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Layout & Distribution: Valéria Kozakova

Insurance Risk Securitization Market Development: Has the Credit Crisis Strengthened or Weakened the ILS Market?

Stefano Sola

	<p>Swiss Re </p> <h2>Key Discussion Points:</h2>
	<ul style="list-style-type: none">> Current Market Environment> Sponsor Outlook> Investor Outlook> Structural Focus



ILS market update

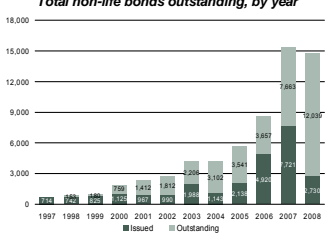
Fundamentals of market remain strong.

Three questions in current market

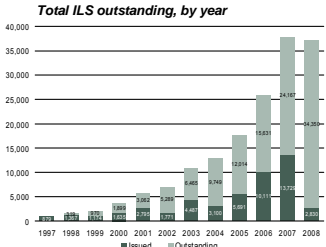
- *Future issuance*
- *Bonds are being actively traded reflecting differing appetite for the sector*
- *Outstanding bonds are maturing*

- Lehman Brothers' bankruptcy and general market conditions have contributed to a significant increase in selling activity
 - Hedge fund de-leveraging
 - Greater awareness of TRS counterparty and asset credit risk
 - Challenging relative value comparison to comparable products
- 2008 new issuance is expected to be less than 2007
- Total non-life bonds outstanding are approximately USD 14.5 billion
- An estimated 9.5 billion additional capacity is provided in derivatives/ILW form
- Total bonds outstanding exceed USD 37 billion


Total non-life bonds outstanding, by year



Total ILS outstanding, by year



Source: Swiss Re Capital Markets



Sponsor Outlook: Property & Casualty

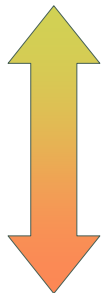
Peak risk transfer solves a dilemma

Key issue in P&C reinsurance market is capital and capacity.

Demand for cat cover likely to accelerate in light of reduction of equity capital.


Reinsurance/cat bonds can be viewed as a form of hybrid capital

The P&C industry is confronted with increased volatility and more complex risks



- Demand from insurers for cat cover has grown, historically, 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

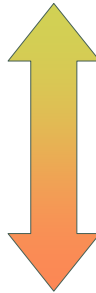


Sponsor Outlook: Life & Health Effective capital management tool

Currently these deals are bought and held by banks


Long-term these 10-30 year liabilities belong on balance sheets of "real-money" investors.

The L&H industry wishes to monetise intangible assets and reduce impact of regulatory requirements



- By monetising intangible assets, e.g. EV securitisation, companies access new sources of liquidity and can improve RoE
- Reducing XXX/AXXX reserve requirements allows capital to be deployed elsewhere
- Transfer of insurance risks to the capital market helps stabilise earnings profile by providing peak risk protection

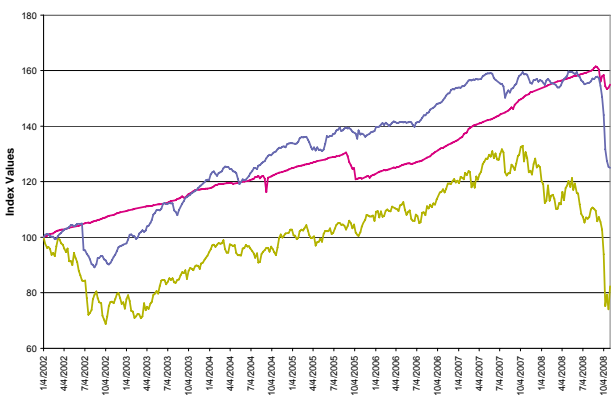
→ Market dislocation currently exists with financing transactions; investor demand remains for transactions providing risk transfer




Investor Outlook: Cumulative Return

Generally speaking, investors are pleased with how this sector has held together relative to the broader financial markets.


BB Performance from 1 January 2002 – 1 November 2008



"SRBB Cat Bond Index", calculated by Swiss Re Capital Markets, is a market value-weighted basket of nat cat BB-rated cat bonds tracked by Swiss Re Capital Markets, calculated on a weekly basis; past performance is no guarantee of future results
 Underlying data for Lehman BB Index provided by Lehman Brothers
 Underlying data for S&P 500 Index provided by Bloomberg LLP
 Underlying data for "SRBB Cat Bond Index" is based on indicative prices only



Investor Outlook:
Despite credit crunch, volumes holding...




Trading Volume by Month	
January	381,669,538
February	239,892,500
March	322,297,940
April	74,001,150
May	143,429,950
June	181,485,625
July	167,877,305
August	141,391,425
September	124,324,810
October	312,850,000

Swiss Re ILS Trading Volume


	2006	2007	2008 YTD	2008 YTD est. market total	Approx. Swiss Re market share
Cat bonds	\$1.4 bn	\$2.0 bn	\$2.0 bn*	\$5-6 bn	25% - 35%
ILW/Cat derivatives	\$0.3 bn	\$1.1 bn	\$0.8 bn*	\$4-5 bn	10% - 18%
Exchange-traded products	N/A	\$0.02 bn	\$0.05 bn	\$1-2 bn	25% - 35%

- Swiss Re has a sizeable share of the ILS trading market
- Liquidity remains strong despite some price softening
- ILS market has remained liquid during recent turmoil and has provided liquidity for hedge funds facing margin calls

* As of November 1, 2008
Source: Swiss Re Capital Markets



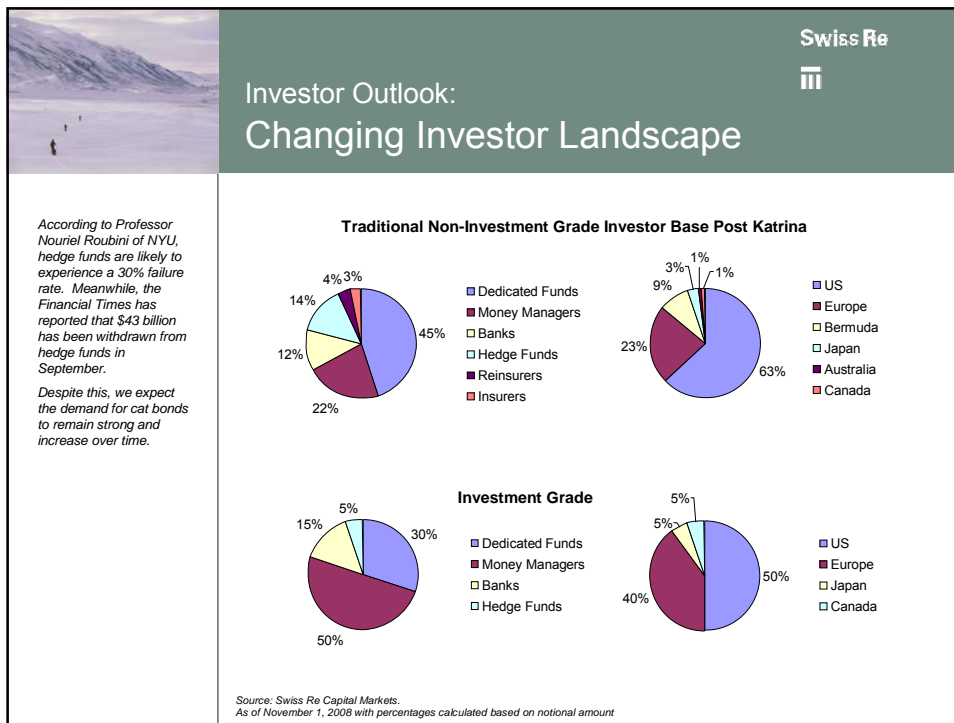
Investor Outlook:
Non-life Risk Maturities 2008-2011





Forthcoming maturities of US Wind, California Earthquake and Euro Wind perils alert sponsors to the minimum capacity the market is capable of providing. Most cat bonds to date have had one or three year terms.

Maturities by Month (USD mm)							
November	December	January	February	March	April	May	June
180	1266	350	100	50	405	600	583

Source: Swiss Re Capital Markets.
As of November 1, 2008 with percentages calculated based on notional amount
Note: 2008 maturities represent the months of November and December



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- ## Structuring Focus: Future TRS Structures
- For TRS structures, reduce credit risk with tighter restrictions on investments
 - Additional restrictions on categories of eligible assets
 - Focus on both liquidity and rating, not only rating
 - Better downgrade clauses on assets
 - Sector-specific concentration limits
 - Over-collateralization and top-up provisions
 - Consider alternative structures (where trust does not own collateral directly)
 - Increase transparency
 - Clear and simple process to obtain information on collateral account assets in a timely manner
 - For example, Vega Capital Ltd., includes in its TRS terms real-time access to a list of trust assets on a monthly basis via the Indenture Trustee's protected website

	<p style="text-align: right;">Swiss Re </p> <h2 style="text-align: center;">Looking forward ...</h2>
	<ul style="list-style-type: none"> ■ Three primary points need to be resolved for market to move forward <ol style="list-style-type: none"> 1. Improved TRS structure <ul style="list-style-type: none"> – Investor and sponsor view on value of strong TRS 2. Investor perspective <ul style="list-style-type: none"> – Before: investors viewed sector as uncorrelated but still had a need to get equal or higher yield – Now: cat bond will have lower relative yield but investors should value diversification 3. Sponsors perspective <ul style="list-style-type: none"> – Pricing in traditional reinsurance market for 2009 – Value of collateralized cover through cat bond

	<p style="text-align: right;">Swiss Re </p> <h2 style="text-align: center;">Important information</h2>
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