News release

Swiss Re

Swiss Re's Insurance Review and Outlook: in 2004 non-life industry to benefit from improvements; life insurance industry continues to recover: optimism for insurance stocks

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London, 10 December 2003 - Swiss Re held its annual review and outlook for Europe's insurance markets in London today. For non-life insurers, 2004 will bring positive opportunities following an increase in premium volume and substantial improvements in rates in the current year. The life sector will see a recovery in 2004, but at a slower pace than non-life.

Life insurance continues to recover
John Fitzpatrick, Head of Swiss Re's Life & Health Business Group, opened the event by highlighting the need for the life insurance industry, regulators and consumers all to play a role in ensuring a sustainable life insurance system: "In a number of major European markets the number of life companies has declined in recent years. While the EU industry strives to emerge from a testing period of capital erosion, it must also deal with a variety of regulatory changes. These create uncertainties for established companies and new entrants. Meanwhile, among the consumer base there is still an unfulfilled need for protection cover."

Mr Fitzpatrick referred to research undertaken by Swiss Re Life & Health in the UK in 2002 which suggests that an extra GBP 2,000 billion of life insurance cover is needed to plug a 'Life Protection Gap': "The challenge for the industry is turning consumer need into consumer demand. Life insurers need to rebuild trust with the public and to deliver sustainable, affordable and understandable products." Stressing that consumers need to play a part in ensuring a viable life insurance market, Mr Fitzpatrick commented: "Whilst mortality trends overall continue to improve, not only life insurers but consumers, too, must be alert to emerging risks such as obesity which, unless addressed, could reverse the positive mortality trend in the longer term," he said.

Positive opportunities for non-life insurers will continue in 2004
Thomas Hess, Swiss Re's Chief Economist, noted how non-life premium volume continued to increase in 2003, following strong growth in 2002: "In 2003 the non-life sector benefited from substantial improvements in rates, particularly in industrial lines business," he commented.

Despite this positive development, Mr Hess identified a number of factors that had weakened insurers' financial results in 2003: "To a large extent, the price increases achieved this year served to compensate for previous under-pricing. Many insurers also appear to have under-reserved their liability business in the second half of the 1990s. A further reason for the lacklustre results is that accounting rules in some countries permit capital losses to be deferred," he explained.

For 2004, Mr Hess expected these negative effects to be less pronounced, allowing a larger proportion of 2003's positive underwriting developments to show up in insurers' results. He predicted further improvements for the non-life industry over the coming year, both in underwriting and in investment results. However, he warned, price increases will slow down next year compared with 2003, meaning that premium growth will not be as strong as experienced in the current year.

Improvements in life insurance will take longer
Whilst life premiums continued to grow in 2003, Mr Hess said that the life industry still faces challenging times: "Recent improvements in investment conditions and successful efforts to cut costs have brought improvements, but it will still take some time for life insurers to return to their former profitability levels. Unlike P&C insurers, who can turn their book around in few years and change conditions if necessary, many life insurance companies - particularly in Germany, Switzerland and the UK - are committed to longer-term guarantees," he commented.

Mr Hess was confident that life company defaults should largely be avoidable, but said that some life insurers still have very weak balance sheets, meaning that an element of consolidation will be inevitable, particularly amongst smaller players.

Optimism for insurance stocks after a troubled 2003
William Hawkins, Insurance Analyst at Fox-Pitt, Kelton, Swiss Re's investment bank, commented on conditions for insurance stocks as 2003 draws to a close: "The sector has managed to rescue itself thanks to a rally in equity markets and a rise in bond yields since March, action by management and capital raising. The pricing cycle is holding firmer than feared in the middle of the year. However, the industry's solvency remains fragile and headline earnings remain geared to the risks of the past - 2003 suffered a hangover of the issues that we thought were cleared up in 2002."

Looking ahead to 2004, Mr Hawkins was cautiously optimistic, assuming ongoing stability in the macroeconomic environment and continued management discipline. However, he warned that many valuations already build in substantial expectations for recovery, meaning that insurance stocks could be punished heavily for any disappointments.

Notes to editors

Swiss Re
Swiss Re is a leading reinsurer and the world's largest life and health reinsurer. The company is global, operating from 70 offices in 30 countries. Since its foundation in 1863, Swiss Re has been in the reinsurance business. Swiss Re has three business groups: Property & Casualty, Life & Health and Financial Services. Swiss Re offers a wide range of traditional reinsurance products and related services, which are complemented by insurance-based corporate finance solutions and supplementary services. Swiss Re is rated "AA" by Standard & Poor's, "Aa1" by Moody's and "A+" by A.M. Best.

For further information
More information about this event and a sister event taking place in New York on 10 December 2003 is available on Swiss Re's web site www.swissre.com