

Swiss Re



Swiss Re

Ann F. Godbehere
Chief Financial Officer

Merrill Lynch
Banking & Insurance Conference
London, 6 October 2005

Swiss Re



Agenda

- Introduction
- Link from Swiss Re's vision to its targets:
Swiss Re's four strategic priorities
- Natural catastrophes
- Conclusions
- Q&A
- Appendix

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Slide 2

Swiss Re at a glance

- Founded in 1863 and developed into one of the world's largest and globally active multi-line reinsurers
- Wholesale manager of capital and risk focused on reinsurance and related trading activities
- Strong financial position in the industry with AA rating
- Global leadership position with market share of 11% in property and casualty and 23% in life and health business
- Key statistics
 - Premiums earned 2004: CHF 29.4bn
 - Net income 2004: CHF 2.5bn

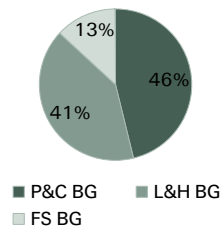
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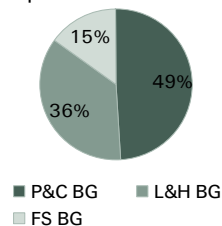
➔ **Leading reinsurer with a truly global business**

Target matrix and 1H2005 results 13% RoE achieved while shareholders' equity up strongly at 15%

Split of total revenues
 1H 2005



Split of oper. income
 pre-tax 1H 2005



Slide 4

Business targets	Key figures	2004	1H 2005	Avg target 2005/06
Property & Casualty	Combined ratio	98.4%	95.5%	96%
Life & Health	Return on operating revenues	9.1%	9.5%	9%
Financial Services	<i>Premium business, traditional:</i> Combined ratio	92.9%	94.9%	95%
	<i>Fee business, excluding proprietary asset management</i> Return on total revenues	12.9%	12.5%	15%
Asset management	Return on investments	5.8%	5.1%	5.3%
Group targets	Key figures	2004	1H 2005	Over the cycle target
	Return on equity	13.6%	13.0%	13%
	Earnings per share growth	46.0%	-6.2%	10%

Due to the above normal large claim activity in nat cat, over the cycle targets are likely not to be met in 2005

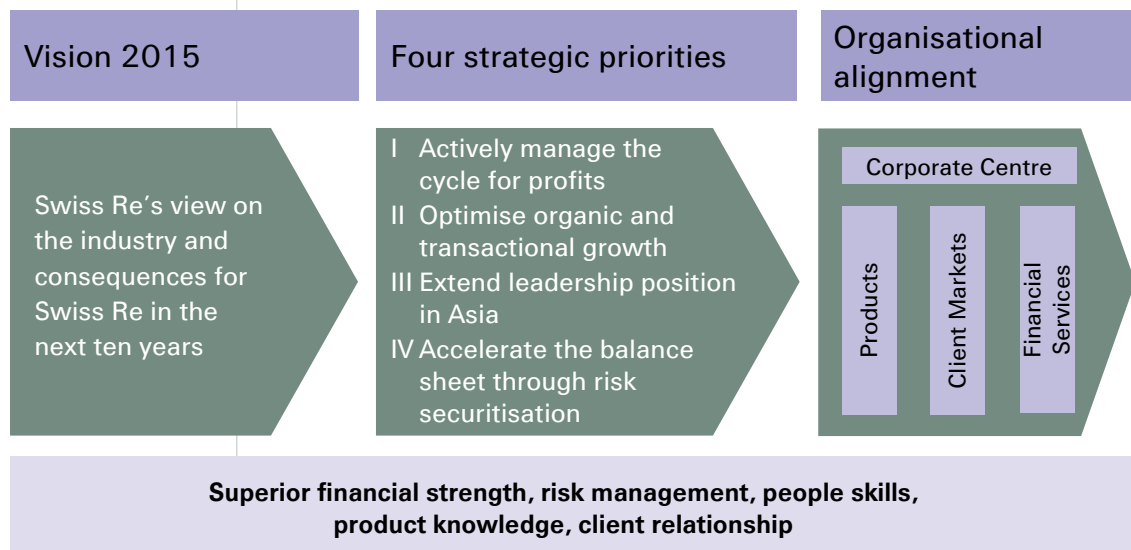
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Slide 5

"Making strategy work"



Slide 6

From a vision to targets Insurance industry scenarios 2015

Growth

- Risk transfer markets to show growth above GDP, say 6% pa nominal
- Accelerate process of industry consolidation / business exits
- World insurance to grow from 8% to 9% GDP
- Emerging markets grow from 12% to 17% of world cessions

Enabling strategy

- Distribution channels for re-insurance to continue to be a mix of direct and broker
- Advances in data collection & management systems
- Regulation will continue to converge towards a global 'best practice' with a move to economic methodologies
- Scarcity of high quality underwriting and financial talent

Margin

- Continuation of business cycles
- Low investment return environment
- Securitisation of insurance risk increasingly established. Annual issuances reaching 5% of worldwide insurance premiums

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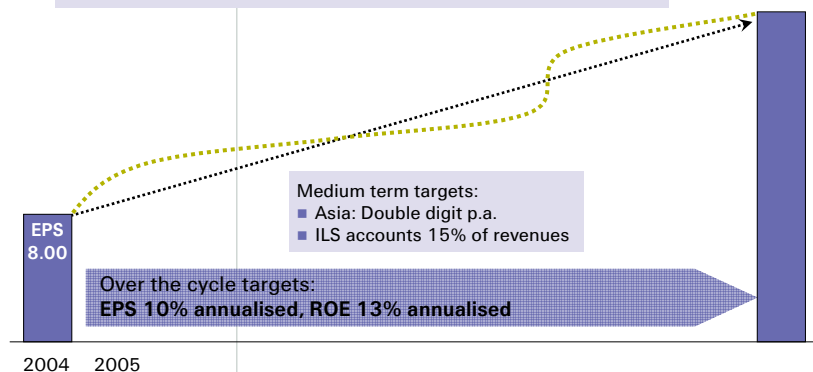
From a vision to targets Overview of targets

Targets 2005 before above 0 nat cat loss activities :

- P&C: 96% combined ratio
- FS: 95% combined ratio (premium business)
- FS: 15% return on total rev. (fee business)
- L&H: 9% return on operating revenues

Scenarios* for Swiss Re 2015:

- Active management of capacity and capital allocation to cyclical business
- Grow market share 1% over the cycle (peak to peak)
- Active corporate development policy adding to revenue growth
- Securitisations used to manage risk/yield enhance 30% of revenues
- Earnings origination from trading and increased fee income



Slide 8

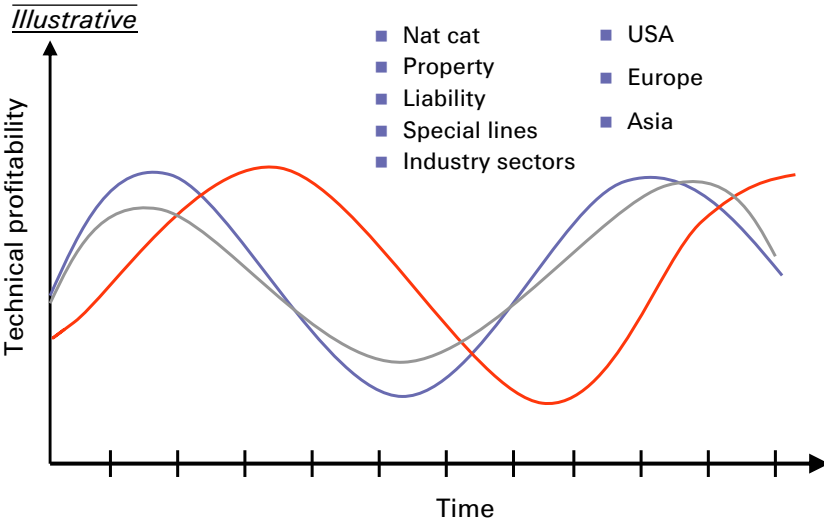
* Selection of scenarios, for full list see appendix

Active cycle management

Swiss Re directs capital to attractive non-life opportunities



Each line of business and geography show its own cycle and pattern



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Slide 9

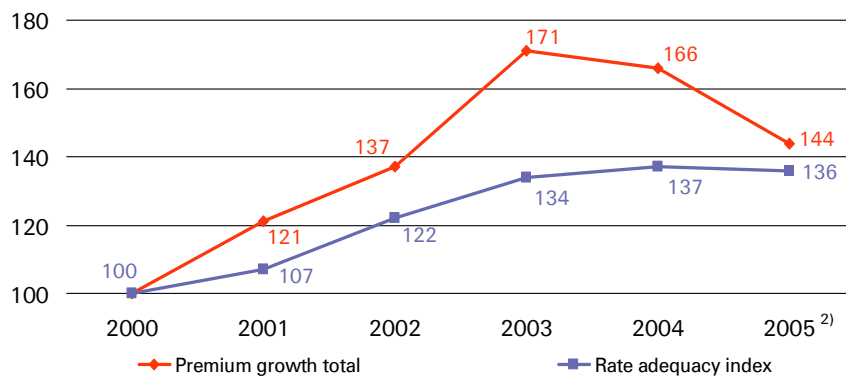
Active cycle management

Non-life underwriting quality substantially improved



- Over proportional growth in times of strong rate increases
- Volume decrease since 2004 to maintain rate adequacy at very attractive levels
- Even better picture if impacts from stricter terms and conditions taken into account
- Treaty years 2002 onwards developing favourably

Swiss Re premium growth¹⁾ and rate adequacy indexed



¹⁾ P&C and FS premiums earned at constant fx

²⁾ 1H 2005 figures annualised

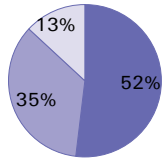
➔ Superior business quality will positively impact results going forward

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Slide 10

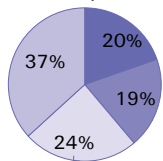
Swiss Re's way to tackle non-life cycles

Geographic split 2004*



■ North America
 ■ Europe
 ■ Rest of world

Product split 2004*



■ Property
 ■ Casualty
 ■ Other
 ■ Life & Health

Slide 11

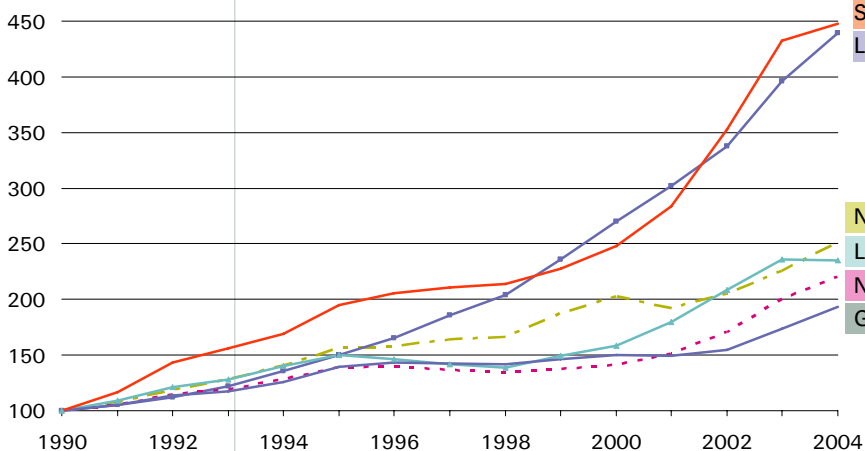
*Gross premiums written

- Being optimally diversified to
 - benefit from different product and geographic cycles
 - allocate capital where business (life vs non-life) generates best returns for shareholders
- Having tools in place to measure real time pricing adequacy and steer capacity quickly to most attractive lines of business
- Being financially very strong to benefit from attractive business opportunities (e.g. size of programmes, layers to choose, Admin ReSM) and to be able to underwrite business post-event
- Having a stable life business to mitigate volatility of non-life earnings

L&H BG	1999	2000	2001	2002	2003	2004	1H '05
Return on op. revenues	9.3%	9.2%	9.5%	9.1%	8.7%	9.1%	9.5%

Risk is a growth business Reinsurance outpaced insurance and GDP growth

Annual growth 1990 - 2004; nominal values



	CAGR '91 - '04
Swiss Re.	11.3%
Life reins.	11.1%
Non-life reins.	6.3%
Life ins.	6.3%
Non-life ins.	5.8%
GDP	4.8%

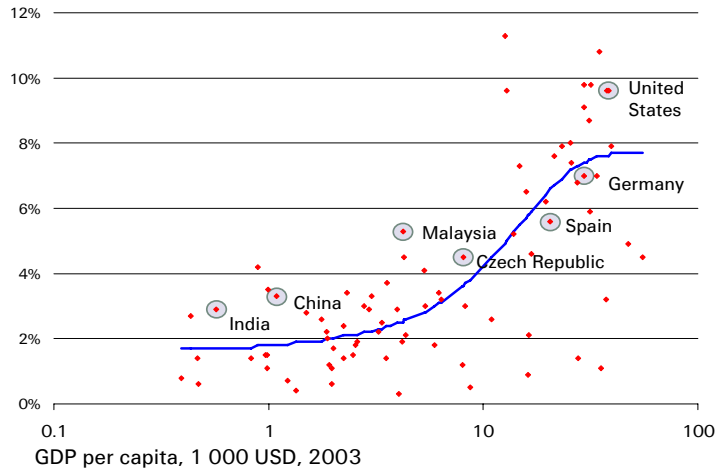
World RI-premium volume 2004: life: USD 33bn; non-life: USD 140bn

Source: Swiss Re Economic Research & Consulting

Asia as a growth market

- Step change in demand function. When GDP per capita gets close to USD 10 000, insurance penetration rises to a level above 4% with a steep slope
- We have a strong Asia-wide network:
 - 8 branches, and
 - 3 representative offices

Premiums per GDP, life and non-life, 2003



Slide 13

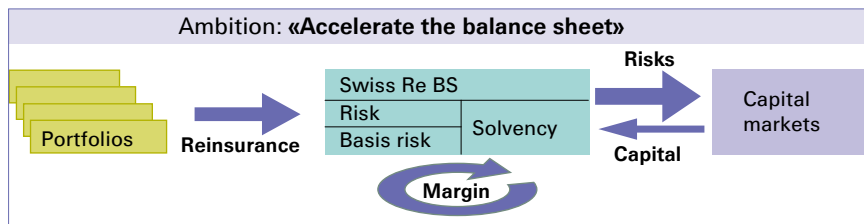
Source: Swiss Re Economic Research & Consulting

Accelerate the balance sheet Changing the business model and benefits

In the Queensgate transaction in January 2005, Swiss Re sold expected future life profits (PVFP) of USD 153m to the capital market and received USD 210m in cash

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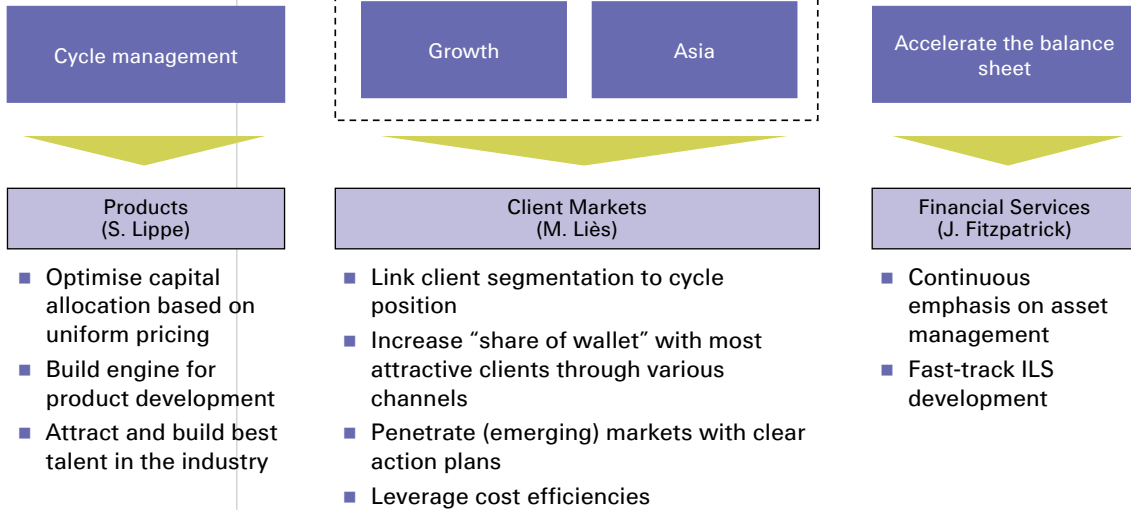


- Buy
- Manage the cash flow
- Transform/structure
- Sell



- Capital requirements
- Intangibles
- Volatility
- RoE
- Growth (other transactions)

Organisation aligned to strategic priorities effective as per 12 Sept 2005



Slide 15

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- **Natural catastrophes**
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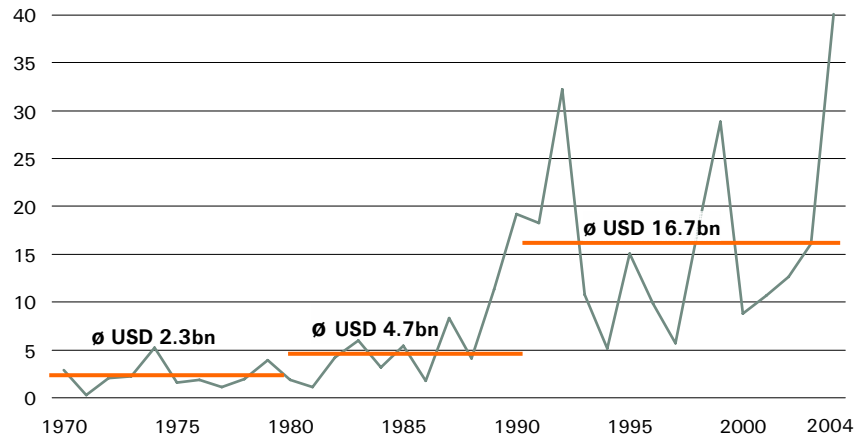
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Rising weather related natural catastrophe loss trends

Weather related* nat cat insured losses 1970 – 2004 (property and business interruption)

USD bn, at 2004 prices



Source: Swiss Re sigma Catastrophe database

* Incl. floods, storms, droughts, forest fires, cold waves & frost, hail, and other

— Long-term average

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Slide 17

Growing values in exposed areas are a major driver of higher losses



Ocean Drive, FL, 1926.



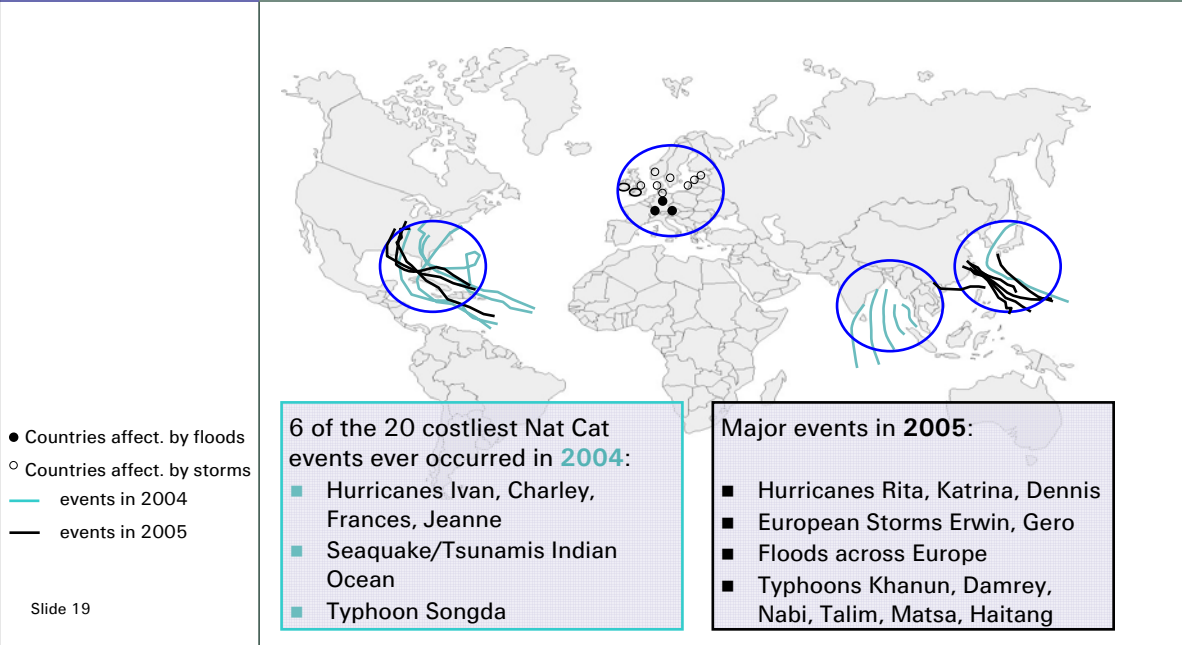
Ocean Drive, FL, 2000.

- ▶ The number of Floridians increased by 70% from 1980 to 2001, while state GDP soared by 130%
- ▶ Calculated loss amounts for 'more active' periods are noticeably higher than for 'less active' periods

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Slide 18


Global frequency of events will impact reinsurance rates





Swiss Re's approach to natural catastrophe risk


- 'Event' management is an important part of Swiss Re's value proposition
 - 30 years ago, Swiss Re created the Cat Perils team to develop models for pricing and controlling of risk accumulation (proprietary know-how)
 - Natural catastrophes do not correlate with other risk classes (except in extreme 'tail events') and add to risk diversification
 - Over the cycles, Swiss Re has achieved positive economic results
 - Peak risk can now be securitised to capital markets benefiting real business economics
- ➔ Strong diversified balance sheet ensures Swiss Re's capability to benefit from post event shortages in capacity
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 Slide 20


	<p style="text-align: right;">Swiss Re </p> <h2 style="text-align: center;">Agenda</h2>
<p>Merrill Lynch Banking & Insurance Conf. London, 6 October 2005 Slide 21</p>	<ul style="list-style-type: none"> ■ Introduction ■ Link from Swiss Re's vision to its targets: Swiss Re's four strategic priorities ■ Natural catastrophes ■ Conclusions ■ Q&A ■ Appendix

	<p style="text-align: right;">Swiss Re </p> <h2 style="text-align: center;">Current expectations for January 2006 renewals</h2>
<p>Merrill Lynch Banking & Insurance Conf. London, 6 October 2005 Slide 22</p>	<ul style="list-style-type: none"> ■ Experienced natural catastrophe claims will significantly impact industry results and 2006 renewals ■ Challenges in long-tail business... <ul style="list-style-type: none"> – High losses on US exposure business, written in/ outside the US (e.g. product liability, pharma) – Problematic developments in D&O, professional indemnity and medical malpractice – particularly in the US – Continued uncertainties in US liability regime ➔ ... and continued low interest rates leave no room for price concessions and/or softening of conditions

	<p data-bbox="1187 235 1294 264">Swiss Re</p>  <p data-bbox="496 342 715 383">Conclusions</p>
<p data-bbox="233 927 424 987">Merrill Lynch Banking & Insurance Conf. London, 6 October 2005</p> <p data-bbox="233 1003 293 1021">Slide 23</p>	<ul data-bbox="496 450 1358 981" style="list-style-type: none">■ Nat cat events, mortality and other insurance risks not correlated with financial markets, Swiss Re - as a pure reinsurer – provides diversification to investors■ Business sector has a long track record of GDP+ growth; Asia creates new momentum■ Swiss Re focuses on delivering above average returns through cycle management■ Current business model is today being improved by securitising risk to capital markets, thereby reducing regulatory capital requirements – raises return on equity and reduces volatility

	<p data-bbox="1187 1209 1294 1238">Swiss Re</p>  <p data-bbox="496 1317 603 1357">Q & A</p>
<p data-bbox="233 1901 424 1962">Merrill Lynch Banking & Insurance Conf. London, 6 October 2005</p> <p data-bbox="233 1977 293 1995">Slide 24</p>	

	<p style="text-align: right;">Swiss Re </p> <p style="text-align: center;">Appendix</p>
<p>Merrill Lynch Banking & Insurance Conf. London, 6 October 2005</p> <p>Slide 25</p>	

	<p style="text-align: right;">Swiss Re </p> <p style="text-align: center;">Swiss Re's history</p>																						
<p>Merrill Lynch Banking & Insurance Conf. London, 6 October 2005</p> <p>Slide 26</p>	<table border="1"> <tr> <td>1863</td> <td>Foundation of the company</td> </tr> <tr> <td>1864</td> <td>Business relations in 7 countries (Germany, Italy, France, Austria, England, Belgium and Russia)</td> </tr> <tr> <td>1906</td> <td>San Francisco Earthquake, Swiss Re establishes its reputation</td> </tr> <tr> <td>1910</td> <td>First branch office (New York)</td> </tr> <tr> <td>1950 – 1956</td> <td>Opening of offices in South Africa, Canada, Australia, Hong Kong</td> </tr> <tr> <td>1968 – 1976</td> <td>Creation of several advisory and service companies in Asia and South America</td> </tr> <tr> <td>1985</td> <td>Strategy to diversify</td> </tr> <tr> <td>1994</td> <td>Refocus on core business - selling majority shares in several insurance companies</td> </tr> <tr> <td>from 1995</td> <td>Development of financial services offerings, including securitisation of insurance risks</td> </tr> <tr> <td>1996 – 2001</td> <td>Strengthening of life and health business through several acquisitions</td> </tr> <tr> <td>2003 – 2004</td> <td>Strengthening market position in Asia</td> </tr> </table>	1863	Foundation of the company	1864	Business relations in 7 countries (Germany, Italy, France, Austria, England, Belgium and Russia)	1906	San Francisco Earthquake, Swiss Re establishes its reputation	1910	First branch office (New York)	1950 – 1956	Opening of offices in South Africa, Canada, Australia, Hong Kong	1968 – 1976	Creation of several advisory and service companies in Asia and South America	1985	Strategy to diversify	1994	Refocus on core business - selling majority shares in several insurance companies	from 1995	Development of financial services offerings, including securitisation of insurance risks	1996 – 2001	Strengthening of life and health business through several acquisitions	2003 – 2004	Strengthening market position in Asia
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Scenarios 2015: Growth

Insurance industry

- Retail and wholesale risk transfer markets continue to show growth above GDP, say 6% pa nominal
- World insurance to grow from 8% to 9% of GDP
- Accelerated process of industry consolidation/business exits
- Emerging markets grow from 12% to 17% of world cessions
- The future for services and products will not be a straight line projection of today
- Sustainability will become a main stream concept

Consequences for Swiss Re

- Business focus continues to be on wholesale financial services
- Grow market share 1% over the cycle (peak to peak) – Swiss Re achieved 1.8% growth over the last cycle
- Active corporate development policy adding to revenue growth
- Swiss Re establishes market share above its global average
- Swiss Re to be a leader in developing new risk solutions (e.g. emissions trading, wind farms underwriting etc)

Slide 27

→ Target over cycle: 10% EPS growth

Scenarios 2015: Margin

Insurance industry

- Continuation of business cycles
- Low investment return environment
- Securitisation of insurance risk increasingly established. Annual issuances reaching 5% of worldwide insurance premium (0.1% in 2003)

Consequences for Swiss Re

- Active management of capacity and capital allocated to cyclical business
- Underwriting quality is key to profitability
- Outperformance of risk free benchmarks supports RoE
- Securitisation used to risk manage/yield enhance 30% of Swiss Re revenues
- Earnings origination from trading and increased fee income

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Slide 28

→ Target over cycle: 13% RoE

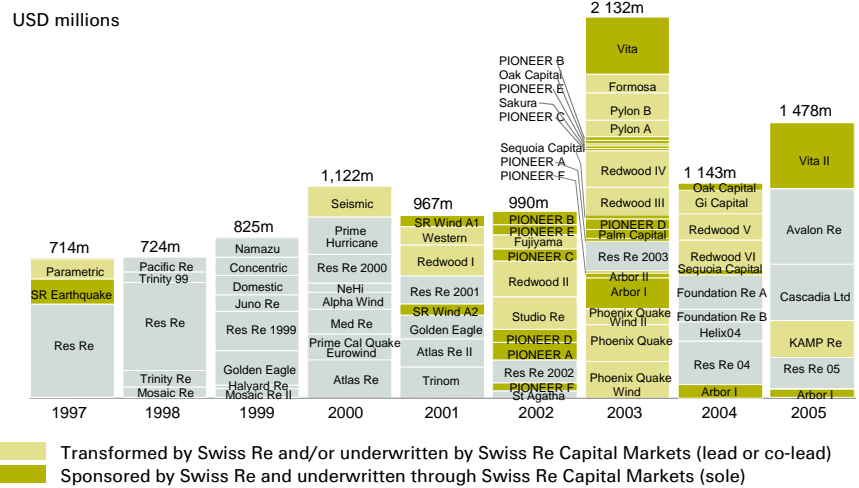
Scenarios 2015: Enabling strategy

Insurance industry	Consequences for Swiss Re
<ul style="list-style-type: none"> ■ Distribution channels for reinsurance continue to be a mix of direct and broker as today 	<ul style="list-style-type: none"> ■ Swiss Re to develop multi-channel access to risk ■ Continue to strengthen direct client franchise, e-solutions and broker relations
<ul style="list-style-type: none"> ■ Advances in data collection and management systems ■ Industry cost structure improves 	<ul style="list-style-type: none"> ■ Fingertip information systems, supported by global low-cost admin systems
<ul style="list-style-type: none"> ■ Regulation will continue to converge towards a global 'best practice' with a move to economic methodologies 	<ul style="list-style-type: none"> ■ Swiss Re to be a leader in promoting transparent and well-informed dialogue with regulators. Continuous monitoring of the way the regulatory agenda is moving
<ul style="list-style-type: none"> ■ Scarcity of high quality underwriting and financial talent 	<ul style="list-style-type: none"> ■ Create mobile highly skilled teams and attract the best talent

Slide 29

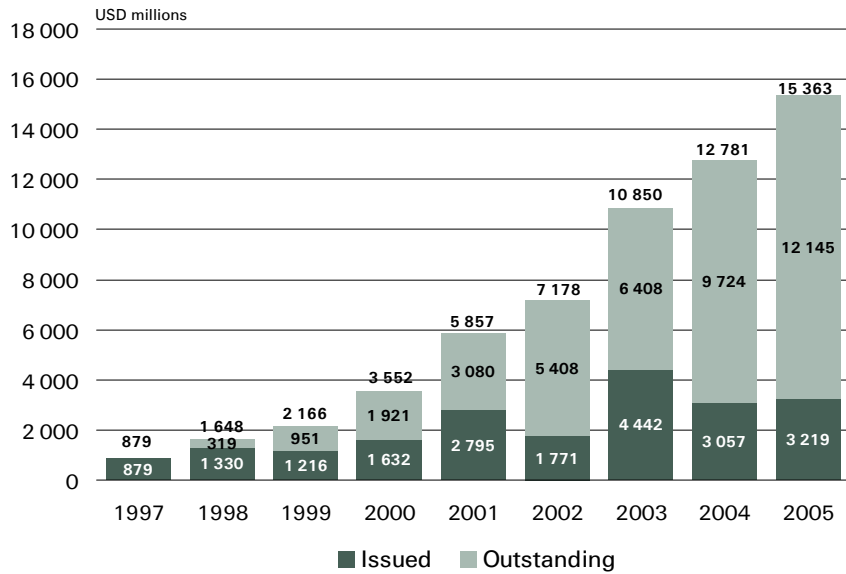
ILS transaction history: Catastrophic events (nat cat and mortality)

Swiss Re has the clear leadership position in the insurance-linked security (ILS) sector



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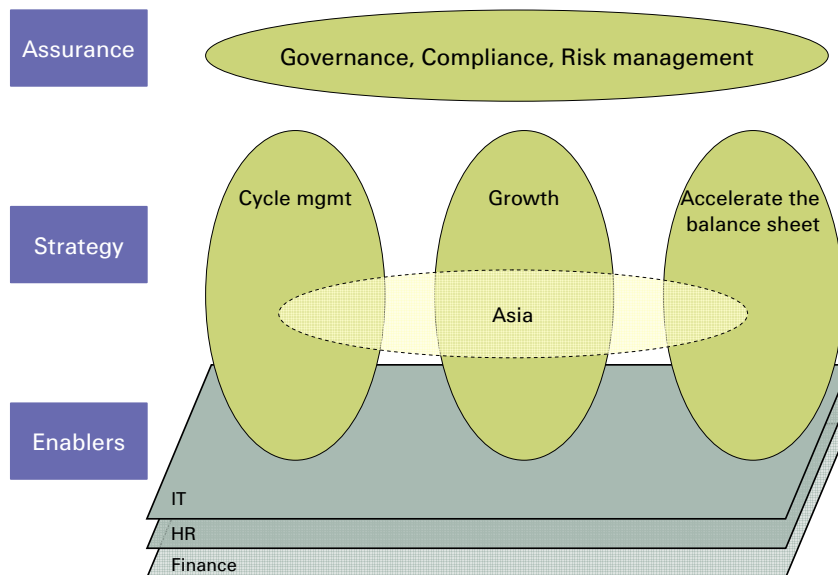
World-wide ILS outstanding: Life and catastrophic events



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Align organisation to strategy



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Slide 32