News release

Swiss Re

New Swiss Re study forecasts improvements in the global economy and rising prices in casualty lines

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- **The US economy is expected to make a modest contribution to global growth next year, while the Euro area slowly emerges from its recession.**
- **Non-life insurance premium growth will benefit from the improvement in economic activity and a small rise in prices.**
- **After stalling this year, life insurance premium growth is projected to grow by 2% next year.**
- **Emerging markets will continue to be a source of premium growth for both non-life and life insurance markets.**

Zurich, 11 December 2012 — Swiss Re's latest study, "Global re/insurance review 2012 and outlook 2013/14" provides a mildly optimistic view of the future of the global economy and insurance markets. Economic activity is expected to be moderately stronger next year and insurance pricing is projected to improve. Global non-life direct premiums are projected to grow by 3% in real terms, fuelled by emerging market growth of nearly 8%. After not growing this year, primary life insurance premiums are expected to increase by about 2% next year as emerging markets strengthen and advanced markets recover from a decline last year. Non-life reinsurance markets will continue to grow, while life reinsurance shrinks.

The global economy is currently fairly weak, but an improving housing market in the US, fiscal and monetary stimulus in China and a slow turnaround in the Euro area are expected to boost growth in 2013. Monetary policy will remain accommodative in the major economies well into 2015, providing the stimulus necessary to sustain growth, but with low interest rates reducing insurers' investment returns. Inflation will stay tame since wage gains will be modest given the only gradual decline in unemployment rates. Kurt Karl, head of Swiss Re's *sigma* program and an author of the report, emphasized: "Global growth will not be robust next year, but any improvement is welcome in these stressful times."

Topline growth and stronger pricing power in non-life insurance during 2012 will continue into 2013

Growth in non-life premiums accelerated a bit in 2012 and this will continue into next year as rates rise at a moderate pace. Underwriting results improved in 2012, compared to 2011 – a year with high catastrophe losses. Rates were stable to slightly up this year, but not enough to compensate for decreasing investment yields. Next year, reserve releases are expected to dry up, supporting a stronger pace of price increases, particularly in the casualty lines. Currently, capacity is adequate, but appears robust under GAAP accounting due to low interest rates which boost the mark-to-market value of insurers' bond portfolios. Thomas Holzheu, one of the authors, clarified: "The expected price increases in the casualty lines will likely be gradual due to the weak economic environment and fierce competition." Developments in the reinsurance segment are following the primary sector closely, but profits will be slightly lower due to a higher-than-average cat year. This outlook assumes that the estimates for losses from Hurricane Sandy are consistent with recent forecasts from the major cat modelers.

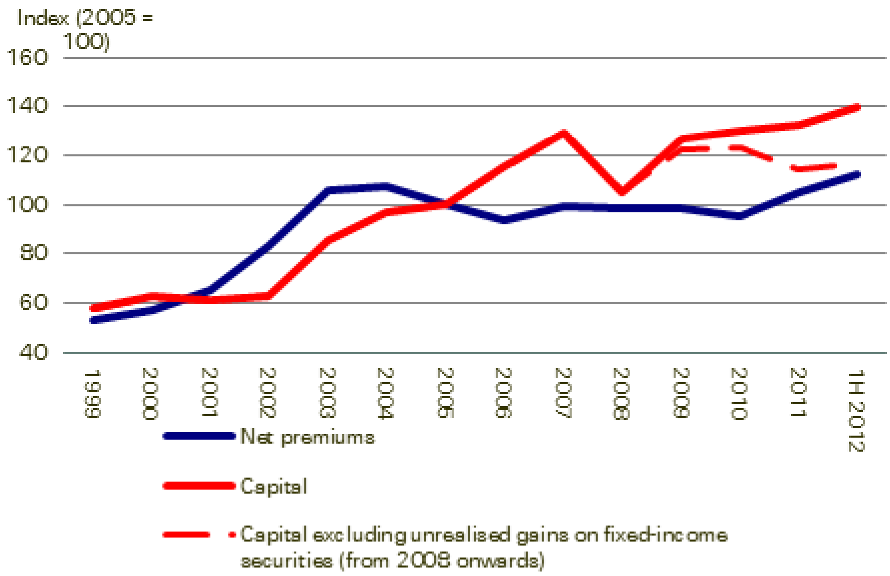
Interest rate squeeze on life insurance continues
Global primary life premium growth was close to zero this year, but is expected to be better next year. Emerging markets, in particular, are expected to have stronger premium growth as India and China more fully adjust to regulations passed in 2010/11. Advanced markets will also have positive real premium growth as many markets, including the US, Canada and Australia, rebound from declines in 2012. Stronger economic activity and rising interest rates will fuel the modest uptick in growth. Growth will improve in all product lines, including savings, term life and disability lines. Profitability will remain constrained, however, because investment yields will continue to decline as bonds mature and must be replaced with lower yielding assets. Also, regulatory changes are expected to have a greater impact on life insurance business. Finally, life insurers with large books of savings products with rigid guarantees will particularly struggle until interest rates rise.

The life reinsurance segment will continue to contract as regulatory challenges undermine its value proposition. Reinsurers are seeking to grow premiums by expanding in emerging markets, taking on large transactions which provide capital relief and through new products, such as longevity reinsurance. Profitability of life reinsurers is challenged, as is the industry, by the low interest rate environment. However, reinsurers do not typically have large books of savings products with guarantees.

Opportunities in emerging markets for 2013
After struggling in 2011 and 2012, life insurance premium growth is expected to rebound in Emerging Asia next year, growing by about 5% in real terms. Clarence Wong, Swiss Re Chief Economist for Asia who also contributed to the report, pointed out: "All emerging market regions are expected to maintain robust growth in life and non-life premiums next year." Growth in life insurance will increasingly focus on risk products because regulatory changes and low investment yields will continue to dampen savings product growth. Huge protection gaps, which exist in many key emerging markets including India and China, will help drive the shift to risk products. In the Middle East and Latin America, life insurance

premium growth will continue to be robust. In Central and Eastern Europe premium growth will moderate a bit along with economic activity as the Euro debt crisis continues. Non-life premium growth moderated from about 9% growth in 2011 to 8% growth in 2012. Cat losses were fairly low in emerging markets so underwriting profitability improved. Premium growth will be driven by the growing wealth in emerging markets, which has been particularly beneficial to motor lines. Ongoing regulatory developments will strengthen the industry and enhance profitability in the long run.

Global non-life reinsurance premiums and GAAP capital



The figure above illustrates that, excluding the mark-to-market benefit of lower interest rates (dashed line), global non-life reinsurance capacity has been stable, even while risk premiums have risen.

Source: Swiss Re Economic Research & Consulting

Notes to editors:

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