



Insurance ALM from RBS

*With deadlines for Solvency II approvals approaching, central clearing looming and an evolving retirement market, insurers face a difficult year ahead. **RBS** offers expertise and a range of solutions to help firms meet the demands of the new world*

RBS IS CONSISTENTLY ranked as the leading market-maker for nominal and inflation-linked bonds, as well as in the interest rate and inflation derivatives markets. We are delighted to be recognised as Best Bank – Rates and Inflation at the *Insurance Risk Awards 2014*.

A significant number of large clients come to RBS for help in constructing suitable, pragmatic hedge portfolios on the back of our structuring work or as a liquidity provider. The breadth of the RBS franchise gives us access to counterparties across industries, which provides unparalleled opportunities to recycle large volumes of risk efficiently and allows us to execute trades smoothly, with minimal market disruption. As a reflection of our credentials, RBS is regularly selected to perform the hedge manager duties for both nominal and linker syndications by the UK Debt Management Office.

In the inflation markets, relationships with utility firms ensure RBS is ideally placed to help lead the development of a Consumer Price Index (CPI) market, and the past year saw RBS trade a number of CPI-linked swaps. The liquidity RBS provides will benefit our liability-driven investment counterparties and insurance companies wanting accurate pricing for bulk annuity deals.

Competitive pricing means our clients also see RBS as a valued market-maker and counterparty for limited price inflation (LPI). RBS is in regular dialogue with clients to improve their understanding of the supply and demand dynamics of the LPI market. We can provide pricing models, insight and training that enables firms to calibrate their prices to current market data. It is not just in the UK that our inflation desk is strong: RBS is consistently ranked one of the highest-performing houses in European inflation markets and is a key player globally.

Hedging guarantees and managing capital requirements

Insurance clients are a vital part of RBS's business and we pride ourselves on our strong relationships with insurers and our understanding of their risk management objectives. Clients use RBS to help reduce the risk capital held against rates guarantees such as guaranteed annuity options and guaranteed minimum pensions, including use of our proprietary methodology for dealing with interest rate-dependent take-up rates.

RBS helps annuity funds minimise their interest rate and inflation exposures by using swap overlays to help match duration and cash-flow profiles. The requirement to match asset and liability cash flows comes under greater scrutiny under Solvency II's matching adjustment regime – will firms need to match their LPI liabilities directly, for example? Using swaps to reshape cash-flow profiles will be a vital part of annuity firms' fund management. Our core competencies in this space, along with innovative developments such as the MicroRates platform – a digital interface for automation of interest rate hedging – enables RBS to help firms cope in the new world.

Challenging times ahead

The coming year will be a busy period for insurers, as regulatory developments and the evolution of the retirement market create unwelcome uncertainty for firms.

With deadlines approaching for Solvency II approvals, RBS's work restructuring equity-release mortgages and other assets that do not automatically meet matching adjustment requirements will be vital for clients that want to continue using these assets to write competitive annuity business. With-profit funds face another challenge when their benchmark discount rate changes, which will expose guarantees backed by government bonds to variations in the swap spread. RBS has worked with a number of clients as they begin updating their hedging portfolios, with many firms expected to follow suit next year.

RBS's conditional facilities can help manage demands for liquid collateral when rates begin to rise, helping clients to cope with the challenges of central clearing. Our experience in structured products and overseas retirement markets gives us a unique position from which to help shape capital-efficient product development in the evolving UK market.

Our regulatory, quantitative, actuarial and markets experts are at the forefront of developments. RBS looks forward to working with you as we continue to develop appropriate solutions for the challenges the coming year will present.

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