Swiss Re: US economy is strengthening; insurance market continues flight to quality

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Swiss Re’s chief economist asserted today that the US recovery is strengthening, along with that of the overall global economy, but the Federal Reserve will be on hold until the market sentiment improves. Additionally, at a the company’s Mid-year Economic and Insurance Industry teleconference, experts predicted that the global insurance industry will continue to tighten and the stock market will enter a period of becoming “irrational on the downside.”

“The United States is in a recovery and we expect robust growth in 2003,” said Kurt Karl, Chief Economist North America, Swiss Re. “The markets are expected to respond to the improving economy in the second half of this year, with yields on long-term treasury notes rising. The Fed will raise interest rates late this year, although it could be next year if market conditions continue to weaken.”

In addition to Karl’s discussion, the teleconference featured presentations from Thomas Holzheu, Swiss Re Senior Economist, and Chris Weihs, Swiss Re Asset Management Vice President. The presentations examined the economic outlook for the U.S. economy, the global market environment and provided a market analysis of the U.S. property/casualty industry.

In his 2002 Mid-Year Review of the U.S. Property/Casualty Industry, Holzheu said that pricing momentum from the first quarter is continuing, with a shift of pace towards casualty lines. On average, Holzheu reported commercial lines rates are up 10 percent to 30 percent, while personal lines rates are up anywhere from 6 percent to 9 percent.

“We are seeing a flight to quality recently as the worldwide capital position of the industry has dramatically declined,” said Holzheu. “Since 2000, we have seen an excess capital base turn into a tight capital base, a decline in equity outweighing the inflow of new capital and a new emphasis on the quality of capital. The hard market shows every sign of continuing and we anticipate further shakeout in the industry.”

Swiss Re Asset Management’s Mid-Year Investments Review and Outlook Report finds that investor psychology continues to be extremely negative and risk avoidance is the current mantra.

“There is the increasing likelihood that the stock market may be entering a period of symmetrical idiocy, i.e. a period where the market becomes as irrational on the downside as it did on the upside in 2000, ” Weihs said.

Accordingly, Swiss Re Asset Management’s near term view is cautious, but mindful that the market is nearing an oversold position, Weihs said.

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. Gross premiums in 2001 amounted to CHF 28.5 billion (USD 16.9 billion). Swiss Re has a strong track record of earnings growth only interrupted in 2001 with a net loss of CHF 165 million (USD 97.8 million), largely due to the 11 September 2001 event. At the end of 2001, Swiss Re's shareholders' equity amounted to CHF 22.6 billion (USD 13.6 billion) and the total balance sheet stood at CHF 170 billion (USD 102.4 billion). Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best.

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