (SVK)	**(Financials, GL)**
QBE (HU)	**(Financials, GL)**
AEGON (HU)	**(Financials, GL, Inventory)**
Asirom (RO)	**(DB)**
Omniasig (RO)	**(DB, GL, OFA, Fadata)**
Allianz-Tiriac (RO)	**(DB)**
Asiban (RO)	**(DB, OAS)**
CROATIA Insurance (CRO)	**(DB, RAC, CRM modules)**
Allianz Zagreb (CRO)	**(RAC)**
DZI (BG)	**(DB, iAS, Fadata)**
DSK (BG)	**(DB, iAS, Fadata)**
Bulstrad (BG)	**(DB, iAS, Fadata)**

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Oracle's Key Differentiators

Insurance Industry

HCM, FMS, CRM, and EPM Solutions developed specifically for the Financial Services Industry with the help of 1000+ customer base

Complete and integrated Financial Reporting and Management Reporting application suite designed specifically for Insurance

Functionally robust and most widely adopted suite of applications for profitability and performance management

Integrated CPM (planning, consolidation, costing) BI (reporting, score carding, analytics) and Risk (SOX) solution suites

Insurance specific CRM solution for P&C, Life & Health, Sales and Incentive Compensation

Market Leader in Risk and Compliance solution; ICE is high fit and viewed as very capable by Gartner

High customer satisfaction and reputation as a good business partner

Oracle Fusion will represent the combining of Industry leading functionality and technology of the Oracle EBusiness Suite and Peoplesoft Enterprise solutions

Oracle works with insurance application leaders to provide best in class ERP and insurance application solutions

Hub integration technologies including Financial Services Accounting Hub (FSAH) for better financial control and insight and Customer Data Hub for managing and coordinating key customer information among the many product and analytical systems in the insurance company.

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Solvency II

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Regulatory and economic capital in Solvency I

- the non-life solvency margin is based on the volume of contracts a firm has written, not on the risks inherent in the contracts;
- an undefined level of prudence is required in technical provisions, leading to an arbitrary level of provisioning;
- the benefits of pooling and diversifying risk are only recognised to a very limited extent, and the capital requirement only partially reflects reinsurance and other forms of risk mitigation;
- group companies cannot benefit from the diversification that exists between the risks in their subsidiaries;
- asset risks are not recognised in the capital requirement; instead quantitative restrictions are imposed which can distort portfolio choices.

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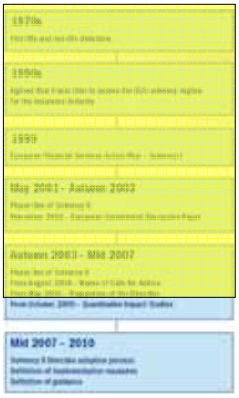
Framework and Timeline

- The four level model of the new EU regulatory framework:

I. Framework principles (directive)
II. Implementing measures "Comitology" procedure
III. Actual Implementation Supervisory Standards
IV. Enforcement



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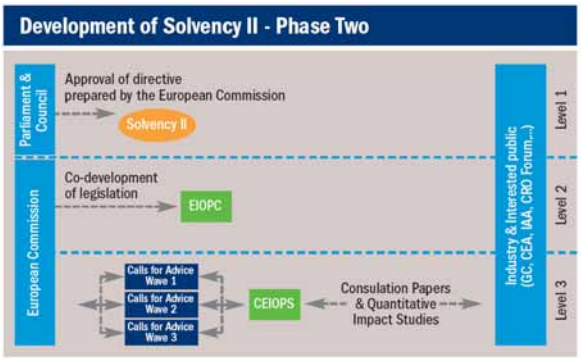
Development of Solvency II - Phase Two



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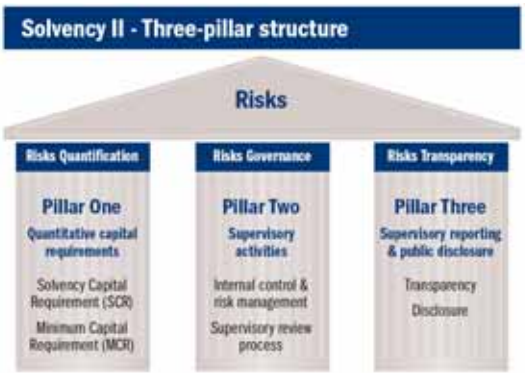
Solvency II - Three-pillar structure



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Pillar One - Quantitative requirements
Solvency II foresees two levels of capital requirements

1. The Minimum Capital Requirement (MCR)
2. The Solvency Capital Requirement (SCR)

- Three possible alternative scenarios:
  - If the available capital is greater than the SCR, the insurance company is sufficiently capitalised
  - If the available capital is between the SCR and the MCR, this is an early warning indicator to the supervisor and insurance company
  - If the available capital is below the MCR, the insurance company is technically insolvent
- MCR by a simple formula SCR by a prescribed standard approach (possibly factor based) or by using an internal risk model.
- SCR includes underwriting, market, credit, liquidity and operational risk.
- Capital requirements from the overall risk exposure of the company, after risk aggregation and diversification

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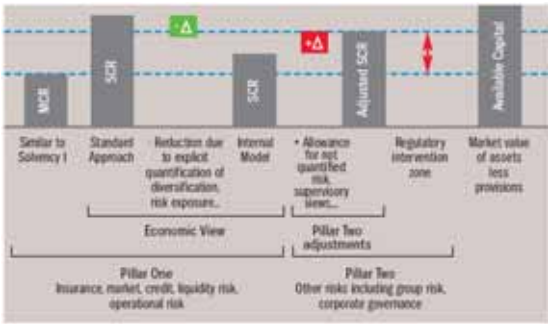
Minimum and Solvency Capital Requirements and the role of internal models



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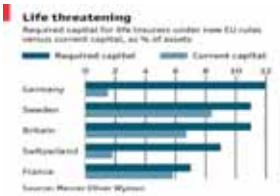
Principal characteristics of Solvency II Capital

- The overall framework for measuring solvency capital is based on the risk of adverse changes to assets and liabilities over one year
- Assets are to be valued at market value and liabilities are to be measured at "best estimate" plus a risk margin
- SCR will be determined on the basis of a ruin probability of 0.5% over one year
- Capital will need to be adequate to cover the best estimate liabilities plus risk margins at the end of the time horizon



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Pillar Two
Supervisory process and internal risk management

- Internal control and risk management processes of the company and the supervision process. Will encourage insurers to develop and implement internal risk management processes. Risk management is defined in a broad sense and includes actuarial reserving principles, accumulation control and asset-liability management.
- By adjusting SCR levels, Pillar Two will make further allowance for risks that may not previously have been adequately quantified, such as group risk and strategic risk.
- Supervisory processes are defined, they rely on MCR and SCR levels will define thresholds for intervention by supervisors.

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Pillar Three
Market transparency and disclosure

- Market transparency and discipline in the insurance industry.
- To allow investors and interested members of the general public to gain better insight into the actual risk and return profile of an insurance company.
- Convergence between Solvency II and accounting developments such as IFRS 4 (disclosures related to insurance contracts), IFRS 7 (disclosures related to financial instruments) and in the longer term, Phase Two of the IASB insurance contracts project.

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Solvency II's potential economic benefits

- Solvency II can reduce both the costs of regulation and the risks to policyholders by
  - strengthening policyholder protection through capital requirements which can provide early warning of deterioration in solvency levels;
  - providing insurance companies freedom to choose their own risk profile, as long as they hold commensurate risk capital;
  - aligning economic and regulatory capital, including appropriate recognition of diversification benefits within firms and between groups' subsidiaries; and
  - stimulating further improvements in the quality of risk management.
- Single EU market
  - more efficient allocation of capital within the EU insurance sector;
  - simplifying access to insurance markets in other Member States and to carry out business on a cross-border basis with greater economies of scale;
  - enhanced competition in national insurance markets;
  - more diversified and innovative insurance products; and
  - more opportunities to pool risk.

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Diversification Benefits

- Level 1 aggregates the stand-alone risks within a single risk factor (e.g. the underwriting risk in each contract of a domestic motor portfolio)
- Level 2 aggregates risk across different risk factors within a single business line (e.g. combining the asset, underwriting and operating risks in non-life or life insurance).
- Level 3 aggregates risk across different business lines giving a composite picture at the companywide level

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Diversification Benefits

(a) financial risks

	Equity	Interest rate	Property
Equity	100%	-25% to 10%	0% to 40%
Interest rate	-25% to 10%	100%	-30% to 10%
Property	0% to 40%	-30% to 10%	100%

(b) financial risks and non-financial risks

	Lapses/surrender	Mortality	Assured lives mortality
Market risk	0% to 75%	-10% to 10%	
Annuitant mortality			-75% to 20%

[a] Deloitte & Touche, 2005.

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Why Solvency II is a topic for IT ?

- Important processes for all risk models
  - Data collection, initial risk assessment, transparency and implementability of business decisions, risk calculation, stress-testing
- Volume of data requirements
  - Increase of information concerning multi-year insurance policies
- Analysis in Solvency II
  - Based on scenarios and access to historical data
- Different risk models
  - Transparent and flexibility
- Risk data for internal and external reporting authorities
  - Prepared, analysed and evaluated on a cross-category basis
- Changes in long-term risk profiles
- Integration with existing risk-management systems
- IAS requirements

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Solvency II Solution
The Reveleus Framework

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As soon as the Solvency II directive will be finalized it will be implemented in the Reveleus framework

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Oracle/Reveleus

- Oracle acquired 51 % stake in i-flex solutions
- Combined leadership of Oracle and i-flex to create a cutting edge approach to the challenges facing the banking and financial services industry
  - Complementary solutions that preserve and enhance existing customer investments with an integrated product roadmap
  - Next generation of i-flex's banking solution optimized for the "Oracle Fusion" infrastructure using open standards under development
- Oracle signed a reseller agreement for the Basel II Solution with Reveleus

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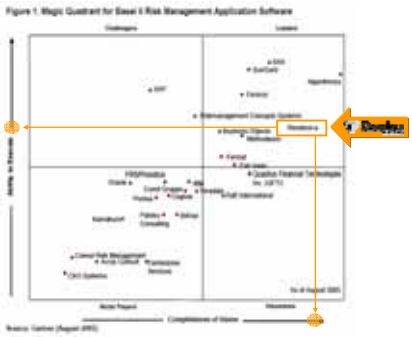
Gartner Study



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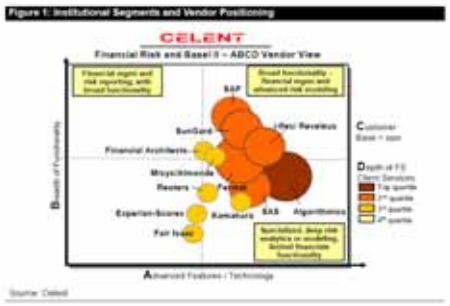
Celent's View – February 2006



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Key Messages

- End to end Solution
- Accelerate Compliance Efforts
  - Add the Data and Go with Pre-Built Rules Framework
  - Embrace Change Easily
- Flexible
  - Confidently Manage Home-Host Issues
  - Concurrently Compute Capital Using Multiple Approaches
  - Adopt Multiple Approaches in One Application
- Fully Transparent and Auditable
  - Break the "black box" Approach
- Referencable

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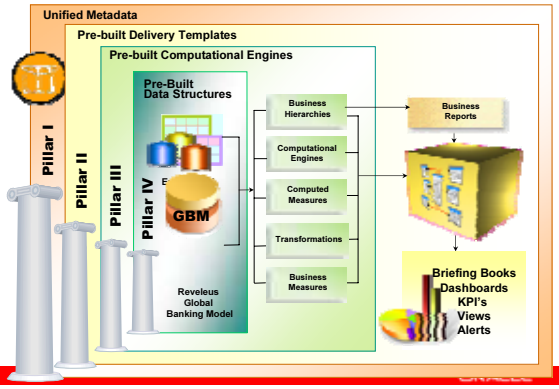
Architectural Components



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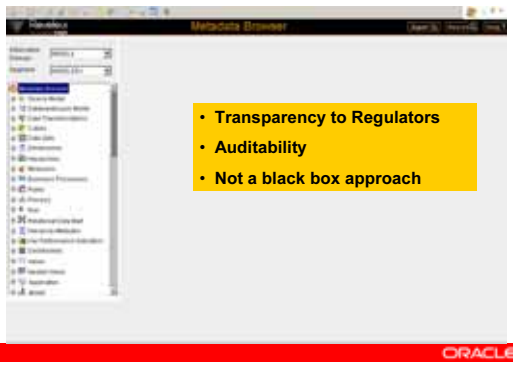
Reveleus Metadata Browser



- Transparency to Regulators
- Auditability
- Not a black box approach

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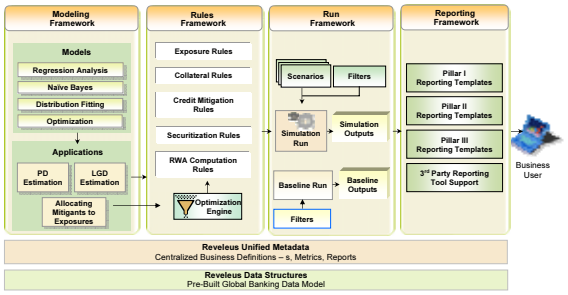
Reveleus Basel II Solution Components



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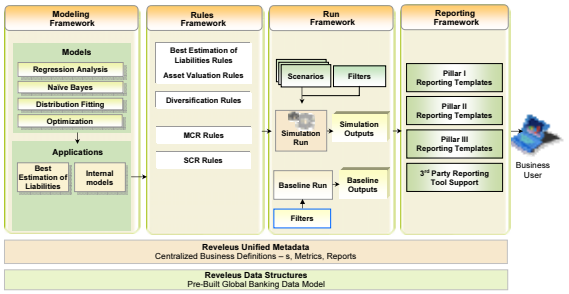
Reveleus Solvency II Solution Components



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