Swiss Re

A year of opportunity

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2005: A year of contrasts for the insurance industry

- Balance sheets rebuilt
- Challenging investment environment (yield curve)
- Nat cat claims: highest ever
- Disappointing P&Ls for reinsurers
- Power of diversification

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Katrina, Rita and Wilma (KRW)

Large caps equipped to handle large events

Capital of smaller less diversified companies significantly impacted by KRW hurricanes

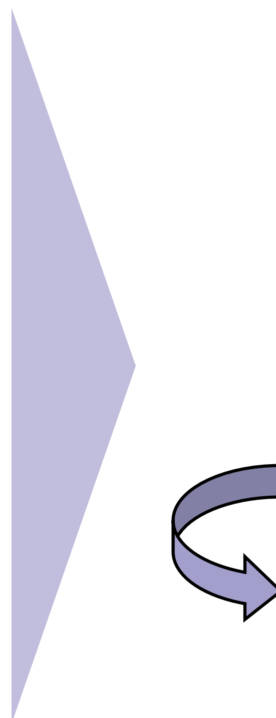
Notes: Shareholders' equity as of 2004; market cap as of 30.01. 2006

Source: Company data

* Swiss Re claims estimate net of equalisation reserve release

2006: A year of opportunity

- Successful January renewals
- Business opportunities are attractive
- Positive regulatory developments (Solvency II)
- Revised nat cat loss expectancy



- Increased importance of risk and capital management expertise
- Possible risks for cedents with higher retention
- Credit quality and diversification matter

Swiss Re (Jan 2006 renewals): est. 25% of volume with better terms and conditions

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Economic risk models to reflect counterparty risks: Current status

- Cedents: Recognise financial strength as value differentiators, but to varying degrees
- Cedents: Are not systematically rewarded in terms of capital cost for selecting better credit quality reinsurers
- Market: Lack of consistent approach to counterparty risk and corresponding capital charges leads to distorted competition
- Current solutions (all-or-nothing downgrade clauses, LOCs on events, collaterals etc.) may not offer true protection to cedents

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Economic risk models to reflect counterparty risks: The way forward?

- Banks and financial intermediaries efficiently address derivatives' credit risk
- Derivatives and reinsurance products have many similarities
- Opportunity for converging Solvency II and S&P's revised capital model/ERM – Ideally, these models:
  - reflect capital relief for risks transferred taking into account contingent credit risk (spread risk)
  - appropriately charge counterparty risk on asset side
  - provide quantitative benefit for diversification

➔ Once framework with appropriate credit risk charges is established, cedents can optimise their risk position to minimise required capital

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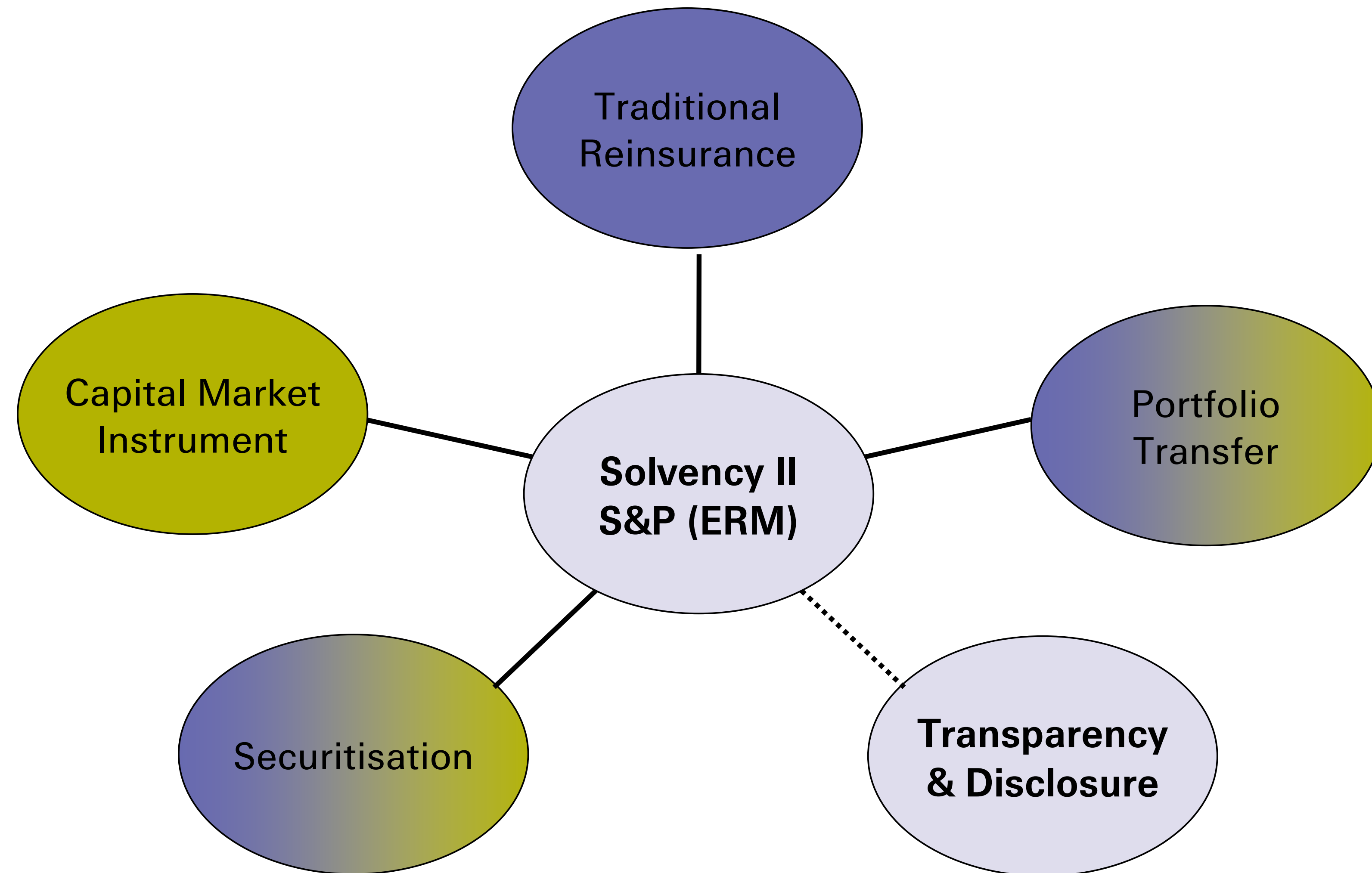
Solvency II and S&P enable more effective steering of capital adequacy



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Conclusions

- Risk and capital management start to matter
- Credit ratings and diversification increasingly being recognized as value differentiator
- Regulators and Rating Agency need to establish appropriate framework, allowing industry effective steering of risk and capital

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Q&A

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