

Swiss Re



Investors' Day 2009

Cycle management & portfolio steering

Rueschlikon

9 December 2009

Swiss Re



Agenda

- **Cycle management and portfolio steering**

Brian Gray, Chief Underwriting Officer

- **Re/insurance risk transformation**

Christian Mumenthaler, Head of Life & Health

- **Questions & answers**

Key messages

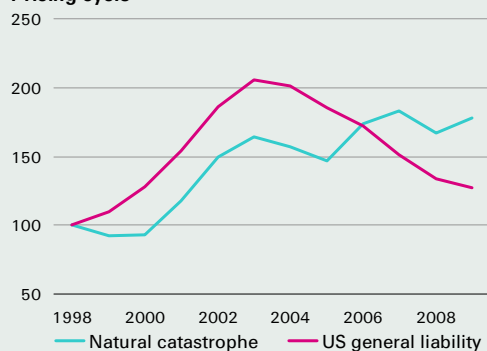
- Swiss Re captures value from market inefficiencies through deeply embedded cycle management and portfolio steering
- Our mindset, tools and skills enable us to optimize our portfolio through risk transformation
- Swiss Re's positive underwriting track record is driven by a portfolio steering and risk transformation approach that delivers results

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Cycle management & portfolio steering Why bother?

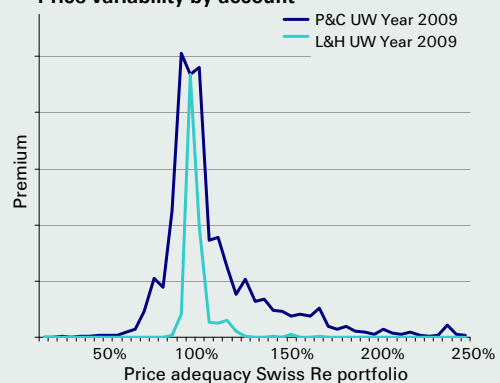
Pricing cycle



- Pricing cycles can be dramatic

Source: Camares, Council of Insurance Agents & Brokers

Price variability by account

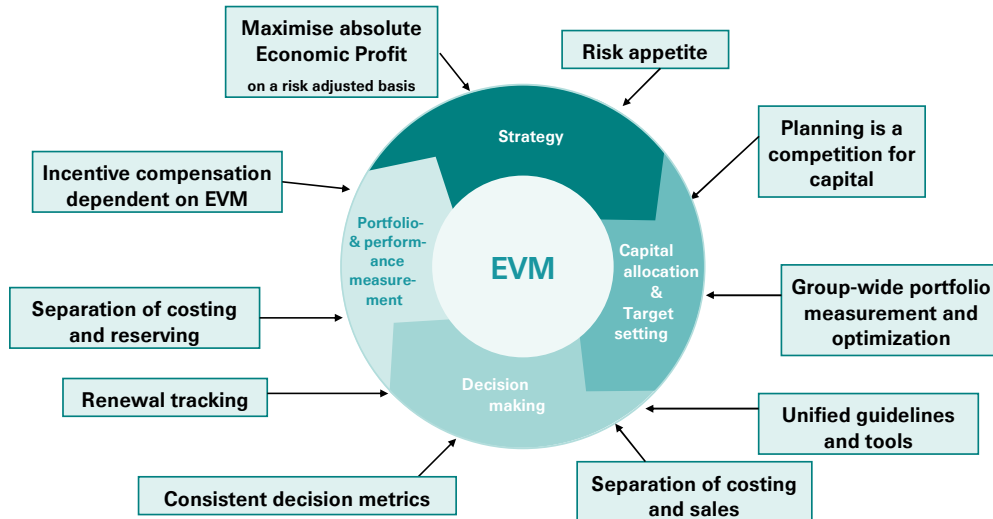


- There is no single market clearing price

→ Re/insurance market inefficiencies create *significant* opportunities for outperformance

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Cornerstones of Swiss Re's cycle management & portfolio steering



→ Cycle and portfolio steering is consistently and deeply embedded across the entire firm

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Economic Value Management (EVM)

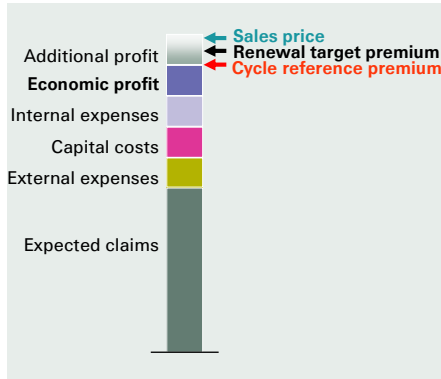
- A consistent economic framework for return / risk decisions across the firm
 - discounted cashflow
 - underwriting year
 - risk adjusted (risk, rating agency, regulatory capitals)
- Comparability across portfolios
- Operational for P&C, L&H, including risk transformation, and Asset Management

→ EVM is fully embedded in front-line processes and across the strategy and performance cycle



Standardised decision metrics

On a deal-by-deal basis ...



3.1 Discounted Price Components for SR Share

	Premium	Structured Loss	Internal Costs	Cost of Capital pre-tax	Economic Profit post-tax Cycle Ref	Sold
Motor/GTPL XL 1.	1 334 940	982 553	107 313	129 925	74 783	89 816
Motor/GTPL XL 2.	121 358	40 948	11 842	8 087	4 655	47 175
Motor/GTPL XL 3.	40 600	7 483	5 295	2 161	1 244	20 015
Motor	20 300	3 520	4 089	1 016	585	9 106
Total	1 517 198	1 034 504	128 539	141 189	81 267	166 112

3.2 EVM Capital for SR Share

	EVM Capital	Economic Return on Capital Sold	Profit Margin Cycle Ref	Long Term Sold Rate Adequacy
Motor/GTPL XL 1.	2 018 983	13.08%	3.70%	4.45%
Motor/GTPL XL 2.	125 672	46.17%	3.70%	37.54%
Motor/GTPL XL 3.	33 585	68.23%	3.70%	59.59%
Motor	15 796	66.28%	3.70%	57.65%
Total	2 194 036	16.20%	3.70%	7.57%

- Consistent decision metrics for all units and lines of business
- Clear transparency on profitability at the point of sale



Standardised decision metrics

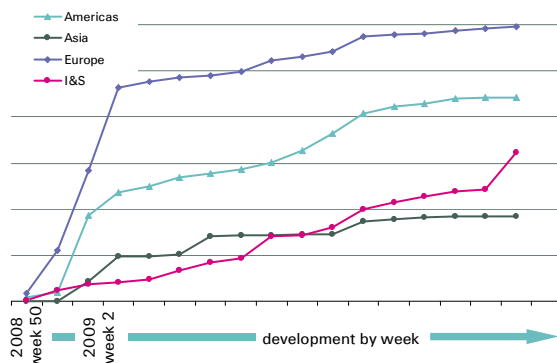
... and aggregated to a portfolio steering view

L&H business development report

Division	(X)
Carrier	(All)
Top Cedents only	(All)
Top Cedent Group Name	(All)
Line of Business	(All)
Policy Basis (Group-Individual)	(All)
Reins_Type of Business	(All)
Inception Month	(All)
Main Line of Business	Life

Data	Inception year	2008	2009 est.
EVM Capital		61 212 226	72 650 607
EVM Risk Capital		44 515 510	52 927 157
EVM Regulatory Capital		108 103 416	124 768 309
EVM Rating Agency Capital		31 017 753	40 256 354
Annualised First Year Premium Nominal		6 508 646	1 440 291
Premium Realised PV		113 840 096	117 721 321
External Expense Realised PV		4 664 459	3 193 623
Expected Loss Discounted		89 930 167	98 886 635
Internal Expense Realised PV		7 742 462	3 013 425
Economic Return pre tax		11 503 007	12 627 638
Capital Cost		1 604 071	3 139 312
Economic Profit pre tax		9 898 937	9 488 326
Capital Cost post tax		2 448 489	2 855 610
Basic Tax		3 515 984	3 980 106
Double Taxation Cost		411 781	436 848
Economic Profit post tax		5 126 753	5 355 073
Economic Return on Capital		12.91%	11.69%
EVM Profit Margin		8.38%	7.37%

P&C business development report



- Aggregated data with drill-downs provides transparency across the Group portfolio
- Weekly renewal views allow rapid steering

- Active steering is operational and embedded in global processes

Point of sale decisions

Separation of sales and underwriting

Client Markets

- Understands clients' needs and assembles the best product mix
- Defines negotiation approach and negotiates sales price based on standard metrics

→ Measured on absolute profit generated by selling above costed price

Products Underwriting

- Understands risk factors and structures deal
- Performs independent costing
- Signs-off deal capacity

→ Measured on absolute profit and accuracy of costing

→ Independence of Products and Client Markets and aligned performance measures enable accuracy at point of sale

Planning is a competition for capital

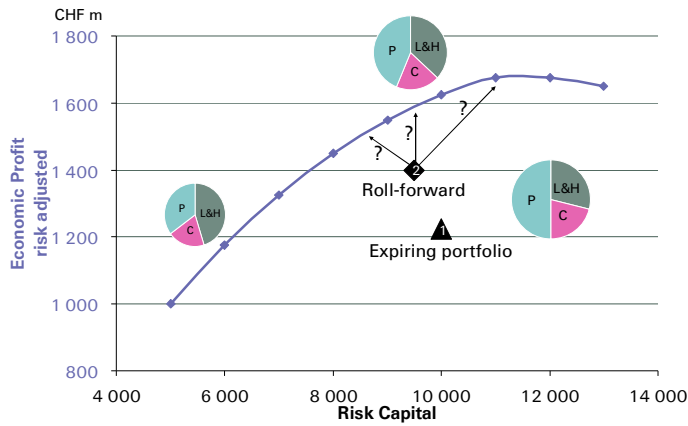
Rigorous annual optimization across lines and regions

Ingredients

- "Roll-forward" of the expiring portfolio (e.g. expected impact of GDP growth, premium rates, inflation)
- Elasticity (price vs. volume) trade-offs
- Growth opportunities input on deals and large projects
- Constraints (risk appetite, capital, GAAP earnings profile)

- **Optimization** defines the business mix that maximises total Economic Profit subject to constraints (e.g. natural catastrophe capacity)
- **Steering output:** which portfolios should be grown/reduced (competition for capital)

Business planning Group-wide optimization

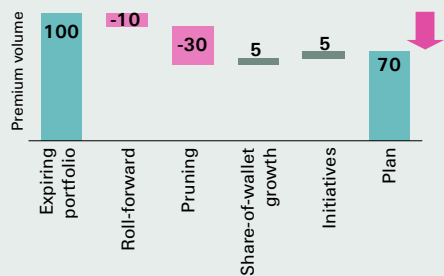


1. Starting point: expiring portfolio
2. Roll-forward: future expectations of expiring portfolio if renewed
3. Portfolio choices considered (subject to constraints) → optimal portfolio

→ Economic Profit maximisation, subject to constraints, optimizes the portfolio and serves as a starting point for the Business Plan

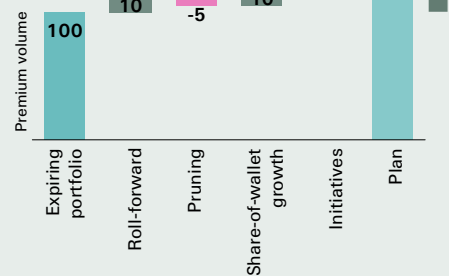
Portfolio planning Steering unit optimization

Illustrative example:
 Credit & Surety proportional



Pessimistic rate forecasts
 → more pruning and fewer growth opportunities

Illustrative example:
 European country non-proportional Property



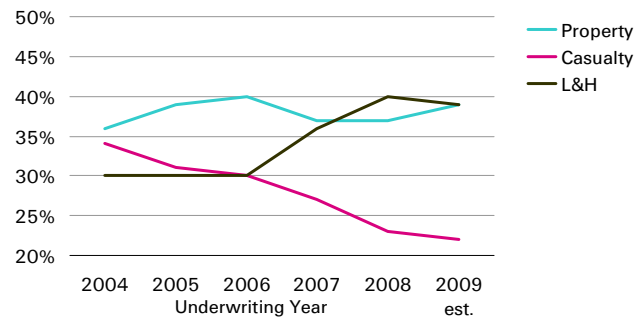
Optimistic rate forecasts
 → less pruning, more growth opportunities

→ Steering unit optimization is used for planning discussions and for Products Underwriting's renewal steering messages

Portfolio steering actions

Shifting away from underpriced Casualty business

Premium¹ weighting



- Lower prices, lower yields, potential for future inflation create risk of Casualty "bubble"
- Swiss Re has steered away from Casualty in recent years

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¹ Net present value of premium written

Portfolio steering actions

US Level Term Coinsurance (XXX)

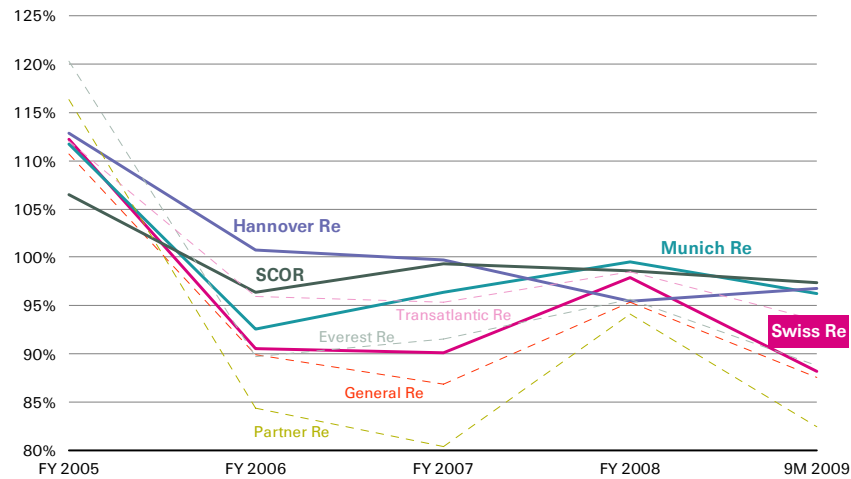
- Lower investment yields and higher collateral costs have changed the economics of US XXX business
- Swiss Re has steered the portfolio to reduce new XXX business and therefore, yearly renewable term (YRT) business is a higher proportion of new business volume
- This reduced volumes, but increased economic profit margins
- The market is responding with higher original prices and some product redesigns

- Capital is actively steered across the entire Group portfolio, including Life & Health

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Consistent strength in underwriting Combined ratio comparison



→ Active capital allocation and cycle management delivers results

Source: Company reports and Swiss Re Economic Research & Consulting
 Combined ratios as published, Swiss Re incl. Credit and excl. FG Reinsurance

Cycle management and portfolio steering Summary

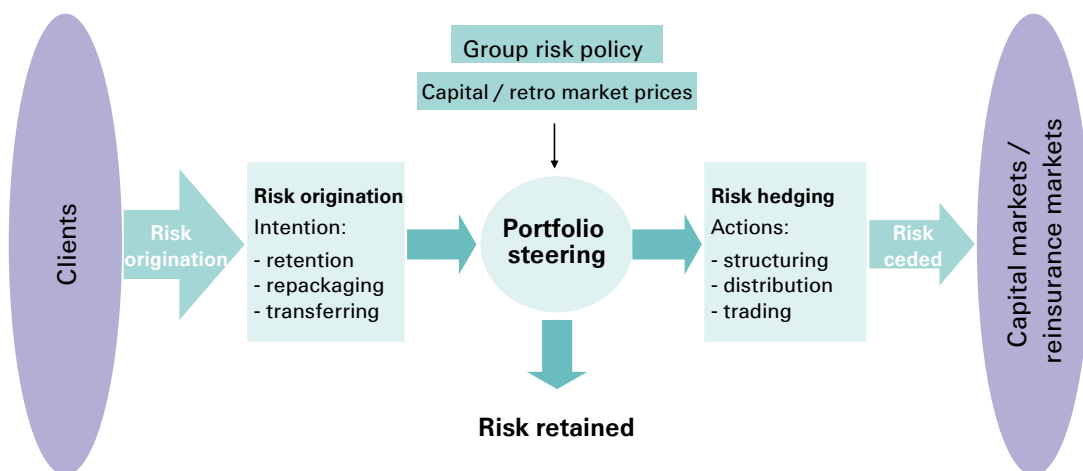
- The market is inefficient, creating the potential for outperformance
- Swiss Re's approach is founded on
 - Clarity of objective: maximising absolute Economic Profit
 - A consistent Economic Value Management framework across the planning / performance cycle
 - Top-down portfolio measurement and optimization
 - Separation of costing from the sales price decision
 - Consistent point of sale decision metrics, deal-level steering and performance measurement

→ Swiss Re's portfolio steering is not a concept but an operationally embedded reality

Agenda

- **Cycle management and portfolio steering**
 Brian Gray, Chief Underwriting Officer
- **Re/insurance risk transformation**
 Christian Mumenthaler, Head of Life & Health
- **Questions & answers**

Risk transformation plays a central role within portfolio steering



Re/insurance risk transformation addresses many needs

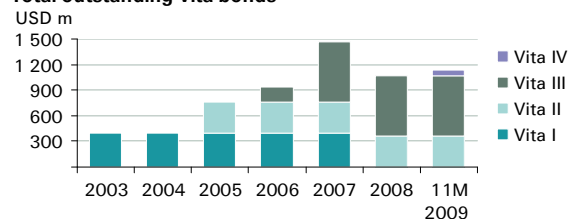
Primary motivation	Examples	
	Property & Casualty	Life & Health
Peak risk management	Nat cat	Extreme mortality
Earnings volatility management	Nat cat Property single risk	
Capital efficiency	Nat cat	EV securitisations
Cycle management	BH quota share	
Arbitrage	Nat cat	

→ Re/insurance hedging provides solutions for both Swiss Re and our clients

Peak risk management L&H: Extreme mortality

- Through our L&H business we have an accumulation of mortality peak risk
- Our Vita programme provides protection for extreme mortality risk
 - Transfer knowledge from development of P&C ILS market both in terms of structuring expertise and building a strong investor base
- Vita programme has evolved over the past 6 years to improve its effectiveness
 - Vita I started with a 1-year measurement period, 5-year duration bond
 - Vita II introduced a 2-year measurement period, 5-year duration bond
 - Vita III introduced Euro and Dollar bonds and also 4- and 5-year duration bonds
 - Vita IV introduced a multi-trigger approach and is tailored to each covered country

Total outstanding Vita bonds

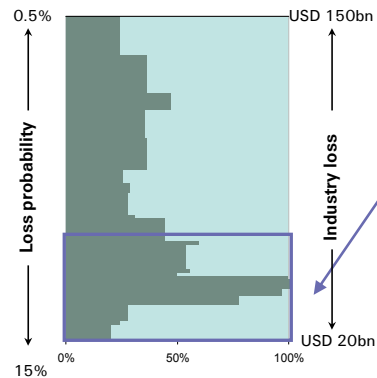


Earnings volatility management

P&C: Hurricanes North America

Example: Hurricanes North America

■ Hedging¹ ■ Estimated loss for Swiss Re



- Goal is to reduce earnings volatility not only for an extremely rare event, but also for more frequent events
- Apart from financial market risks, nat cats are the biggest source of volatility in this category
- Swiss Re manages its nat cat earnings volatility by looking at the net annual aggregate nat cat loss distribution, and measuring losses likely to be exceeded in one year out of five (80% VaR)

→ A large variety of hedging techniques (ILS, derivatives, sidecars, retro) are applied to manage earnings volatility

¹ Expected pattern as at 1 July 2009 for the first event only; data assumes no basis risk between inwards indemnity covers and outwards hedging, which is partially based on parametric or market loss triggers

Capital efficiency

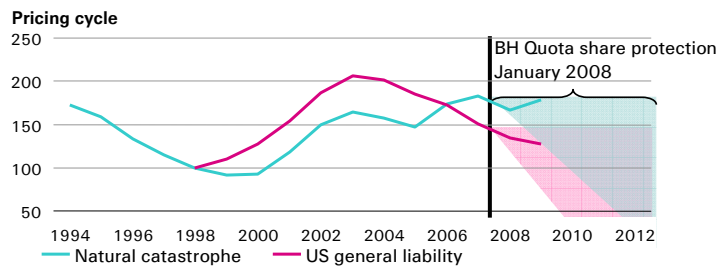
L&H: EV securitisations

- EV securitisations help to manage capital more efficiently
 - Transforming insurance risk into tradable securities
 - Monetising part of intangible assets (PVFP) into cash and relief of associated capital
- EV securitisations transfer numerous risks to investors and are closer to a whole business securitisation
- To date, Swiss Re has closed 2 EV transactions, raising USD 0.6bn, one of which is still outstanding ('ALPS')

Cycle management

P&C: Berkshire Hathaway quota share

- Swiss Re seeks to reduce the impact of cyclicity using multi-year protection bought close to the peak of the cycle
- This enabled us to reduce our net exposure in P&C, but grow more rapidly if prices improves
- Transaction was attractive due to 14% commission on premiums ceded

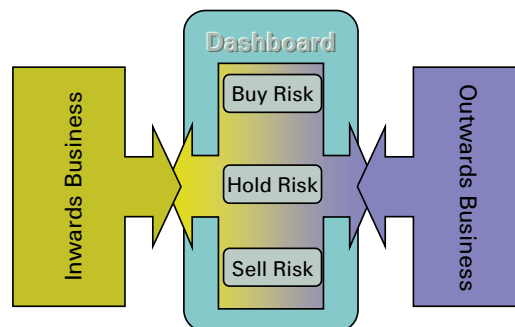


→ We seek to maximise the absolute value of net economic profit over the cycle

Arbitrage

P&C: Nat cat arbitrage

- Reinsurance, retro and capital markets are not fully efficient and transparent, hence follow their own rules
- We monitor distribution of incoming price adequacy and price ranges asked for by the retro and capital markets due to our extensive market data
- If there are positive gaps between these prices, ceding the risk is attractive



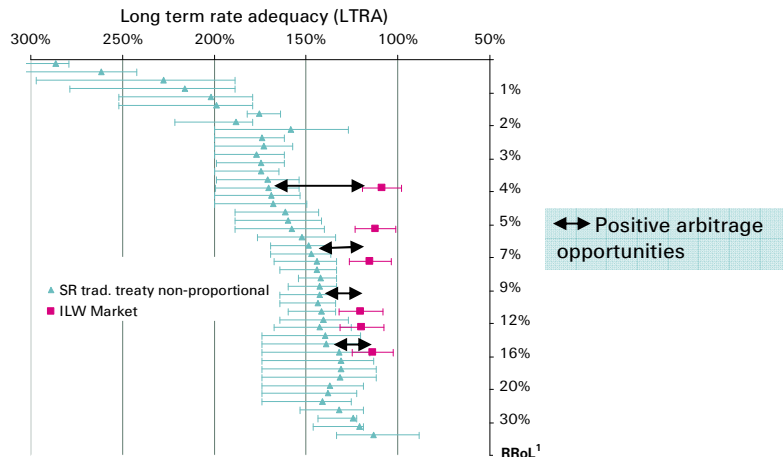
→ Swiss Re is well positioned to take advantage of opportunities

Our dashboard

Link and monitor buying and selling risk activities

Live dashboard – Example: Hurricanes North Atlantic

- Real-time tracking of incoming nat cat re-insurance book by risk rate on line
- Real-time tracking of all nat cat capital market transactions in same format
- Serves as basis for us to continuously optimize capital allocation and risk-return profile of portfolio

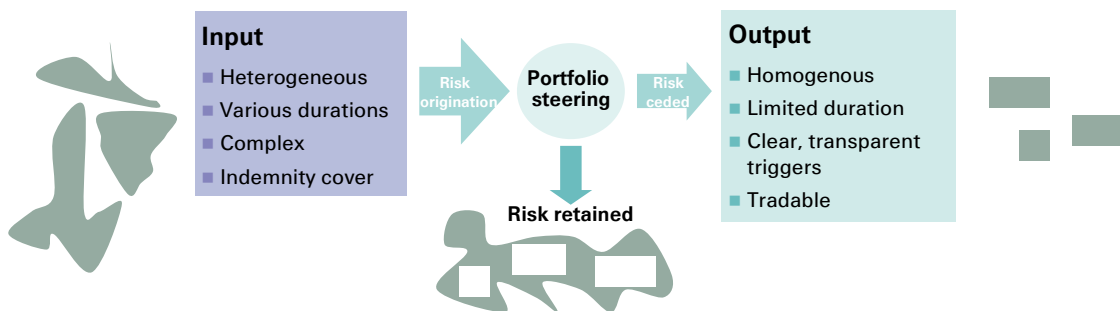


→ Application of state-of-the-art technology to optimize portfolio

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¹ RRoL = risk rate on line = expected loss divided by granted limit
 Illustrative

Competitive advantage through risk transformation



- Swiss Re's strong origination platform, appetite for basis and execution risks, and ability to structure risks into innovative products results in a leading market position
- Managing complexity, basis risk and tail risk are part of our competitive advantage and can not be easily replicated
- Model operational for nat cats today, potential to develop in other areas

→ Risk transformation is a foundation of our own cycle management and portfolio steering

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Key messages

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- Swiss Re's positive underwriting track record is driven by a portfolio steering and risk transformation approach that delivers results

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Corporate calendar & contacts

Corporate calendar

18 February 2010	Annual results 2009	Zurich
07 April 2010	146th Ordinary Annual General Meeting	Zurich
06 May 2010	First quarter 2010 results	Conference call
05 August 2010	Second quarter 2010 results	Conference call
04 November 2010	Third quarter 2010 results	Conference call

Investor Relations contacts

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Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re's actual results, performance, achievements or prospects to be materially different from any future results, performance, achievements or prospects expressed or implied by such statements. Such factors include, among others:

- further instability affecting the global financial system and developments related thereto;
- changes in global economic conditions;
- Swiss Re's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls under derivative contracts due to actual or perceived deterioration of Swiss Re's financial strength;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on Swiss Re's investment assets;
- changes in Swiss Re's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on Swiss Re's balance sheet equivalent to its mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more companies in the Group;
- the cyclical nature of the reinsurance industry;
- uncertainties in estimating reserves;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality and morbidity experience;
- policy renewal and lapse rates;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting Swiss Re or its ceding companies, and regulatory or legal actions;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions, including, in the case of acquisitions, issues arising in connection with integrating acquired operations;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

These factors are not exhaustive. Swiss Re operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. Swiss Re undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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