News release

Swiss Re

Swiss Re *sigma* study: introduction of IFRS will have a significant impact on how insurers manage their business

Contact:

Rainer Helfenstein, Zurich
Telephone +41 43 285 59 77

Thomas Holzheu, New York
Telephone +1 212 317 5190

Clarence Wong, Hong Kong
Telephone +852 2582 5644

Group Media Relations, Zurich
Telphone +41 42 285 71 71

Swiss Reinsurance Company
Mythenquai 50/60
P.O. Box
CH-8022 Zurich

Telephone +41 43 285 2121

Zurich, 14 December 2004 – From the beginning of 2005, all listed insurers in the European Union (EU) will be required to comply with International Financial Reporting Standards (IFRS). The latest Swiss Re *sigma* study, "The impact of IFRS on the insurance industry", finds that while the standards will increase transparency, they may also bring higher earnings and capital volatility.

Currently, insurers operating internationally are confronted with many different national accounting standards, making financial reporting a challenging task. IFRS have been developed in response to this challenge, and together with US GAAP, are forming a viable basis for international alignment. The EU will adopt IFRS on a mandatory basis for all listed companies from 1 January 2005 and countries, such as Australia, will also make the change. To date, a fully developed accounting standard for insurance contracts does not exist.

Rainer Helfenstein, senior economist at Swiss Re and co-author of the study, comments: "From 2005, most of insurers financial assets will be reported at market values instead of amortized costs, while at the same time the treatment of liabilities remains unchanged. In addition, insurers will no longer be allowed to hold equalisation reserves. As a result, earnings and capital of many companies will become more volatile."

When the standard was being developed, it was split into two phases. Phase 1 which becomes effective from beginning 2005, will have the following strategic consequences for insurers.

- The long-term liabilities held by life insurers, which are often focused on savings business, will become more transparent. Companies will have to show, for example, how profitability will develop if interest rates, equity markets or assumptions on insurance risk change. In addition, many life insurance contracts contain long-term options and guarantees and certain of these contracts will have to be reported at market values under IFRS.

- In some markets, non-life insurers have built up catastrophe and equalisation reserves, which can be used against exceptional large

losses. Under IFRS, these reserves will no longer be allowed. Exceptional large losses will now directly hit equity capital. This may lead to an increase in the volatility of earnings and capital.

- Asset-liability management will become even more important. To offset some of the greater volatility, insurers may choose to more closely align the duration of assets with liabilities, or adopt a different investment approach with regards to their asset mix.

Phase 2 of the project, originally scheduled for 2007, is now unlikely to come into effect before 2009. Phase 2 will deal with some highly controversial issues, for example how insurance liabilities should be valued. The challenge will be to find a solution which avoids the asymmetric treatment of assets and liabilities.

Notes to editors

Swiss Re
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, "Aa2" by Moody's and "A+" by A.M. Best.

How to obtain a copy of this *sigma* study:
The English, German, French, Italian and Spanish versions of the *sigma* study " The impact of IFRS on the insurance industry " are available electronically on Swiss Re's website: www.swissre.com/sigma

Printed editions of *sigma* No 7/2004 can now be ordered: English and German versions are now available, those in French, Italian, Spanish, Chinese and Japanese will be available soon. Please e-mail your orders, complete with your full postal address, to sigma@swissre.com or

Zurich:	tel +41 43 285 2551	fax +41 43 285 4749
New York:	tel +1 212 317 5135	fax +12 12 317 5455
Hong Kong:	tel +852 25 82 5691	fax +852 25 11 6603

The English, German and French versions of this *sigma* media release are available electronically on Swiss Re's website: www.swissre.com This media release is also distributed by e-mail. To receive your copy, please contact sigma@swissre.com