Swiss Solvency Test (SST)

George Quinn, CFO

Key messages
Swiss Solvency Test (SST)

- Capital measures are becoming more consistent and economic, with convergence between Swiss Re's internal model, SST and Solvency II
- Swiss Re is well capitalised under the SST framework
- Experience in implementing SST and economic capital strength position Swiss Re well to support our clients in preparing for Solvency II

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Swiss Solvency Test (SST)

What is it?

- Launched in early 2003 in cooperation with the industry
- Risk-based economic solvency regime:
  - integrated assessment of underwriting, financial market and credit risk, based on shortfall (TailVaR)
  - economic valuation of assets and liabilities
  - recognition of diversification
- Groups, conglomerates and reinsurers required to apply internal models
- Modelling of legal entities and intra-group transactions
- Bi-annual SST reports required (for groups and conglomerates)

➔ SST is an economic solvency regime
➔ Swiss Re has been reporting under SST since 2008
➔ SST capital requirements will be effective from beginning 2011

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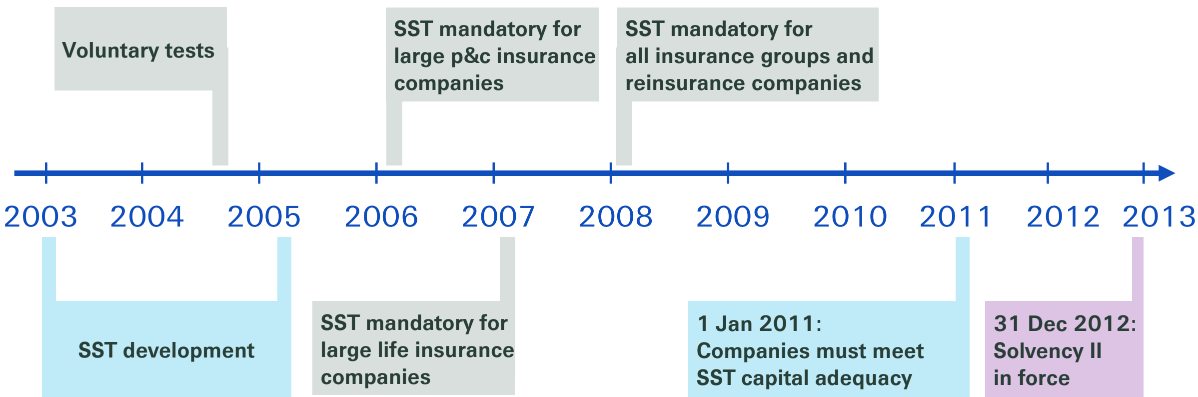
SST timeline

SST has been extensively tested and is operational



- SST regulation became effective Jan 2006
- Companies must meet SST capital adequacy by 2011
- Solvency I remains in force (expected to be phased out after launch of Solvency II)

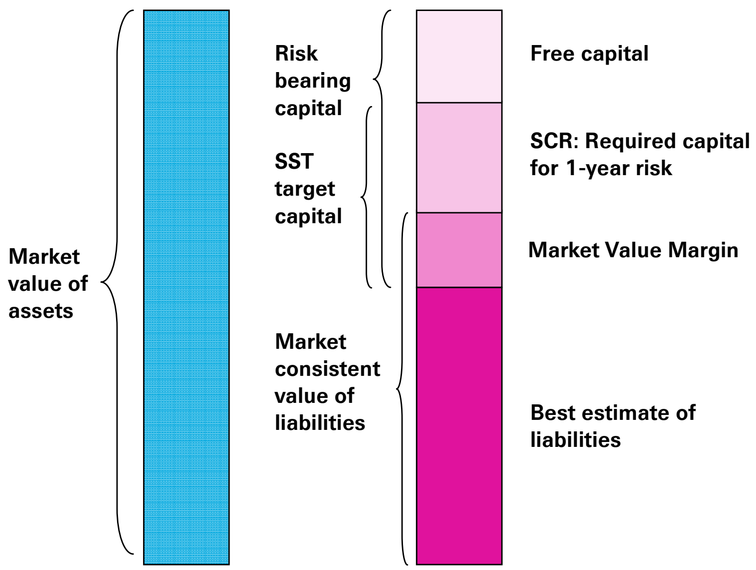
Scope of SST (and Solvency II)
Affected legal entities

- SST applies to
  - All legal entities domiciled in Switzerland
  - Swiss Re Group, because the parent company is domiciled in Switzerland
- SST for the Group requires the modelling of all legal entities and the interactions among them
- For major operating insurance entities, available and required capital based on SST is reported to FINMA
- Solvency II will apply directly to Swiss Re's European Union domiciled entities (e.g. Windsor Life, SR Europe)

SST building blocks:
Market-consistent (economic) balance sheet

SST principles:

- Total balance sheet approach
  - All material financial instruments must be taken into account
- Assets and liabilities are valued on a market-consistent basis
  - Marked to market or marked to model, if no readily available market value



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Comparison of different approaches

	Internal	SST	Solvency II *
Market consistent valuation	✔	✔	✔
Risk based	✔	✔	✔
Diversification	✔	✔	✔
Three-pillar approach	✔	✔	✔
Modelling of group effects	✔	✔	✘

➔ SST is an economic solvency measure, similar to Swiss Re's internal model and Solvency II

* Solvency II status as of May 2010

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Key differences

	Internal	SST	Solvency II *
Group approach	▪ Consolidated approach	▪ A group has to model all material legal entities as well as intra-group capital and risk transfer instruments	▪ Consolidated approach ▪ Fungibility to be considered
Hybrid treatment	▪ No limits for hybrid	▪ Tiering based on available capital	▪ Tiering based on required capital
Operational risk	▪ Qualitative treatment	▪ Qualitative treatment	▪ Quantitative treatment
Liquidity premium	▪ No liquidity premium	▪ No liquidity premium	▪ Liquidity premium likely
Risk measure	▪ Based on 99% shortfall	▪ Based on 99% shortfall	▪ Based on 99.5% VaR

➔ All three measures are largely similar

➔ We expect SST to be recognised as equivalent to Solvency II

* Solvency II status as of May 2010

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SST impact on internal model (I)
Capital adequacy model expanded

- In implementing SST, Swiss Re has gained practical experience by applying the internal model to assess the solvency of its legal entities:
  - Model validation, calibration and documentation were enhanced, complying with the requirements of SST
  - Internal model will be further enhanced for the use in Solvency II
- No major changes to the risk tolerance framework will be required to the extent that Solvency II capital requirements are in line with SST capital requirements

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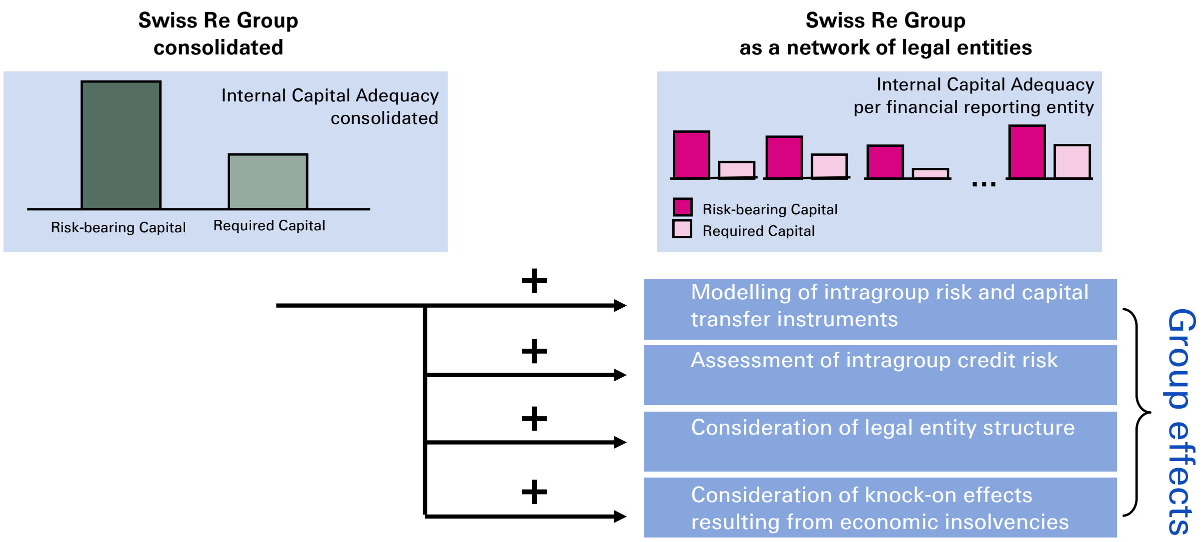
SST impact on internal model (II)
Better reflection of Swiss Re's legal entity network

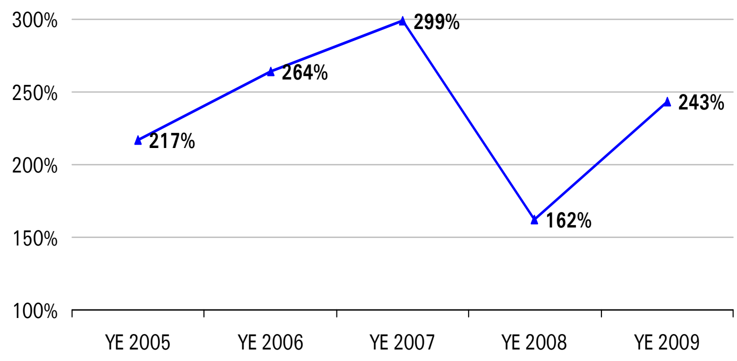
Pre-Swiss Solvency Test

Post-Swiss Solvency Test



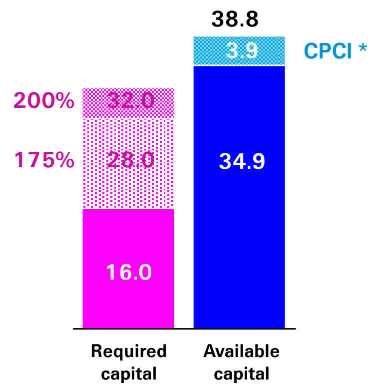
Swiss Re's capital strength
Swiss Re is well capitalized

Internal capital model
Capital adequacy ratio



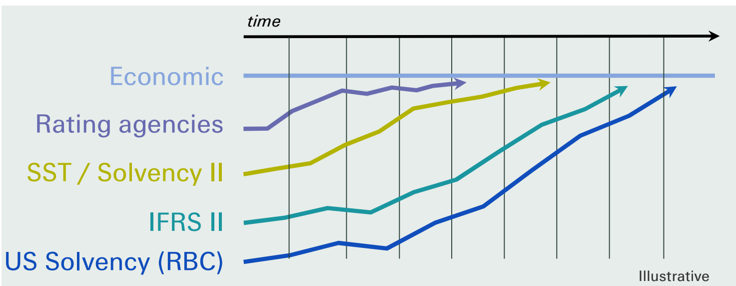
➔ Q1 2010 estimated SST >200%

Internal target range
(YE 2009, CHFbn)



* includes all expected cashflows from redemption of CPCI

Convergence of frameworks
Economic view will prevail but at different speeds



Example of diverging capital ratios: regulatory capital (RBC) and SST for two US subsidiaries (YE 2009)

Subsidiary	RBC ratio	SST Ratio
Swiss Re America Corp.	296%	738%
Swiss Re L&H America	752%	156%

- Swiss Re subsidiaries continue to be subject to local regulatory capital constraints
- Some local regulatory frameworks (e.g. US RBC) may give different answers compared to SST

➔ Despite the introduction of economic regulatory frameworks like SST or Solvency II, capital continues to be locked-up due to more conservative local capital constraints

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SST
Value proposition for our clients

- SST precedes Solvency II, as already commenced in 2008
- SST has given Swiss Re practical experience in implementing both quantitative and qualitative requirements similar to Solvency II
- Clients need to put more focus on risk and capital - economic effects of reinsurance will have a more immediate impact on their solvency capital requirement
- Clients will need to assess their current reinsurance programmes under SST or Solvency II regime and restructure, if necessary, to make them more efficient
- An appropriate consideration of all available risk mitigation instruments in the respective models is key (Standard Formula or (partial) internal model)

➔ Swiss Re is well positioned to offer tailor made solutions to our clients based on our strong risk and capital expertise and practical experience of SST

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Q&A

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Corporate calendar & contacts

Corporate calendar

05 August 2010	**Second Quarter 2010 results**	Conference call
13 September 2010	**Investors and Media meeting**	Monte Carlo
04 November 2010	**Third Quarter 2010 results**	Conference call
17 February 2011	**Annual Results 2010**	Zurich

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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:

- further instability affecting the global financial system and developments related thereto;
- changes in global economic conditions;
- Swiss Re's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls under derivative contracts due to actual or perceived deterioration of Swiss Re's financial strength;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on Swiss Re's investment assets;
- changes in Swiss Re's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on Swiss Re's balance sheet equivalent to its mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more companies in the Group;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- 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;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting Swiss Re or its ceding companies, and regulatory or legal actions;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions, including, in the case of acquisitions, issues arising in connection with integrating acquired operations;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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