News release

Swiss Re

New Swiss Re *sigma* study: Insurance company ratings

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Zurich, 21 August 2003 — Insurance company ratings are assessments of the financial soundness and creditworthiness of insurers and provide valuable information to the marketplace. The latest *sigma* study, "Insurance company ratings", examines how rating firms evaluate insurers and the accuracy and implications of these ratings.

To be rated interactively, insurers pay annual fees ranging from USD 5000 to over USD 1 million. One type of rating, the *financial strength rating* (FSR), is an opinion on an insurer's ability to pay senior policyholder claims and obligations punctually. Another type, the *debt rating*, pertains to a specific security that a firm has issued.

Of the more than 100 rating firms in the world, just four – A.M. Best, Fitch Ratings, Moody's Investors Service, and Standard & Poor's (S&P) – account for an estimated 98% of industry revenues. Each of these firms has built a reputation by providing ratings for nearly a century. A.M. Best is focused exclusively on the insurance sector. The other three are larger and rate a wide range of debt issuers. The study estimates that in the business of rating insurers, A.M. Best generates the most revenue, followed by S&P, Moody's, and Fitch.

Ratings are useful risk barometers. Bond yields are highly correlated with ratings because ratings are accurate predictors of default. In addition, industry watchers have high regard for, and make extensive use of, the written industry analyses that rating firms produce.

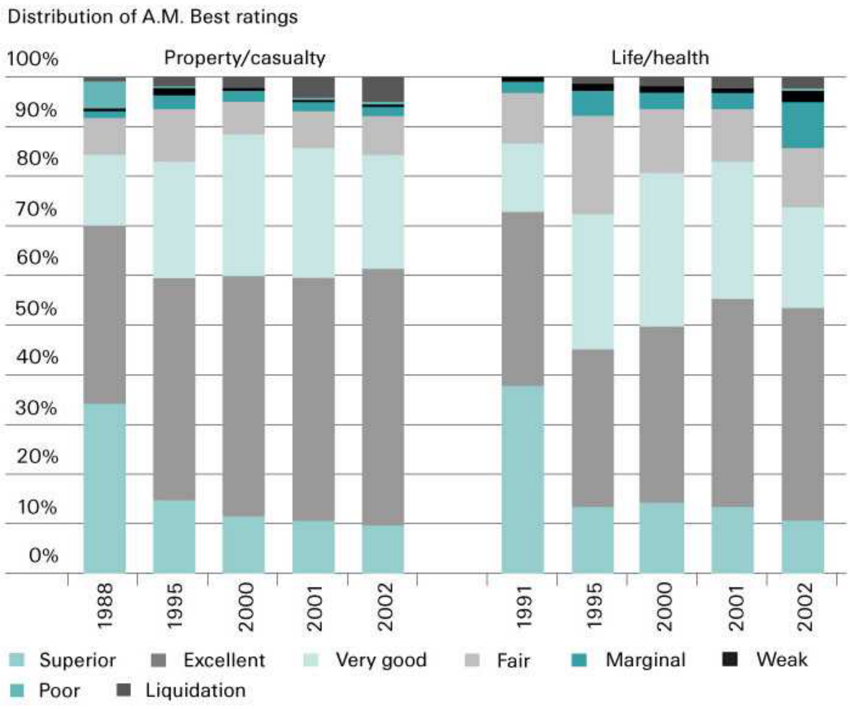
Some concerns about the rating process.

Market participants feel that the rating process is reasonably focused, fair, and balanced. Nonetheless, some have raised several concerns:

- Rating firms appear to have followed increasingly stringent standards in the 1990s (see figure), pressuring insurers to hold excess capital to maintain their existing ratings.

- By charging for ratings and selling consulting services to clients, rating firms are in the uneasy dual role of for-profit business and quasi-regulator that may raise conflicts of interest.
- Some rating firm capital adequacy models punish non-life insurers for raising rates and fail to adequately credit insurers for geographic and line of business diversification.

The proportion of top-rated US insurers has sharply declined since 1990.



Source: A.M. Best

Partially in response to the slow pace at which ratings react to current developments, a new generation of purely quantitative models has emerged that provides accurate, more timely assessments of default risk. These services, such as Moody's KMV and RiskMetrics, are popular with institutions that must continuously monitor their counterparty exposures.

Over time, regulators have increasingly incorporated ratings in their rules. Ratings also play an important role in private contracts through "rating triggers", which are provisions in financial or business contracts that allow one party to take protective action if the credit rating of its counterparty falls below a predetermined threshold.

Rating firms have been under heightened scrutiny since the Enron scandal. Areas that the US Securities and Exchange Commission is now exploring include: the quality of information flows; reducing regulatory barriers to entry; potential conflicts of interest; alleged anticompetitive practices; and the potential need for ongoing oversight of rating firms. In coming months the SEC is likely to take steps to promote increased competition in the rating industry.

Notes for editors:

Swiss Re is one of the world's leading reinsurers and the world's largest life and health reinsurer. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863. Through its three business groups Property & Casualty, Life & Health and Financial Services, Swiss Re offers a wide variety of products to manage capital and risk. Traditional reinsurance products, including a broad range of property and casualty as well as life and health covers and related services, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA" by Standard & Poor's, "Aa1" by Moody's and "A++" by AM Best.

You can order *sigma* as follows:
The English, German, French, Spanish, Italian, Japanese and Chinese versions of this *sigma* study are available electronically on Swiss Re's website: http://www.swissre.com/sigma .

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Data from selected figures and tables are available from the *sigma* chartroom on the Swiss Re Portal: http://www.swissre.com/portal.