# Swiss Re panel: US recession to last through mid-2002; hardening insurance/reinsurance market continues

**4 Dec 2001**

**Swiss Re economic, investment professionals and industry experts today unveiled their 2002 forecasts and reported on key data for 2001, at the company's annual year-end economic insurance industry review and outlook, "Stormy Weather Today; Calm Seas Ahead?"**

Speakers included Andreas Beerli, chairman, Swiss Reinsurance America Corp.; Kurt Karl, chief economist, Swiss Re Economic Research and Consulting; Thomas Holzheu, senior economist, Swiss Re Economic Research and Consulting; Albert Papa, vice president, Swiss Re Asset Management, and Alan Zimmermann, director of research, Fox-Pitt, Kelton.

Among the key findings and observations:

**Andreas Beerli**: "Since the 2000 year-end renewals, the world-wide reinsurance market has shown considerable hardening, while terms and conditions are continuously being tightened. The September 11 event certainly accelerated this process, but did not initiate it. There is no doubt that the context in which we do our business has drastically changed since that Tuesday morning in September."

**Kurt Karl**: "The US and global economies are in a recession and it is likely to last at least through mid-2002. Interest rates will continue to decline, but they'll rise next year as the recovery takes hold. Monetary policy easing will have a big impact next year as recently-enacted tax cuts and increased government spending will spur both the recovery and consumer confidence. Consumers will be helped by falling oil prices, mortgage financing and falling inflation."

**Thomas Holzheu**: "The market was hardening before the terrorist event of September 11, which brought a sudden imbalance of supply and demand. The soft market and decline in equity markets reduced the industry's capital base, and excess capital turned into a tight capital base. Returns declined and were unable to fund growing underwriting losses as property and casualty surplus was driven down by capital markets. At the same time, commercial lines and reinsurers' premium growth picked up.
"The event of September 11 reduced assets by some USD 20 billion to USD 30 billion by negative equity performance and at USD 30 billion to USD 70 billion, this is the largest loss in history. Demand is up for property, operational risk, aviation coverage, among others. Prices are up by at least 10 percent, valuations have recovered, and the market will recover in 2002."

**Albert Papa**: "The event of September 11 caused a flight to quality, a more aggressive fed easing posture, and skyrocketing volatility. Low mortgage rates forced convexity buying, equities rallied off their lows, indicators began to stabilize and the flight to quality and economic uncertainty trades began to unwind. Swiss Re forecasts additional fed easing on December 11, and views 75-100 basis-point rise in rates as overdone. Credit fundamentals and corporate profitability may remain weak to early 2002. Credit selection will remain paramount. Expect the three- month and five-year sector to lead a rise in rates by mid-2002 as the economy begins to improve."

**Alan Zimmermann**: "The year 2002 will be a good one for insurance industry stocks. The bull market lasted 18 years from 1982-2000 fueled by earnings growth, valuation changes and low inflation. Financial stocks have outperformed in previous economic recoveries for both P&C and Life insurers stocks. Historically, stocks recover before a recession end and this recovery should track in the same fashion for equity investors."

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. In the 2000 financial year, gross premium volume amounted to CHF 26.1 billion (USD 16.1 billion) and the net income after tax reached CHF 3 billion (USD 1.8 billion). Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" (superior) by A.M. Best. Swiss Re's operating cash flow for the first six months of this year was over CHF 2.8 billion, in addition Swiss Re has a CHF 101 billion investment portfolio backing its reserves and shareholders equity.

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