



## Securitisation and Insurance

Jacques Aigrain  
Chief Executive Officer, Swiss Re

### S&P ILS Investor Conference

28 June 2007

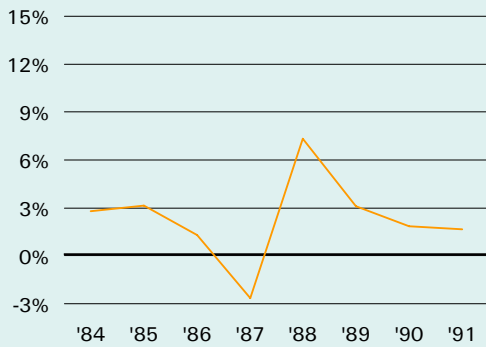


## Agenda

- 
- **Current market**
    - *A parallel to the banking industry*
    - *Insurance risk securitisation market development*
  - Market drivers and value of insurance risk securitisation
  - Key success factors and outlook
  - Discussion
-

## Commercial banking's ROE challenge in the late 80's

### Commercial banking 1984 – 1991 Low ROE – high volatility



Source: Stone Point Capital

### Subsequent changes in the banking industry

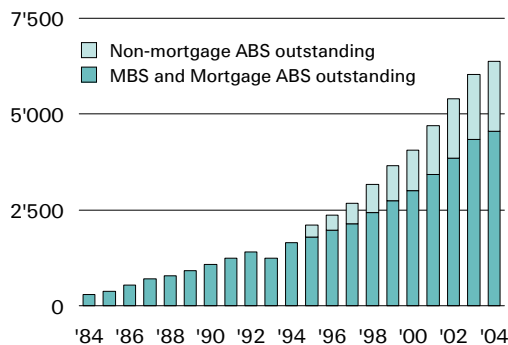
- ▶ Modernized capital adequacy models
- ▶ Accelerated balance sheet through strong growth of asset-backed securities (ABS)/mortgage-backed securities (MBS)
- ▶ Increased fee income generation
- ▶ Aggressive expense management

Source: Stone Point Capital

Low ROE and high volatility triggered transformation of the banking industry

## Successful transformation of the banking industry

### ABS/MBS Outstanding in the US in USDbn



Source: Morgan Stanley  
 Note: Non-mortgage ABS only included from 1995

### Commercial banking ROE (1984 – 2004)



Source: Stone Point Capital

ABS/MBS issuance accelerated drastically in 1994 improving ROE's considerably

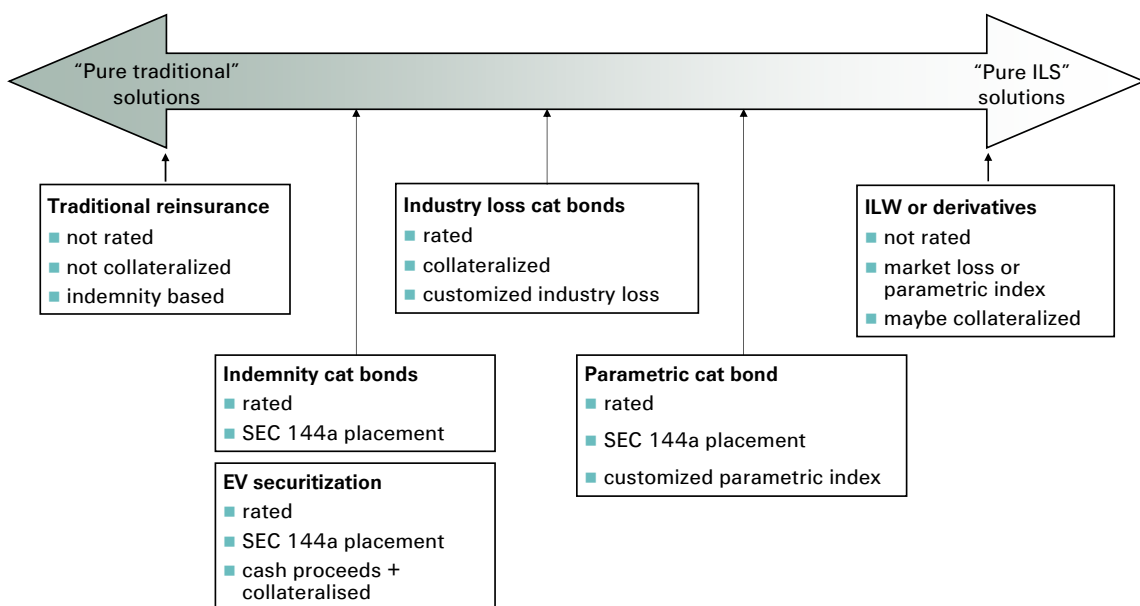
## Agenda

- **Current market**
  - *A parallel to the banking industry*
  - ***Insurance risk securitisation market development***
- Market drivers and value of insurance risk securitisation
- Key success factors and outlook
- Discussion

S&P ILS Investor Conference  
 Jacques Aigrain  
 London, 28 June 2007

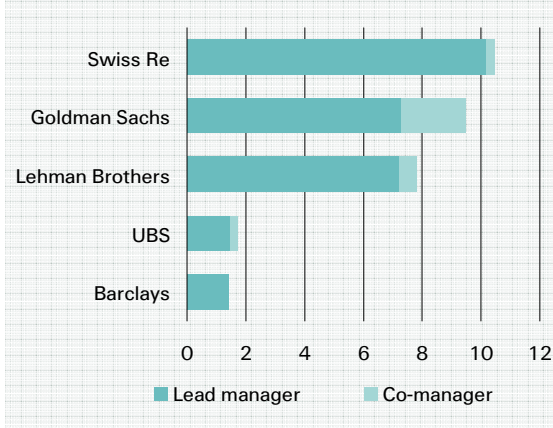
Slide 5

## Continuous spectrum of capital market solutions

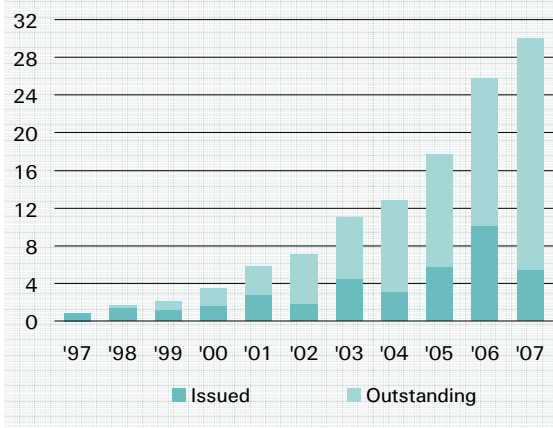


## Capital market alternatives are accelerating

Leading ILS underwriters  
 between 1 Jan '03 and 25 Jun '07, in USDbn



Total ILS outstanding  
 as of 25 Jun '07, in USDbn

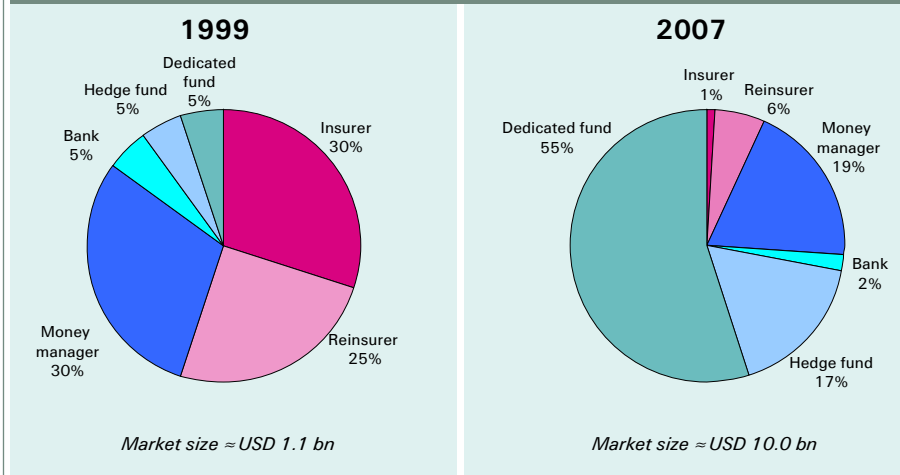


Slide 7

Source: Swiss Re Capital Markets

## Growing investor base

Capital market investors now dominate the nat cat ILS investor base, including large institutional money managers and many funds dedicated to the sector



Slide 8

As of May 15, 2007  
 Source: Swiss Re Capital Markets

# Multiple benefits of Capital Market Transactions

## Swiss Re sponsored securitizations

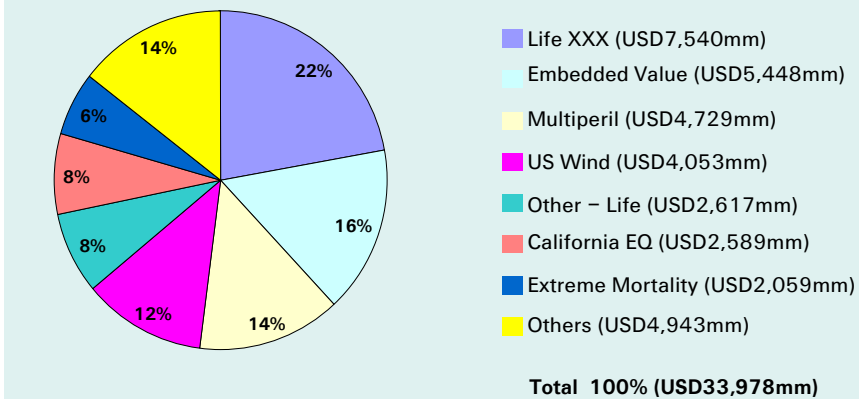
					Growth	RoE	Manage volatility
Queensgate	Jan 05	USD 245m	US Admin Re <sup>SM</sup>	EV monetisation	✓	✓	✓
Vita II	Apr 05	USD 362m	Extreme mortality	Peak risk protection	✓		
ALPS II	Dec 05	USD 370m	US Admin Re <sup>SM</sup>	EV monetisation	✓	✓	✓
Crystal Credit	Jan 06	EUR 252m	Credit reinsurance	Mass risk protection	✓		✓
Australis	Jan 06	USD100m	Nat cat	Peak risk protection	✓		
Successor	June 06	USD 950m	Nat cat	Peak risk and earnings protection	✓	✓	✓
Vita III	Jan 07	USD 705m	Extreme mortality	Peak risk protection	✓		
MedQuake	May 07	USD 100m	Nat cat	Peak risk protection	✓		

as of May 2007

Slide 9

# Risks securitized since 1997

## Life securitizations have been predominant



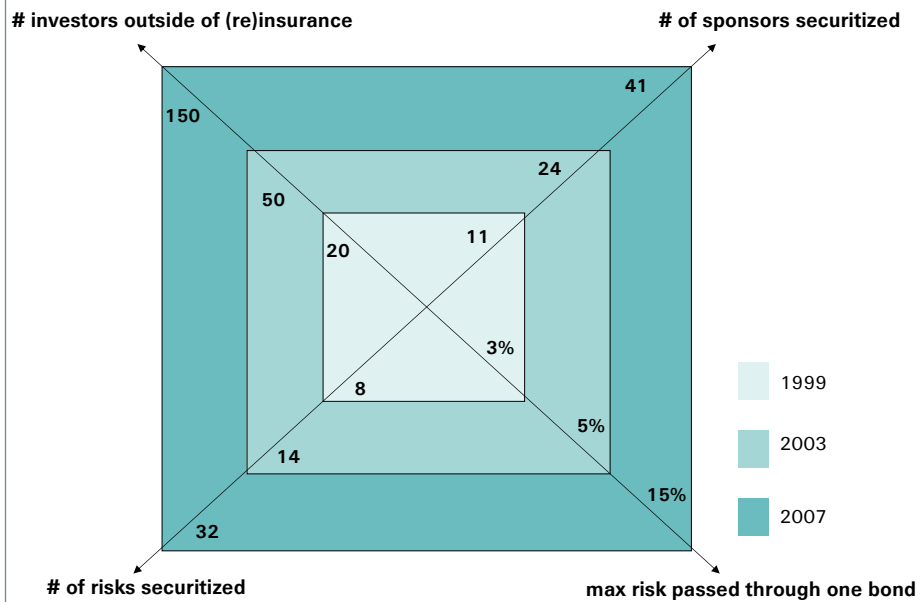
As of 25 April, 2007  
 Source: Swiss Re Capital Markets

S&P ILS Investor Conference  
 Jacques Aigrain  
 London, 28 June 2007

Slide 10



# Significant increase in market depth and breadth



S&P ILS Investor Conference  
 Jacques Aigrain  
 London, 28 June 2007

Slide 11



# Examples of market development

## 2002 – Swiss Re’s Pioneer

- 5 Special Purpose Vehicles (SPVs) to cover 4 risks
- Industry index trigger
- Scalable quarterly
- Max capacity available at first issue: USD 250 m
- Risk of each tranche: 1.3%

## 2006 – Swiss Re’s Successor

- 36 SPVs to cover 4 risks
- Industry and parametric indexes as well as modelled loss triggers
- Scalable daily
- Max capacity available at first issue: USD 950 m
- Risk of tranches: 1.3% - 15.0%

Slide 12

## Agenda

- **Current market**
  - *A parallel to the banking industry*
  - *Insurance risk securitisation market development*
- **Market drivers and value of insurance risk securitisation**
- **Key success factors and outlook**
- **Discussion**

## Transparency: challenge and opportunity

### Differences of the reinsurance industry compared to the banking industry

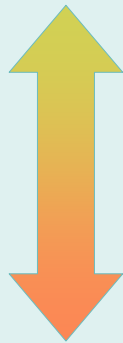
- Less homogenous risk classes with less transparent history
- Absence of industry standards (e.g. in terms and conditions)
- No globally harmonized regulation
- Unclear triggers/payouts leading to time-lags and arbitration in certain cases
- Tail risk managed by reinsurers as opposed to central banks

### Benefits of standardisation & transparency

- Transparency of pricing improves market efficiency to benefit customers
- Transparency of expected loss makes for more disciplined reserving and thus, quality of earnings
- Transparency and standardisation should improve contractual certainty
- Complexity of underlying risk is not the real issue; risk can be disaggregated into components

## Peak risk transfer solves a dilemma

The P&C industry is confronted with increased volatility, more complex risks and increased demand for capacity



- Demand for cat cover has been growing by almost 10% annually, more than most other lines of business
- Regulators and rating agencies require re/insurance companies to manage against more conservative risk estimates

Securitisation reduces volatility, accelerates the balance sheet and facilitates growth

## Life securitization: an effective capital management tool

### Life transactions

### Key benefits

Monetize intangible assets  
 (eg EV securitization)

Provide new/alternative form of liquidity and improves ROE

Fund regulatory capital requirements

Mitigate pressure from XXX/AXXX reserve requirements in the US

Transfer insurance risks (eg mortality, longevity, lapse, markets)

Stabilizes earnings profiles  
 Peak risk protection

Market potential for life securitization remains strong, both for sponsors and investors



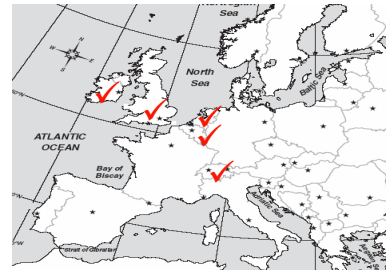


## Solvency II and rating agencies to allow for securitization benefits

### Economic and risk based principles support transparency and thereby securitization

#### 1. Most advanced jurisdictions in Europe

- Regulators in Switzerland, Ireland, Netherlands, Luxembourg, the UK and now Luxembourg allow for capital release on transactions with effective risk transfer
- UK, Luxembourg and Ireland have prepared regulations for insurance SPVs pursuant to the Reinsurance Directive



#### 2. Rating agencies started considering economic/internal models



## Agenda

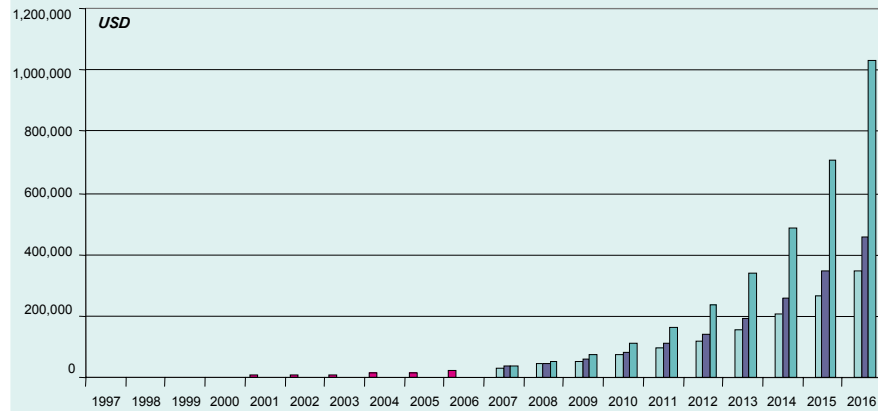
- Current market
  - A parallel to the banking industry
  - Insurance risk securitisation market development
- Market drivers and value of insurance risk securitisation
- Key success factors and outlook
- Discussion



# Potential growth rate: a case for creation of a substantial market

The compound annual growth rate from 1997 – 2006 is approximately 45%, which translates to a total outstanding amount of 25B.

- Actual Outstanding ILS (45%<sup>(1)</sup>)
- Projected Outstanding ILS (45%<sup>(2)</sup>)
- Projected Outstanding ILS (34%<sup>(3)</sup>)
- Projected Outstanding ILS (30%<sup>(4)</sup>)



- (1) Actual historical compound annual growth rate (1997-2006)
- (2) Projected outstanding using actual historical compound annual growth rate
- (3) Projected outstanding using 75% of actual historical compound annual growth rate
- (4) Projected outstanding using 66% of actual historical compound annual growth rate

As of December 29, 2006  
Source:  
Swiss Re Capital Markets



# Key success factors

- Transparency**
  - Industry to increase transparency on securitisation transactions through improved data, modeling and documentation (including standardization of contracts, SPV and triggers)
- Regulators**
  - Fully recognize risk transfer involved and allow capital relief
  - Accept SPVs as valid counterparties, not subject to stringent solvency requirements
  - No unwarranted restraints imposed on institutional ILS investments
- Rating Agencies**
  - Fully recognize the risk transfer (=capital relief), risk management and counterparty issues of securitization
  - Have an efficient and effective process for rating of the notes; a transparent and fair fee structure

Outlook for discussion (I/II)  
How the industry can foster  
the securitization developments

**Derivatives**

- Full collateralization inhibits further growth in insurance derivatives. Need to move toward margin call principle
- Greater liquidity will improve transparency and extend counterparty credit
- ILS indices to create secondary derivatives and term market

**Leverage**

- Investors will increasingly be able to take risk on a leveraged or financed basis
- Greater leverage will ensure tighter spreads, resulting in increased issuance
- Leverage will be provided by Collateral Debt Obligations (CDO), exchange traded contracts, derivatives, shorting of risk and financing of bond positions

**Exchanges**

- So far, the exchange traded initiatives by the CME/NYMEX have yet to succeed
- Swiss Re believes that if leverage is provided through margin, a viable product will arise

Slide 21

Outlook for discussion (II/II)  
Swiss Re Cat Bond Indices calculated by S&P



*The Cat Bond Indices is the exclusive property of Swiss Re. Swiss Re has contracted with Standard & Poor's to maintain and calculate the index. S&P shall have no liability for any errors or omissions in calculating the index.*

- Swiss Re Capital Markets launched a series of Cat Bond Indices
- maintained and calculated by S&P and updated weekly on Bloomberg
- provide investors with greater transparency in cat bonds performance (indication of the coupon return, price return and total rate of return)
- aimed at evolving into important trading instruments for secondary markets

Slide 22



## Agenda

- 
- **Current market**
    - *A parallel to the banking industry*
    - *Insurance risk securitisation market development*
  - **Market drivers and value of insurance risk securitisation**
  - **Key success factors and outlook**
  - **Discussion**
-