News release

Swiss Re

Low interest rates and euro debt crisis will negatively impact insurer profitability and assets as economies slow; industry's capitalisation is stronger than in 2007; emerging markets growth slowed in 2011, but prospects are still robust

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- **Weak economic growth in 2012 will dampen prospects for insurance industry, but outlook is better for 2013**
- **Insurance industry has restored capitalisation beyond 2007 levels**
- **Significant catastrophic losses in non-life business have led to a hardening of reinsurance rates**
- **Growth of life business will recover in 2012 and 2013, but low interest rates will negatively impact profitability**
- **Emerging markets remain growth engines**

London, 1 December 2011 — Swiss Re's economists say the environment for the insurance industry remains very challenging but expect a more positive outlook, particularly after 2012. This is the main finding of Swiss Re's latest publication "Global insurance review 2011 and outlook for 2012 and 2013", presented at the Swiss Re Economic Forum in London. The insurance industry has successfully restored its capital base to a higher level compared to the beginning of the financial crisis. Large catastrophic losses, but also low investment yields, will lower profitability this year, and weak economic growth in the mature markets will constrain life and non-life premium expansion. But non-life profits will improve again after markets harden, probably late next year. Premium growth for both life and non-life will grow in 2012 and further increase in 2013. Growth in emerging markets for both the life and non-life industries is expected to be in the range of 7-9% for 2012.

"The insurance industry faces three main challenges from the current economic and political environment: low government bond yields; the euro debt crisis; and slowing growth with elevated inflation in the emerging markets", says Kurt Karl, Swiss Re's Chief Economist at Swiss Re's Economic Forum in London, where the company presented its new expertise publication detailing the latest macroeconomic developments for the insurance industry.

After an initial upturn, capital markets faltered this year. The euro zone and the US are on the brink of recession and growth in emerging markets is also slowing, albeit slightly. Interest rates will remain low for at least a couple more years, particularly in Germany and the US.

Karl continued: "Currently, the greatest risk to the economic outlook stems from political developments in Europe, which could result in disorderly sovereign defaults or even exits from the European Monetary Union. This is followed closely by risks associated with the political stalemate in the US, which is preventing the implementation of sensible fiscal adjustments that could support growth while reducing the deficit. The situation in these two major regions has increased the risk that they will both experience a prolonged period of low growth, low inflation and low interest rates." He adds: "Inflation risk is still a few years down the road in developed markets. But as weak growth makes fiscal consolidation difficult, the incentive to deliberately allow inflation in order to reduce sovereign debt levels is strengthening."

Emerging markets are not decoupled from developed economies and their growth is expected to slow while inflation is elevated. Containing inflation and avoiding the bursting of asset bubbles in emerging markets is largely dependent on sound government policies. So far, this appears to be working, with many countries tightening their monetary policies (eg India, Malaysia and, until recently, Brazil) and attempting to dampen asset price gains (eg China).

Low non-life business profitability in 2011 due to cat losses
The difficult macro-economic environment in the US and Europe will lead to a more moderate premium growth than previously projected. As economic conditions improve through 2013, the real premium growth rate will accelerate from about 1% in 2011 to 3% in 2013 in developed markets. Emerging markets will continue to achieve real premium growth of 7% to 9% through this period.

The significant catastrophic losses in the first half of 2011 will reduce profits this year, but have led to a hardening of reinsurance rates in property cat lines. Casualty rates have stopped their long slide, but are overdue for an adjustment to the low yield environment and poor profitability (particularly in the US). Moreover, low interest rates and government bond yields will further constrain profits. By the end of 2013, however, higher interest rates are expected.

Capitalisation of non-life books looks strong on an accounting basis, but has to be taken with some caveats. The assets are inflated due to exceptionally low interest rates and the liabilities might be understated. Recent capital market turbulences are an additional drag on earnings and the balance sheets of re/insurers, so far particularly in Europe.

"The impact of the euro sovereign debt crisis on the insurance sector – both life and non-life – depends on the scenario and the set of insurers you look at. But a rough calculation indicates that a 50% haircut on Greek, Irish and Portuguese sovereign bonds could be readily absorbed in insurers' existing capital resources. More challenging would be a haircut of that size also covering Spanish and Italian debt. In that case, write-downs could lie anywhere between 25% and 35% of shareholders' equity", said Darren Pain, Senior Economist at Swiss Re.

Life re/insurance: difficult growth prospects, strong capitalisation
Global in-force and new business life insurance premiums fell in 2011, following a short-lived recovery in 2010, due to a collapse in single premium savings business in Continental Europe and a decline in protection sales in many markets. Premium growth is expected to recover in 2012 but will be sluggish due to the impact of the weak economy on consumers and employers. From 2013 onwards, growth should strengthen gradually and return to its long-term trend.

Low investment returns, higher hedging costs and lower business volumes, as well as more onerous capital requirements, will prevent a return to pre-crisis profitability in the short term. The life industry's capitalisation has improved significantly and is better than before the 2007 crisis, but part of the increase is due to the positive accounting impact of the decline in interest rates. The industry is well prepared to cope with a challenging future, though some direct companies will experience capital strain.

Emerging markets: growth weaker, but outlook intact
In 2011, life insurance business growth in emerging markets slowed due to regulatory changes in China and India. But healthy growth was reported in other emerging markets in the Middle East and Latin America. Growth is expected to return to its real, long-term trend rate of about 8% in 2012 and 2013.

Non-life business has continued to benefit from stable economic growth in emerging markets. Rising car ownership and sustained spending on infrastructure add to insurance demand. Moreover, the series of natural catastrophes in Asia may have helped to raise risk awareness and prompt corporations to seek sufficient insurance covers. Thus, strong growth is expected in commercial, motor, health and personal accident insurance, as well as some specialty lines such as engineering, agriculture and surety.

Emerging markets are expected to remain reliable growth engines in the global insurance markets. Life insurance premiums are projected to recover and grow at around 8% in 2012 and 2013, while non-life insurance will increase by 7% to 9% in real terms. Moreover, Swiss Re's economists expect ongoing liberalisations in key markets, such as India, China, and also Russia. Collectively, these liberalisation measures will further hasten the globalisation of emerging insurance markets.

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Notes to editors

Materials from today's event

Copies of presenters' slides, photographs and other materials from today's event are available at www.swissre.com under 'Media'. An audio recording will be posted within 24 hours of this news release being issued.

Swiss Re's new "Global insurance review 2011 and outlook for 2012 and 2013" expertise publication is available electronically on Swiss Re's website: www.swissre.com/sigma. A printed version is now also available. Please send your orders, complete with your full postal address, to:

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