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Non-life reinsurance in Germany

UBS Conference
Dr Arnoldussen , Swiss Re
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Non-life reinsurance in Germany

- Reinsurance markets worldwide
- Reinsurance market in Germany
- Future market issues
- Conclusion

Reinsurance is what reinsurance does

- Spreads risks over classes of business, regions and time
- Replaces equity
- Takes on large and accumulation risks
- Passes on risks: securitisation
- Transfers know-how

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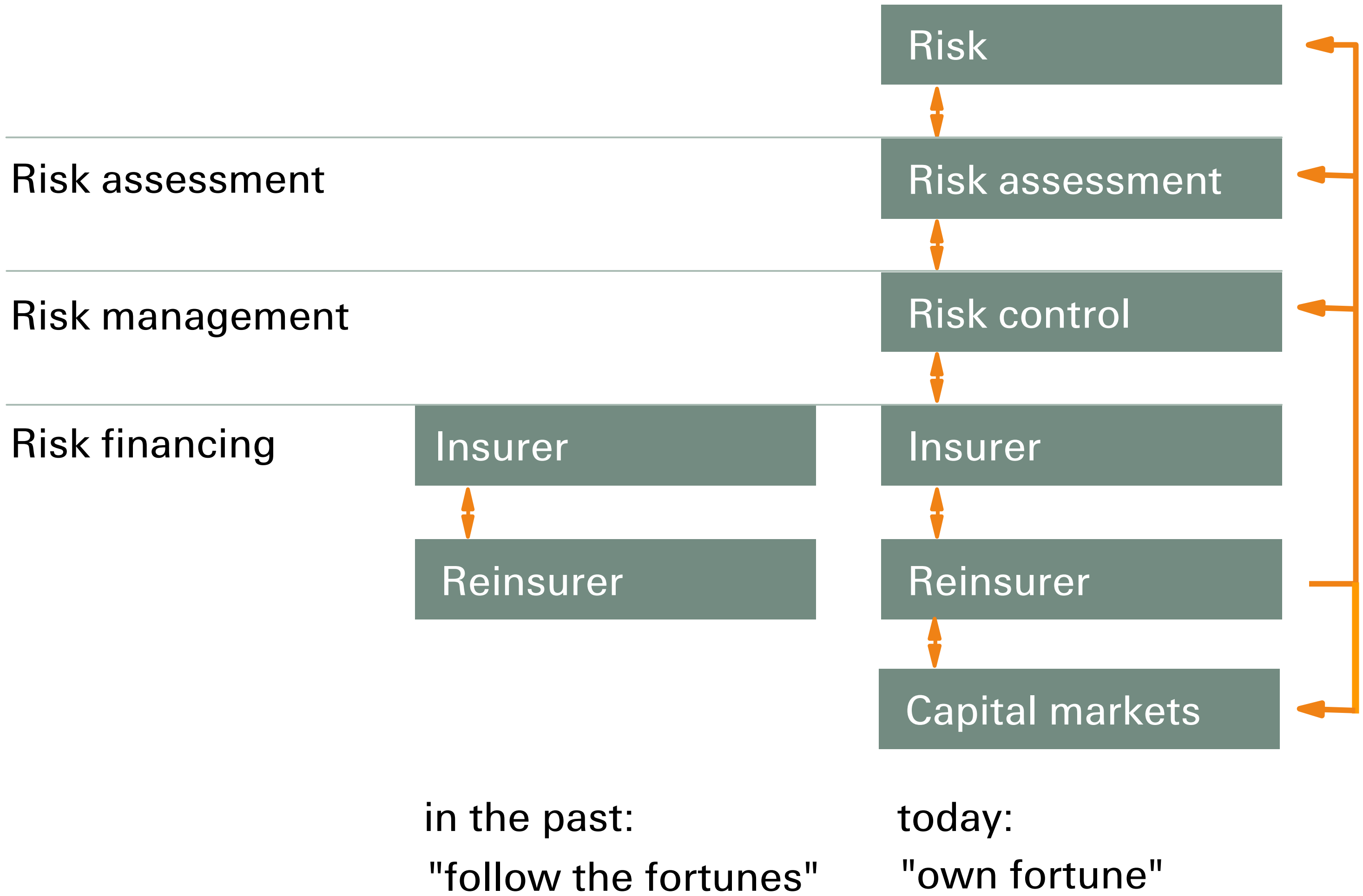
The reinsurance business model

Continuity, utmost good faith, follow the fortunes



Reinsurance market structure worldwide 2003: property and casualty

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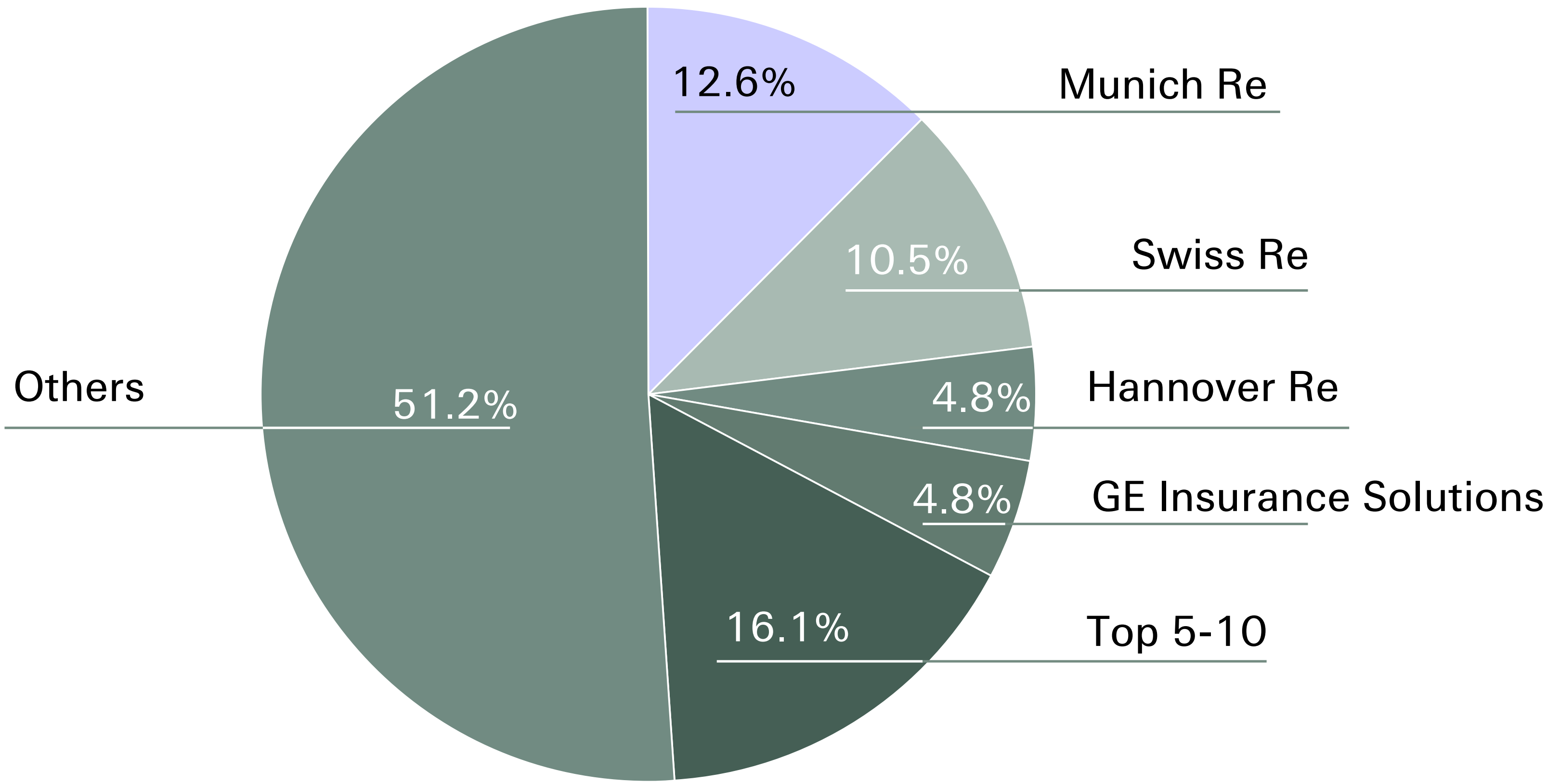
Total 2003: USD 145 billion



Source: Swiss Re, Economic Research & Consulting, Strategy Development

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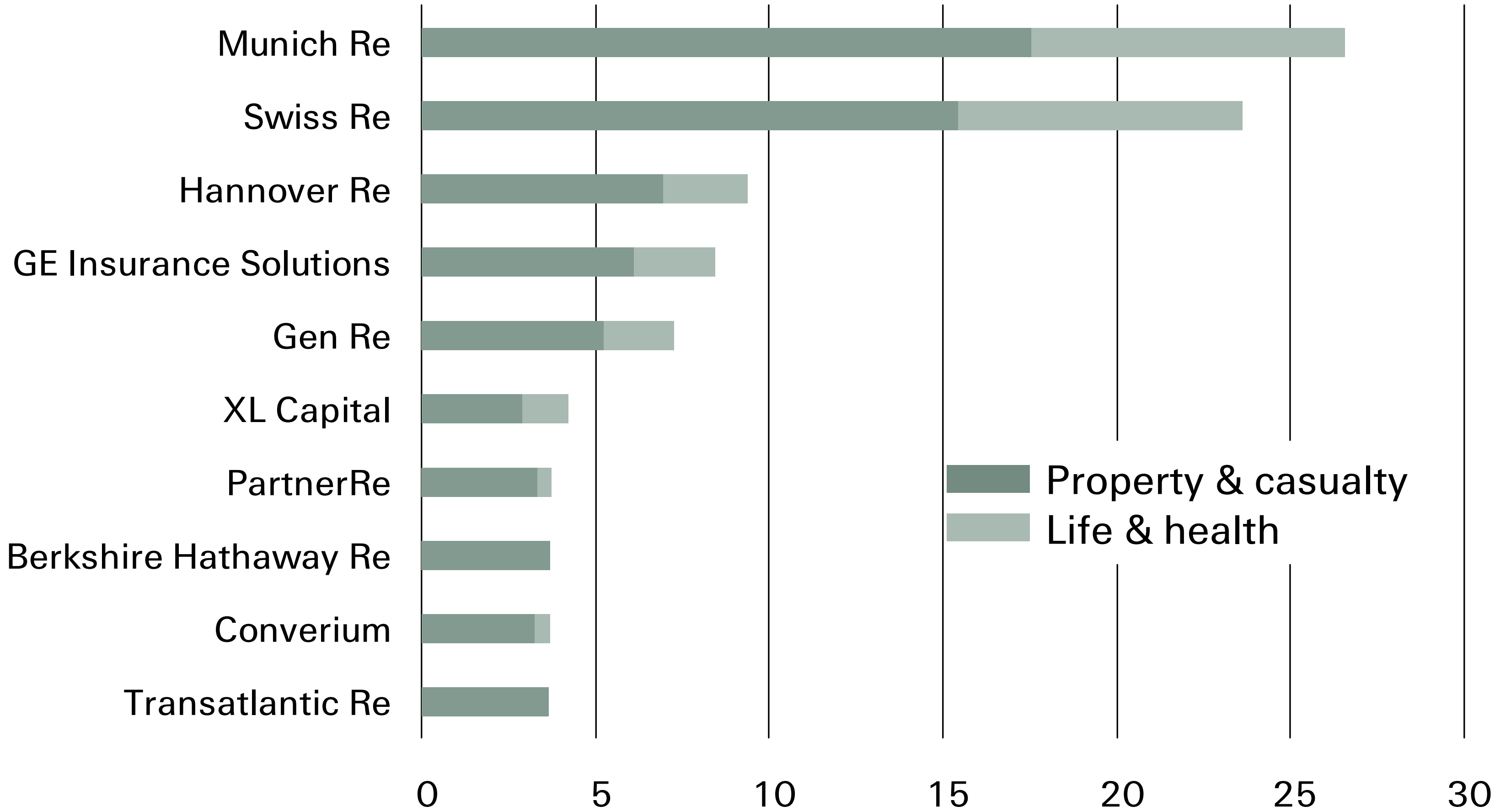
Top ten professional reinsurers

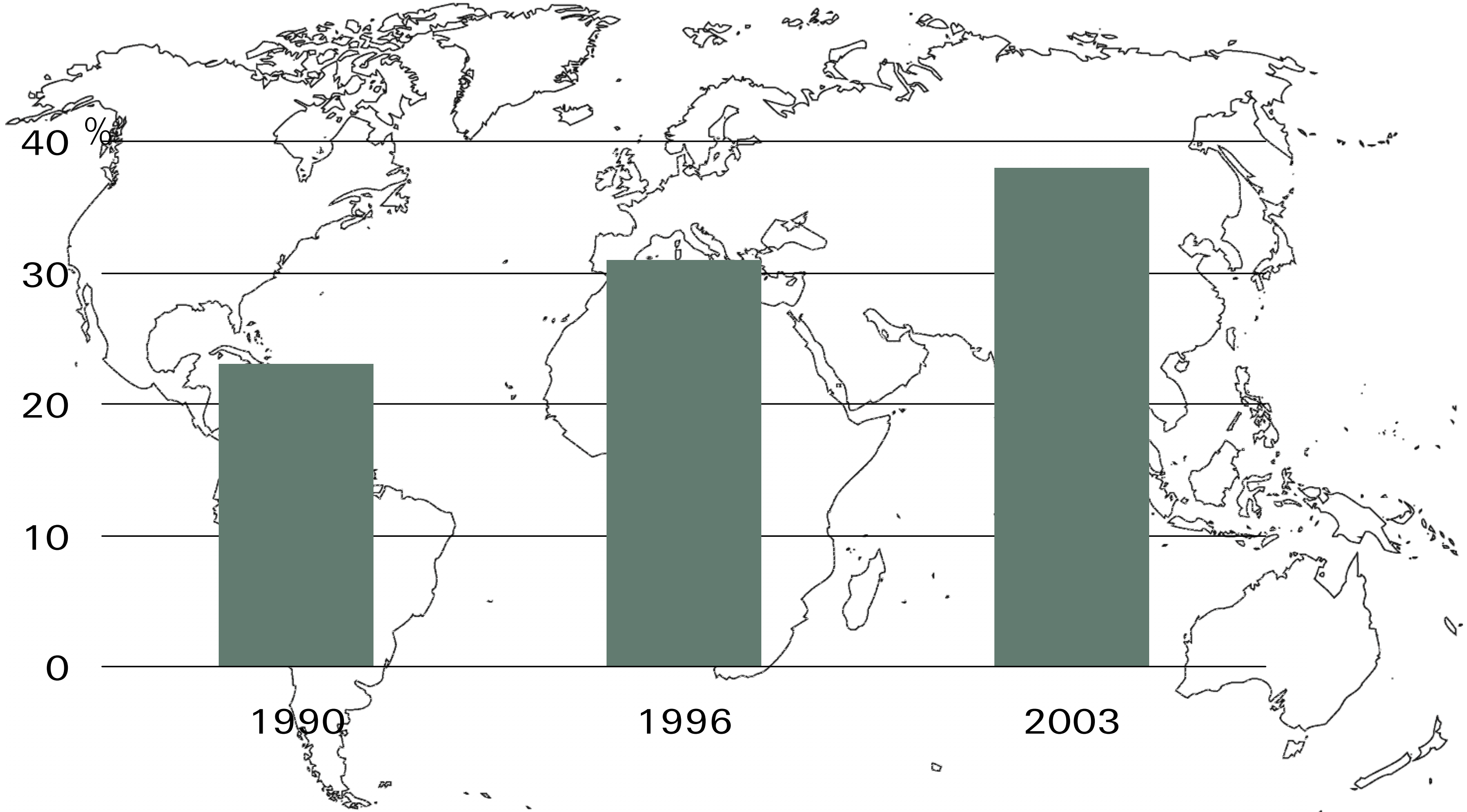
Net premiums earned 2004, in USD billion



Munich Re	Including intra-group transactions with NPE of USD 2.3bn
Gen Re	Gen Re and Berkshire Hathaway Re combined had NPE of USD 11.0bn

Source: Swiss Re, Strategy Development

Reinsurance market concentration



Market share of the top four reinsurance groups:
Munich Re, Swiss Re, Gen Re (1990, 1996), Employers Re, Hannover Re (2003)

Source: Swiss Re, Economic Research & Consulting, Strategy Development

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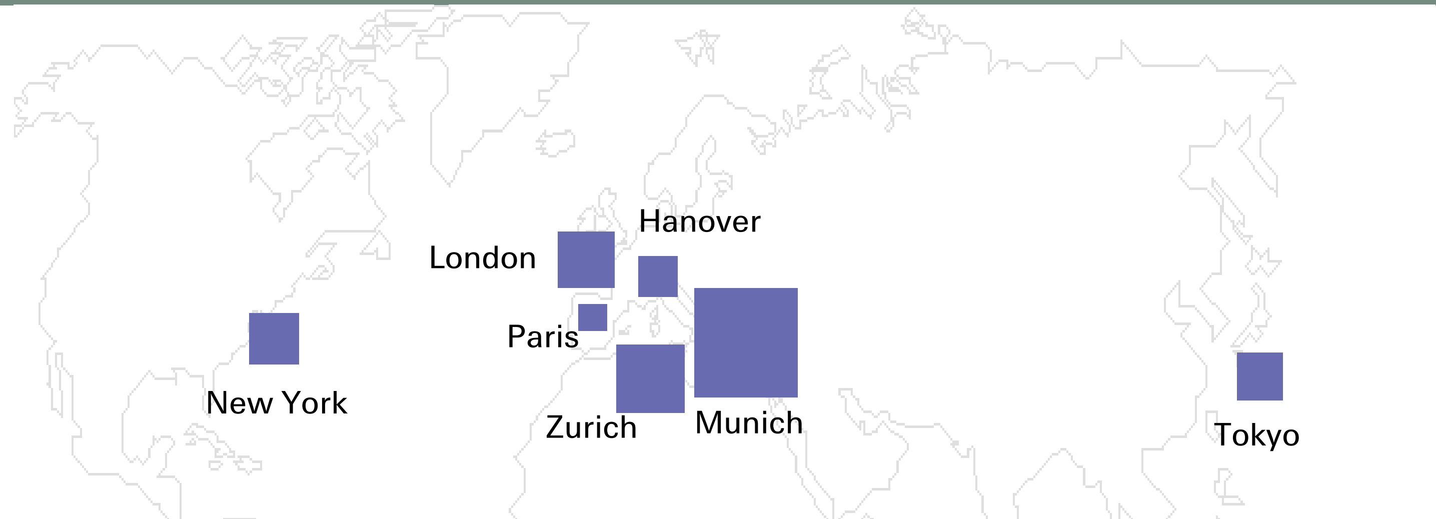
Reinsurance centres of the world



Net premiums of professional reinsurers in USD billion 2003

Munich [1]	34.8
Zurich	19.2
London [2]	12.4
New York	10.5
Tokyo	9.7
Hanover	6.5
Paris	5.5

[1] incl Allianz
[2] incl Lloyd's

Market concentration in Germany
The most important transactions

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1924	Swiss Re acquires Bavarian Re
1990	Hannover Re acquires portfolio of Hamburg International Re
1994	General Re buys Cologne Re
1995	Employers Re buys Frankona Re and Aachener Re
1995	Hannover Re takes a majority share in Eisen + Stahl Re
2000	Munich Re buys Alte Leipziger Re
2002	Victoria Re pulls out of reinsurance business
2003	Europe Re discontinuing writing reinsurance business
2003	Gerling discontinuing writing reinsurance business
2003	Gothaer Rück has ceased writing new reinsurance business

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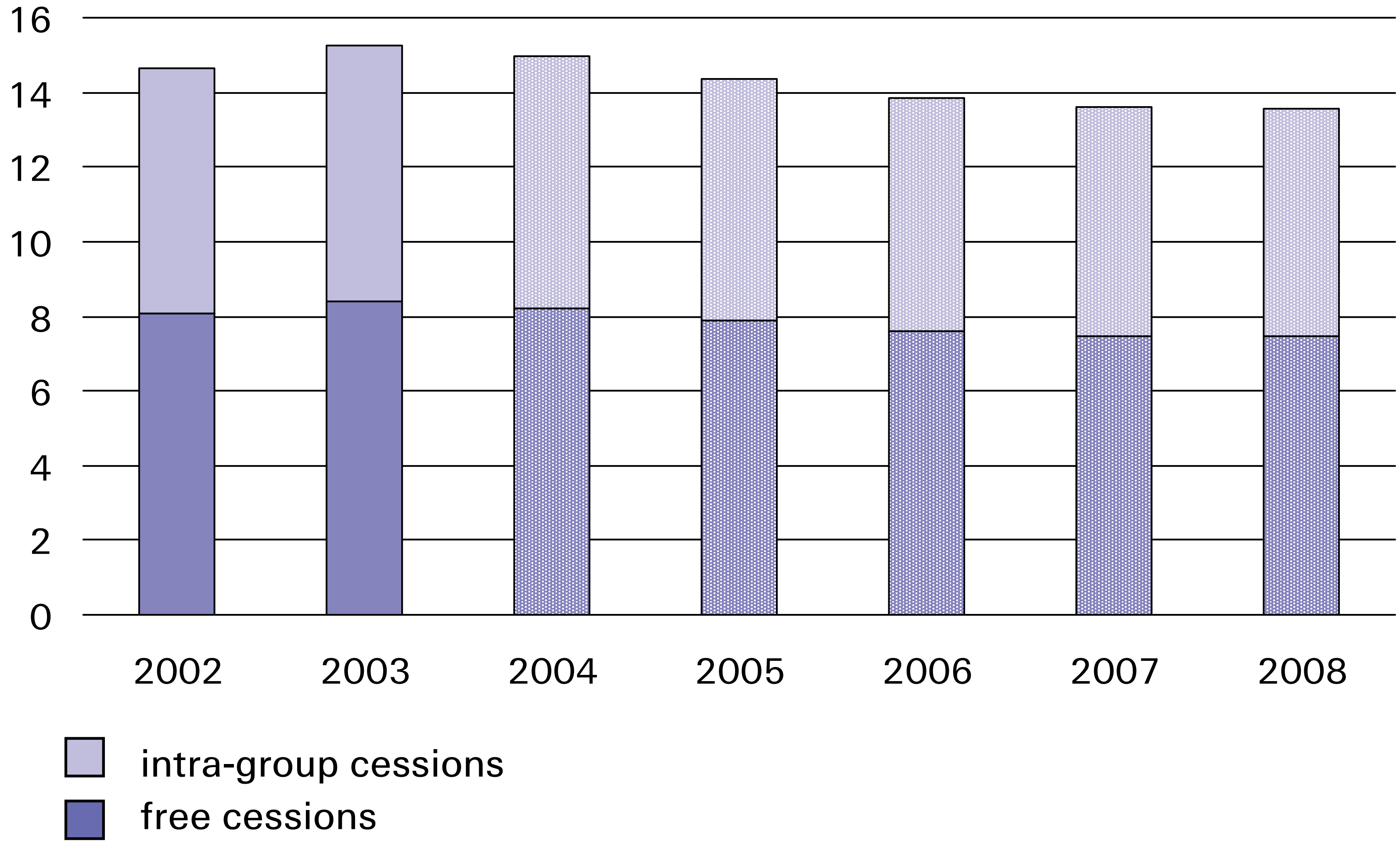
Ceded premiums in EUR billion



Source: BAFIN, Swiss Re Economic Research & Consulting

Premiums in Germany 2003 by line of business

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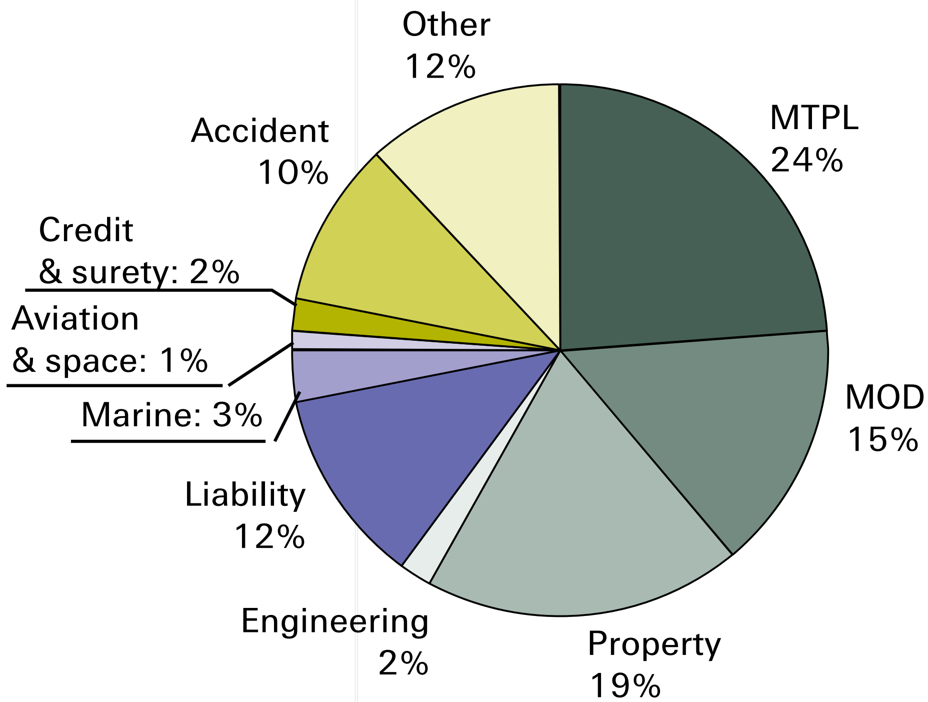
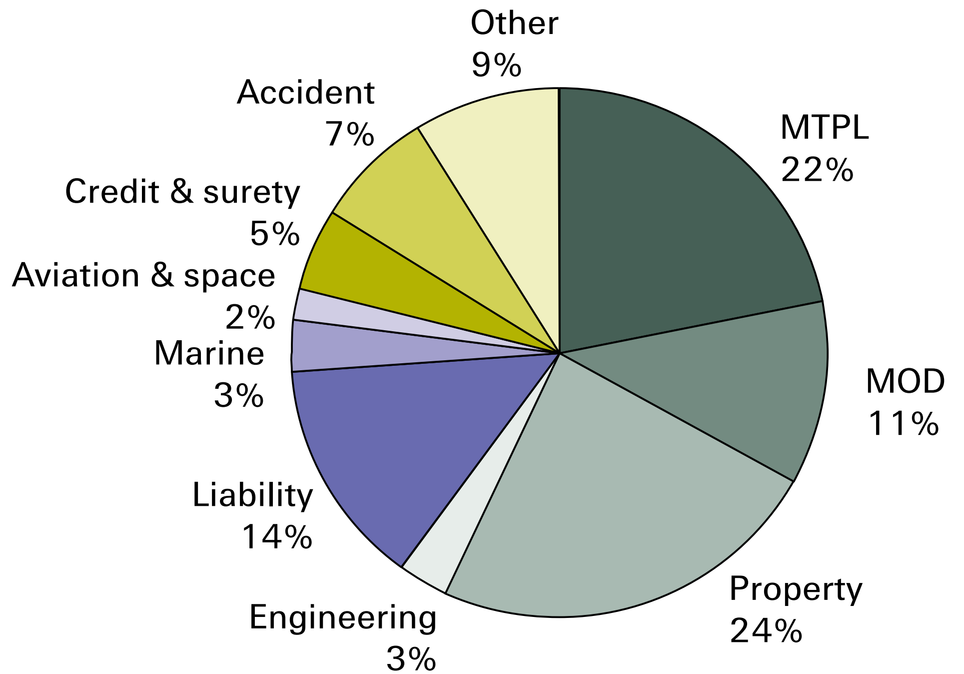
Direct premiums: Total: EUR 58.0 billion



Ceded premiums Total: EUR 15.3 billion



Source: Swiss Re Economic Research & Consulting

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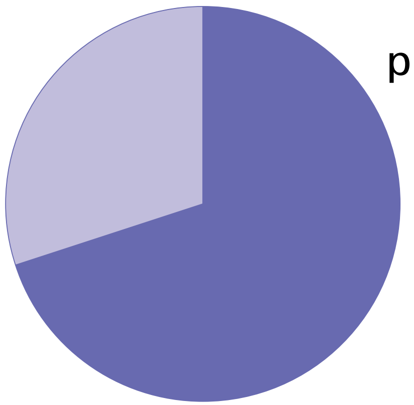
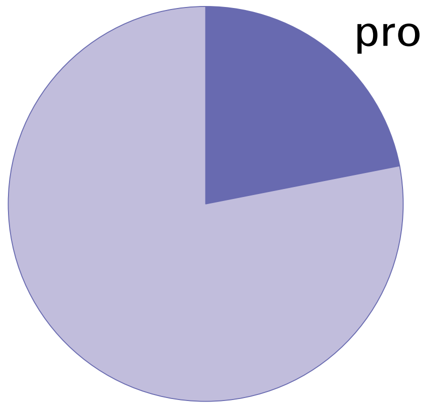
Proportional business

Germany



Ceded premium NL 2003
8.39 EUR billion

France



Ceded premium NL 2003
4.70 EUR billion

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Main exposures in the German market - NatCat

simulation of insured losses in EUR billion

	100-year-event	250-year-event
windstorm	4.0	6.0
flood	2.5	4.0
earthquake	1.0	2.5
hail (MOD)	1.0	1.5

Main exposures in the German market – Fire/FBI

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branch	Possible maximum loss in EUR billion
automotive engineering	3.00
mailorder business	2.65
automotive engineering	2.00
aerospace industry	1.98
chemical industry	1.72
electrical engineering	1.66
vehicle construction	1.61
automotive engineering	1.57
electrical engineering	1.40

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Future challenges

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Globalisation
- Competition
- Expansion of EU into Eastern Europe
- Strategies (mergers of primary insurers)

Government regulation
- IAS/IFRS
- Solvency II
- R/I supervision

Reinsurance industry

NGR – non-governmental regulations
- Rating agencies
- Analysts
- ...

Risk landscape
- Increasing insured values
- Risk perception
- New risks

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IAS / IFRS

- Will mean more administrative effort for (re)insurers.
- The abolition of equalisation provisions in the consolidated balance sheet (Phase I), could generate more need for reinsurance.
- With their actuarial know-how and consultancy services, reinsurers are ideally placed to fill this gap.
- There will be less scope for reinsurance solutions with limited risk transfer.

Solvency II

- Assumed short-term effects: more dialogue with supervisory authorities and more scope for influence
- Assumed medium-term effects: more risk-adjusted product range and pricing
- More focus on return on equity on a risk adjusted basis
- Introduction of Solvency II will heighten insurers' risk awareness. Greater focus on individual "risk landscape" and risk management processes.
- Possible spill over effect from life to non-life

Solvency II will mean that insurers will require a higher minimum level of solvency

⇒ new business opportunities for reinsurers

⇒ chance to bind clients through consultancy

Reinsurance supervision

- October 2003: IMF warns of the risks posed by German reinsurers. A German reinsurance supervisory authority is consequently established
- EU reinsurance directive has to be implemented within the next 2-3 years
- Consequences for German reinsurance companies:

  - direct effects on everyday business are unlikely

  - solvency requirements are set to change

  - stricter formal requirements, especially for start-ups

  - competitive advantage thanks to legal and financial supervision by state

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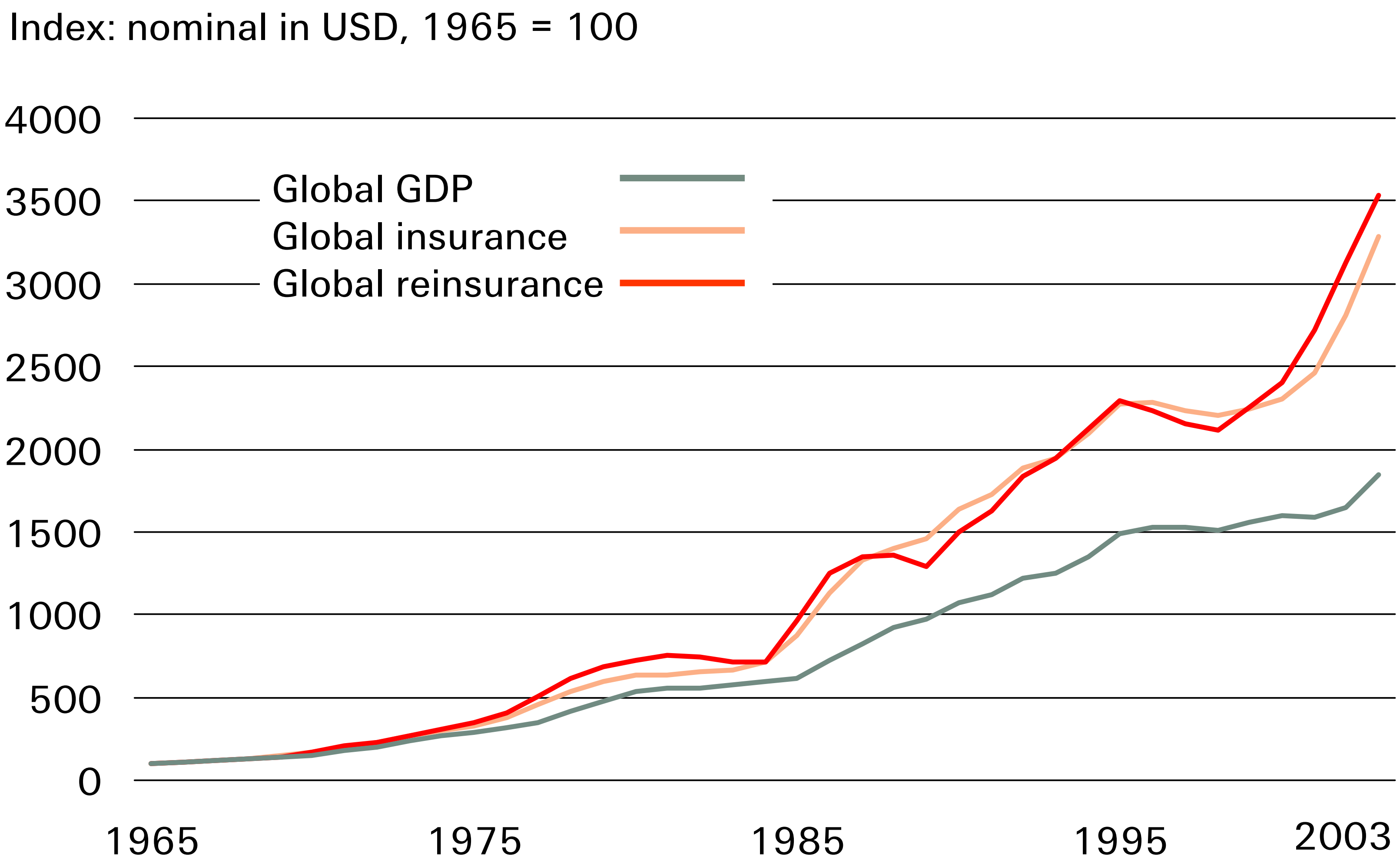
Secular growth trends



Source: Swiss Re, Economic Research & Consulting; WEFA

Conclusion

- Reinsurance worldwide is a market with sustainable growth potential
- Market concentration is slowly progressing in German primary insurance market and accelerating in reinsurance
- High but declining relevance of proportional reinsurance
- Solvency II will shift focus of primary insurers to return on risk capital
- IFRS and Solvency II will trigger additional demand for reinsurance

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Cautionary note on forward-looking statements

Certain statements contained herein are forward-looking. These statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact. Forward-looking statements typically are identified by words or phrases such as “anticipate”, “assume”, “believe”, “continue”, “estimate”, “expect”, “foresee”, “intend”, “may increase” and “may fluctuate” and similar expressions or by future or conditional verbs such as “will”, “should”, “would” and “could”. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re’s actual results, performance, achievements or prospects to be materially different from any future results, performance, achievements or prospects expressed or implied by such statements. Such factors include, among others:

- cyclicality of the reinsurance industry;
- changes in general economic conditions, particularly in our core markets;
- uncertainties in estimating reserves;
- the performance of financial markets;
- expected changes in our investment results as a result of the changed composition of our investment assets or changes in our investment policy;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality and morbidity experience;
- policy renewal and lapse rates;
- changes in rating agency policies or practices;
- the lowering or withdrawal of one or more of the financial strength or credit ratings of one or more of our subsidiaries;
- changes in levels of interest rates;
- political risks in the countries in which we operate or in which we insure risks;
- extraordinary events affecting our clients, such as bankruptcies and liquidations;
- risks associated with implementing our business strategies;
- changes in currency exchange rates;
- changes in laws and regulations, including changes in accounting standards and taxation requirements; and
- changes in competitive pressures.

These factors are not exhaustive. We operate in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on our forward-looking statements. We undertake no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.