

Recently a new generation of life assurance product has emerged which offers individual policyholders the following benefits:

- ✓ Selection of any protection percentage level and any term
- ✓ A personalised match based on risk appetite
- ✓ A tailored asset mix based on a pre-qualified menu of fund managers
- ✓ A guaranteed investment return
- ✓ This flexibility, apart from being attractive to the investor, also creates an important advisory role for the client advisor to introduce, explain, oversee and review.

This product is known as Individual Constant Proportion Portfolio Insurance or iCPPI.

In essence iCPPI offers protection against a chosen percentage of an individual's investment (say 80%) so that in falling markets, the strategy allocates more towards the safer assets, while in improving markets, the strategy allocates more to the risky assets. By taking this approach the iCPPI product undertakes to best manage this trade-off between returns from risky assets and the cost of protecting the individual policyholders investment.

In addition, there is typically a good choice of best-of-breed investment managers' funds and bond providers for the investor and their advisor to choose from.



## Solvency II & iCPPI

To maximize capital efficiencies under solvency II life companies typically find that using an external specialist investment bank to provide the guarantee best places them to optimise their SCR (Solvency Capital Ratio).

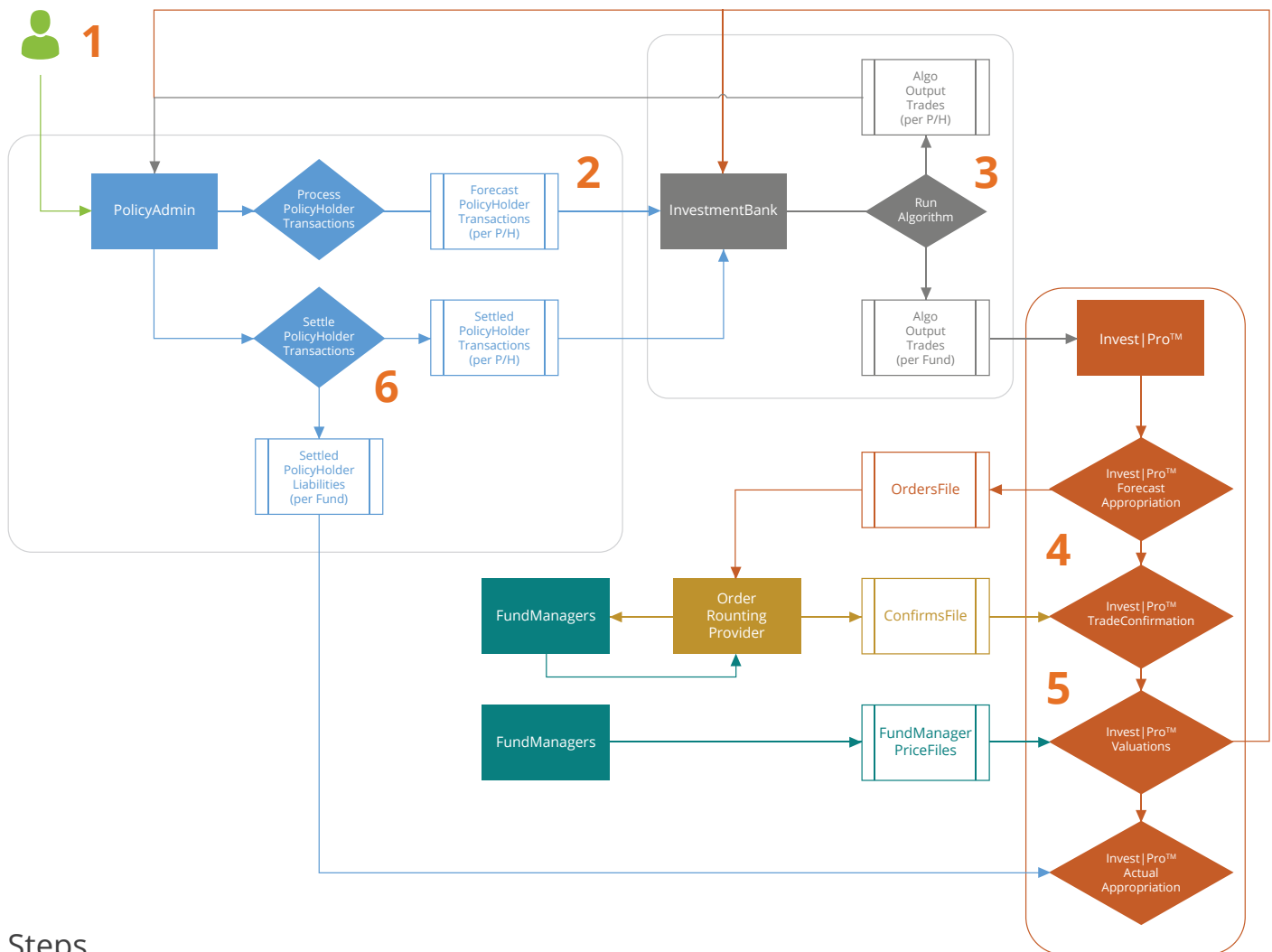
## Overcoming Investment Administration Challenges with iCPPI Product Offerings

This product is more difficult to administer than most others mainly because daily records and trades have to be processed and maintained at individual policyholder level and because the guarantee is offered at and administered at the individual policyholder level.

## Case Study and overview of iCPPI processing involving six parties

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| <ul style="list-style-type: none"> <li>• Invest Pro™ from Financial Risk Solutions Ltd. (FRS)</li> <li>• A global life company</li> </ul> | <ul style="list-style-type: none"> <li>• A global investment bank</li> <li>• A policy administration outsourcer</li> </ul> | <ul style="list-style-type: none"> <li>• Bond Investment Manager</li> <li>• Equity Investment Manager</li> </ul> |
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The architecture and schema below outlines the flows in a live client situation. This final solution was agreed and integrated by the life assurance company in conjunction with the five other parties which in this case is the investment bank providing the guarantee, the outsourced policy administration system provider, the bond investment manager, the equity investment manager and Financial Risk Solutions as the provider of the Invest|Pro™ solution.



## Steps

- 1. Policy Holder (P/H) sends instruction to PolicyAdmin**
- 2. PolicyAdmin collects instructions and sends on to the investment bank who is providing the guarantee and managing the algorithms**
- 3. The investment bank run the algorithms**
  - Investment bank sends individual P/H trades to PolicyAdmin
  - Investment bank sends aggregate fund movements to Invest | Pro™ FundAdmin
- 4. FundAdmin generate deals and forecast appropriations on Invest | Pro™**
  - Deals/orders sent to 'Automated Order Routing'
  - 'Automated Order Routing' confirms with Fund Managers
  - 'Automated Order Routing' sends confirmations to Invest | Pro™ FundAdmin
- 5. Fund Managers send daily prices to Invest | Pro™ FundAdmin**
  - FundAdmin runs daily internal fund valuation and calculates unit prices on Invest | Pro™
  - Unit prices are sent to the investment bank and PolicyAdmin
- 6. PolicyAdmin settles P/H transactions (based on Unit Prices from 5)**
  - Settled Individual transactions are sent to the investment bank
  - Settled aggregate policyholder liabilities are sent to FundAdmin Invest | Pro™

This process repeats itself daily in a robustly scalable environment.

## About Financial Risk Solutions Ltd (FRS)

FRS license software for unit pricing/NAV calculation, asset/liability unit matching, Solvency II asset QRT's and compliance oversight to the life assurance industry. FRS's Invest|Pro™ and Invest|GRC™ is used by thirty life companies and five outsourcers.