

Swiss Re economists see underwriting discipline key to profitability

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Swiss Re's chief economist said today that with an expected modest rise in inflation accompanied by firm economic growth, the Federal Reserve will continue to raise interest rates, pushing the federal funds rate to 4.5 percent by the middle of next year.

Additionally, at the company's Mid-year Economic and Insurance Industry Teleconference today, it was noted that rising interest rates will dampen investment returns, necessitating continued underwriting discipline for insurers to remain profitable.

"The Fed is moving at a measured pace, and we expect a 25 basis point hike after six of the next eight Federal Open Market Committee meetings," said Kurt Karl, Swiss Re's chief economist in North America. "We also expect consumption and business investment to remain engines of growth, though this will be constrained by rising interest rates and higher oil prices. The greatest risk to this outlook stems from higher oil prices — if they hit \$80 per barrel, we could see a mild recession."

Regarding the property and casualty insurance business, Thomas Holzheu, Swiss Re's senior economist for that business sector said, "We've seen a significant improvement in underwriting, and believe that profitable underwriting conditions will continue through 2005 in most areas. We foresee moderate growth for the industry on the whole."

Among the observations made by the economists:

- On June 30, the FOMC is highly likely to raise interest rates by 25 basis points, followed by 25 basis points for the next three FOMC meetings
- Economic growth will likely be sustained through 2006
- The yield on the 10-year Treasury note is projected to rise to 4.6 percent - 5.1 percent by the end of 2005, and near 5.5 percent by the end of 2006, as the economy remains strong, inflation ticks up and the Fed continues raising rates
- The biggest risk to growth still remains rising oil prices
- Assuming average catastrophe losses for the balance of 2005, combined ratios should be slightly lower than last year's
- Improved underwriting results and investment results will fuel further earnings growth in 2005.

Notes to Editors

Swiss Re is one of the world's leading reinsurers and the world's largest life and health reinsurer. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863. Swiss Re offers a wide variety of products to manage capital and risk. Traditional reinsurance products, including a broad range of property and casualty as well as life and health covers and related services, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA" by Standard, Poor's, "Aa2" by Moody's and "A+" by A.M. Best.

ANY QUESTIONS?

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