News release

Swiss Re

# New Swiss Re *sigma* study highlights: What the insurance industry can learn from financial crises in emerging markets

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**Zurich, 13 November 2003 – Economic crises such as those that recently hit Argentina and Venezuela inflict damage on the insurance industry in the form of declining premiums and profits and even bankruptcies. As Swiss Re's new *sigma* study 'Emerging insurance markets: lessons learned from financial crises' shows, insurers who have a sound capital base and efficient asset-liability management in place can better withstand the consequences of a crisis.**

What influence do financial crises such as those that took place in Mexico, Argentina and Asia have? What impact does a recession, currency devaluation, rise in inflation, stock market crash and a crisis of confidence have on the insurance markets? And to what extent can insurers protect themselves against the consequences of a financial crisis?

Generally, a financial crisis brings about a dramatic drop in demand for insurance. For example, Thai motor premiums declined by more than 20% due to the financial crisis of 1997, while in Argentina life insurance premiums plummeted by 25% in 2002.

However, insurers are more affected by falling asset values and high claims costs. The latter increase on the back of inflation and rising number of claims, according to Swiss Re's *sigma* study. In Argentina, for example, in 2002 one third more cars were stolen than in the previous year. As insurance prices can only be adjusted with a time lag, the claims ratio surges.

Rising claims costs make it necessary for insurers to increase their reserves – at a time when their assets are losing value due to interest rate increases, higher risk of company and government defaults and stock market crashes. Due to book-value accounting, the full extent of this depreciation in asset value is not always immediately apparent in the balance sheet. Furthermore, reserves are in part only adjusted with a time lag. Nevertheless, a marked worsening of insurers' solvency could be seen in the wake of the most recent financial crises.

Companies that have an asset-liability mismatch with respect to currency are especially hard hit. In Indonesia, for example, where a large proportion of life policies were denominated in US dollars, premiums had been mostly invested in domestic-currency-denominated bonds which offered higher interest rates. The devaluation in the wake of the crisis had dramatic consequences as insurers' liabilities measured in local currency rose, while their assets remained constant at best. Furthermore, an increasing number of insureds demanded the payout of their life insurance savings.

The best insurers can do to withstand a financial crisis is to ensure that they have proper asset-liability management in place. Further preventive measures are policy clauses that allow for short-term price adjustments, rigorous claims management and a range of products that takes account of the volatile environment. This encompasses, for example, life insurance products in which the insureds participate in the investment risk and having adequate reinsurance cover available.

Insurers who protect themselves against the consequences of a crisis through suitable risk management can generally benefit from a market recovery two to three years later. For them, the existing potential offered by the emerging markets in this case opens up enormous chances.

## Notes for editors

Swiss Re is a leading reinsurer and the world's largest life and health reinsurer. The company is global, operating from 70 offices in 30 countries. Since its foundation in 1863, Swiss Re has been in the reinsurance business. Swiss Re has three business groups: Property & Casualty, Life & Health and Financial Services. Swiss Re offers a wide range of traditional reinsurance products and related services, which are complemented by insurance-based corporate finance solutions and supplementary services. Swiss Re is rated "AA" by Standard & Poor's, "Aa1" by Moody's and "A+" by AM Best.

***sigma* can be ordered as follows:**

**The English, German, French, Spanish and Italian versions of this *sigma* study are available electronically on Swiss Re's website: www.swissre.com/sigma**

**The English, German, French, Italian and Spanish printed editions of *sigma* No. 7/2003 can now be ordered. The Chinese and Japanese versions will follow shortly. Please send your orders, complete with your full postal address, to:**

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**This media release is also distributed by e-mail. Copies can be obtained from sigma@swissre.com**

**Data from selected figures and tables are available from the *sigma* chartroom on the Swiss Re Portal: http://www.swissre.com/portal.**