



Insurance perspectives

The insurance industry at a time of financial crisis and economic recession

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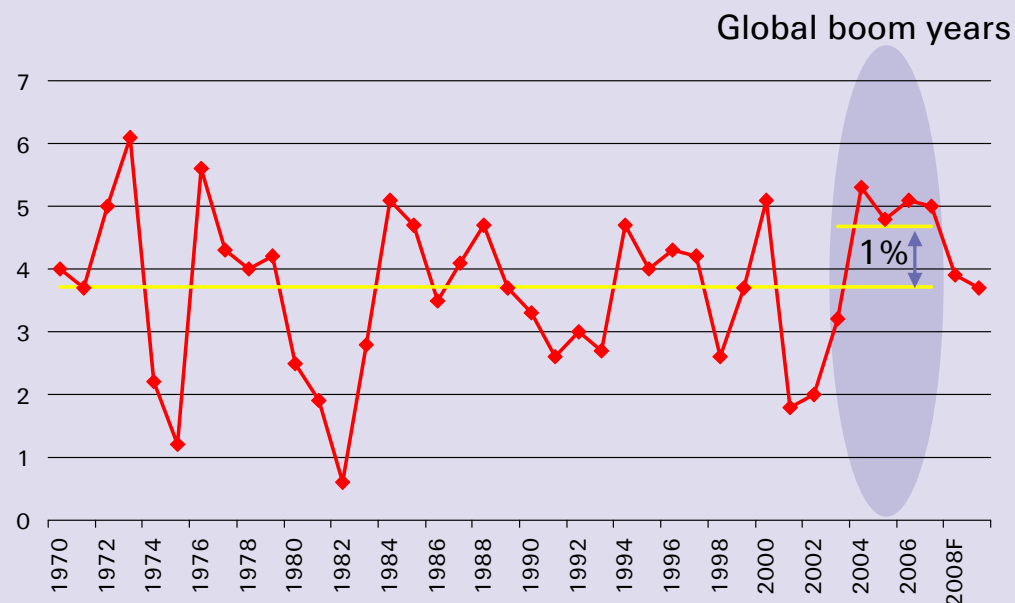
September 16, 2008



Macroeconomic environment

After five years of rapid growth, the global economy is now slowing rapidly

World real GDP growth, in %



Note: IMF forecasts, August 2008
Sources: Datastream, IMF

Key aspects

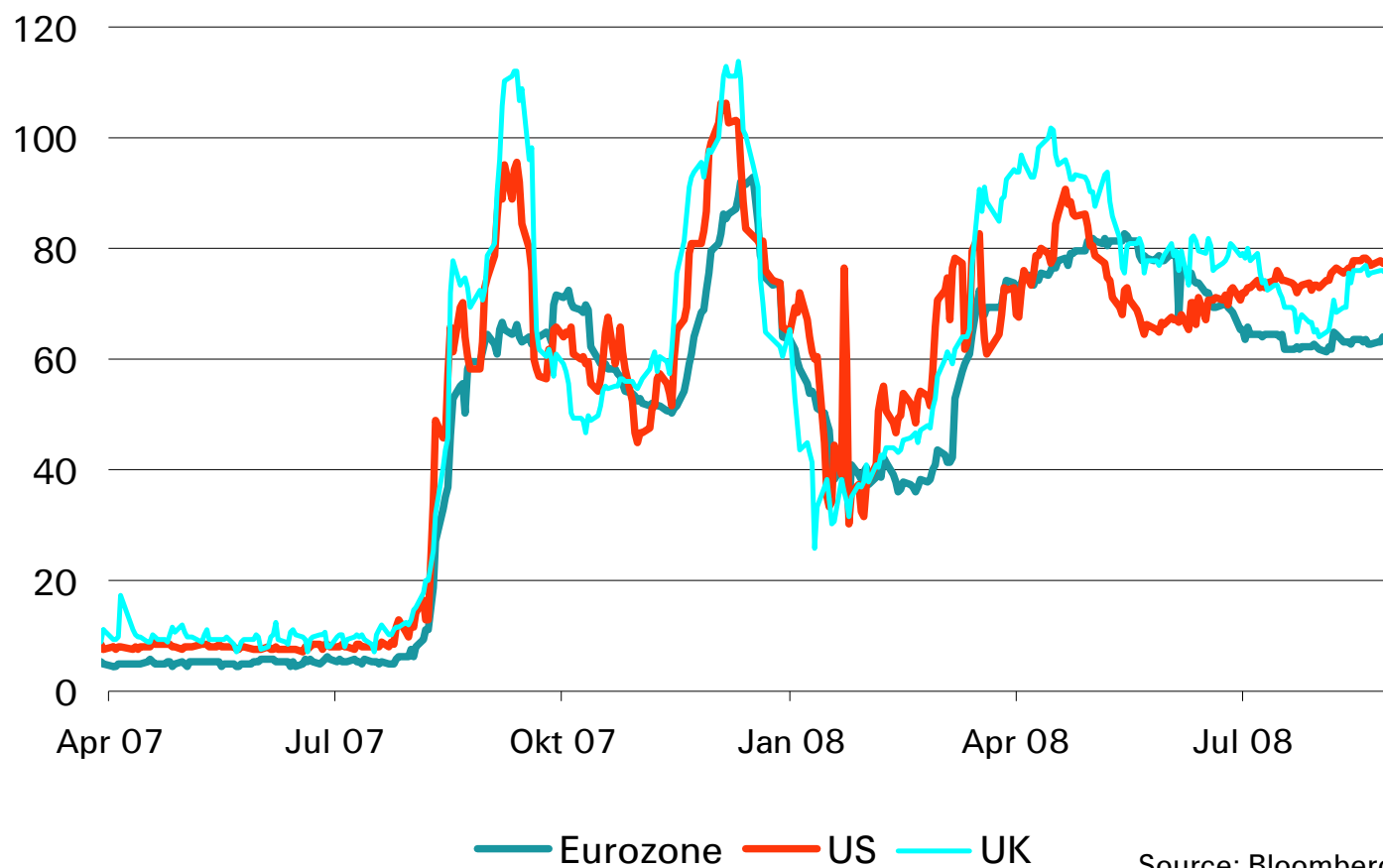
- Tightening credit conditions as a result of the credit crisis
- Depreciating housing prices in various countries
- Elevated inflation rates force central banks to raise interest rates at a time of economic weakness
- Exchange rate misalignments reduce US trading partners' competitiveness
- Weakening international trade activity



Tensions in the financial markets persist

Macroeconomic
environment

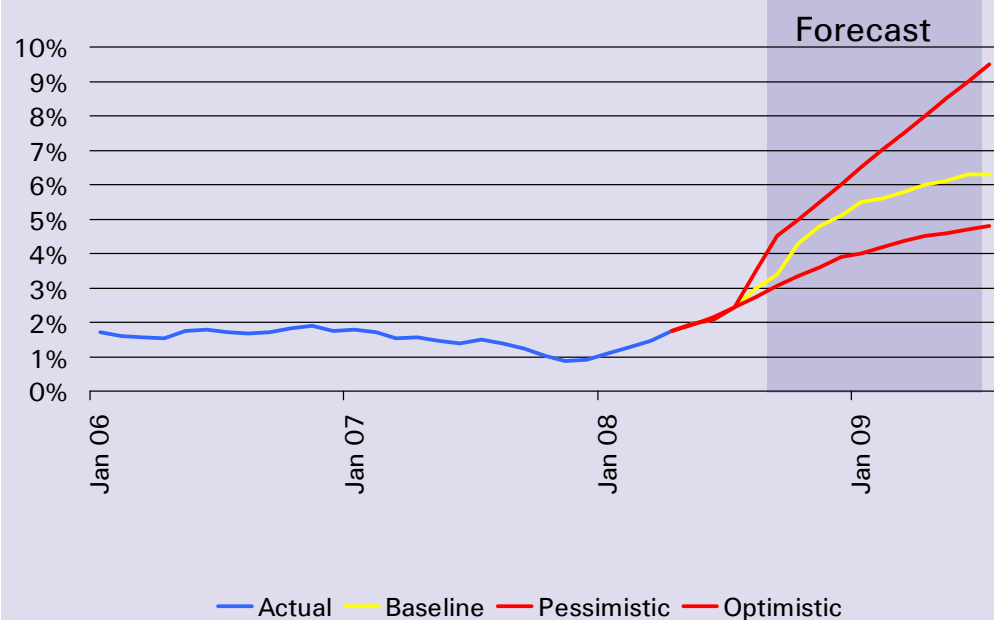
OIS spread, bps (3-month overnight index swap rate – 3-month
interbank rate)





Corporate credit risk could become the next big problem

Speculative grade default rate



Source: Moody's Investors Service

Key aspects

Default rates to climb sharply

- Slowing economic growth
- Low credit quality due to rating downgrades
- Seasoning of a high number of low-rated high-yield issuers

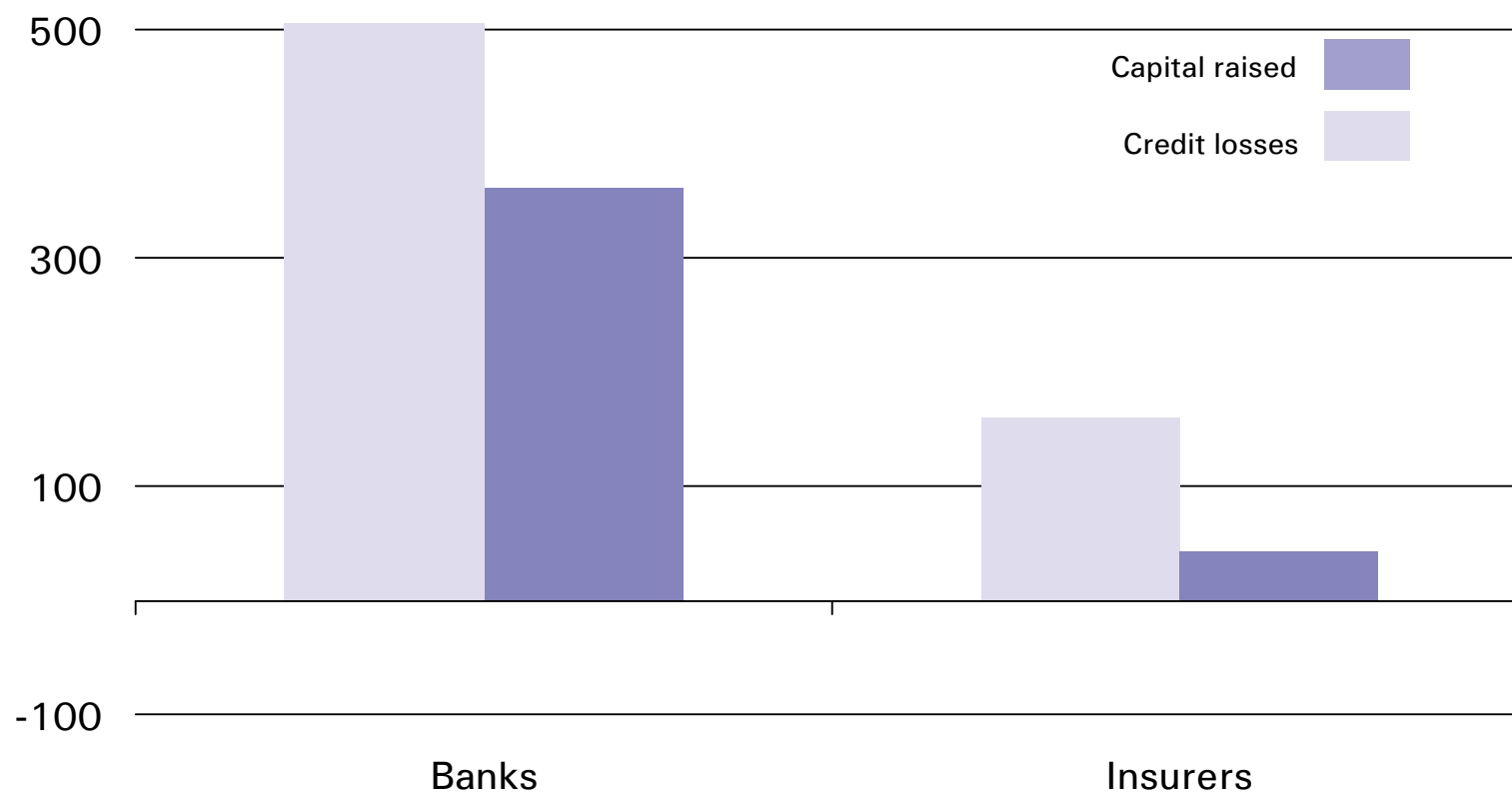
The rise may test the stability of the credit derivative market



The end of the tunnel?

Macroeconomic environment

Structured credit losses and capital raised (USD bn)*



*as of September 12, 2008

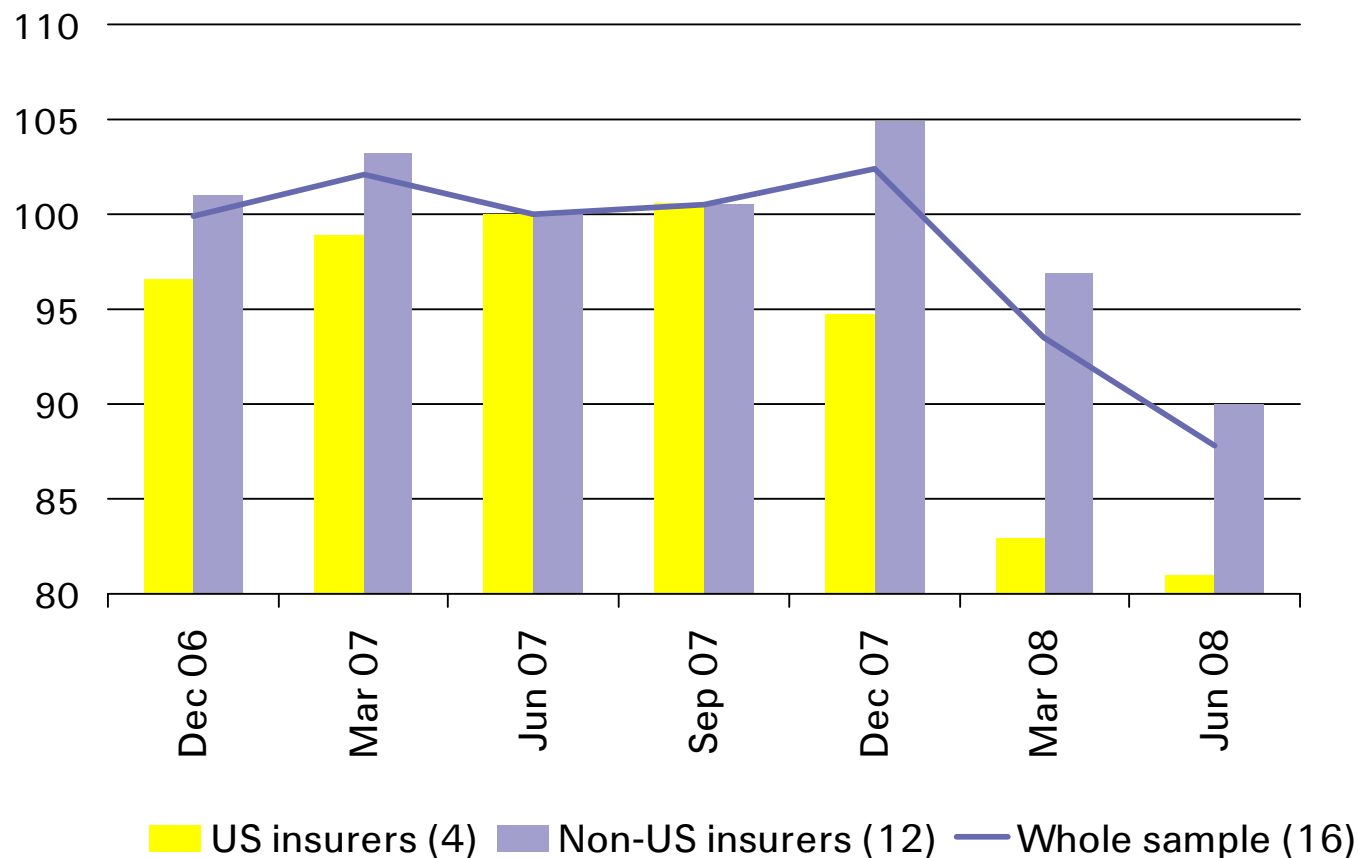
Sources: Bloomberg, Swiss Re Economic Research & Consulting estimate



The insurance industry is still well capitalised

The impact on insurance

Shareholder's equity of 16 large (re-)insurers,
Index June 30, 2007=100, at constant exchange rates



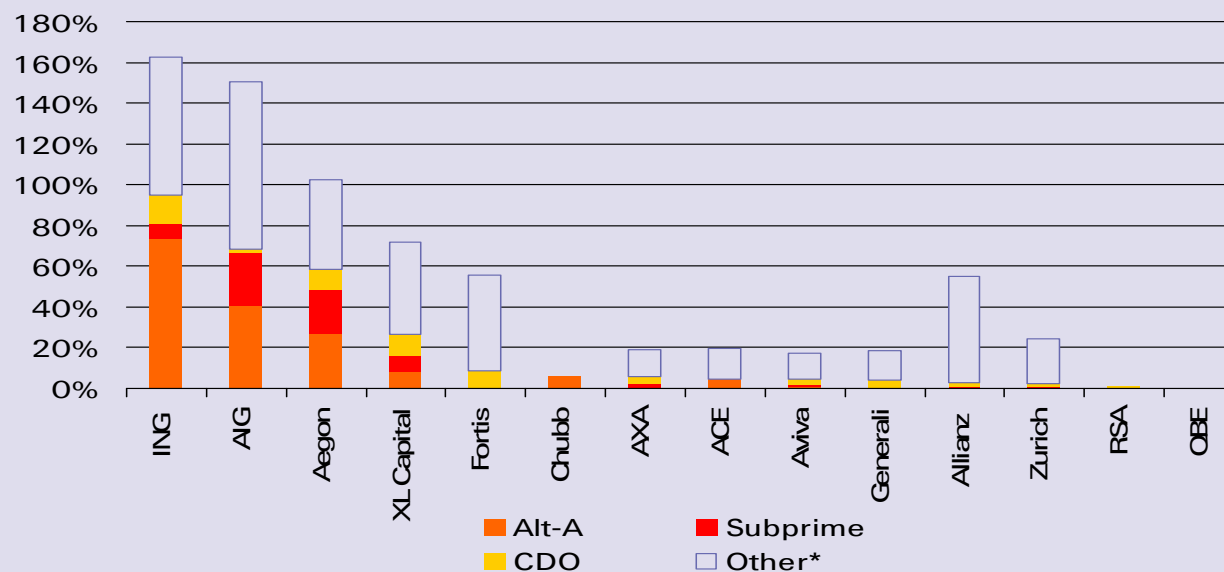


Credit exposures of large insurers are substantial, but manageable

The impact on insurance

Asset exposures to subprime-related securities

(% of shareholders equity; ranked by direct subprime exposure (subprime, Alt-A, CDOs), as of June 30, 2008)



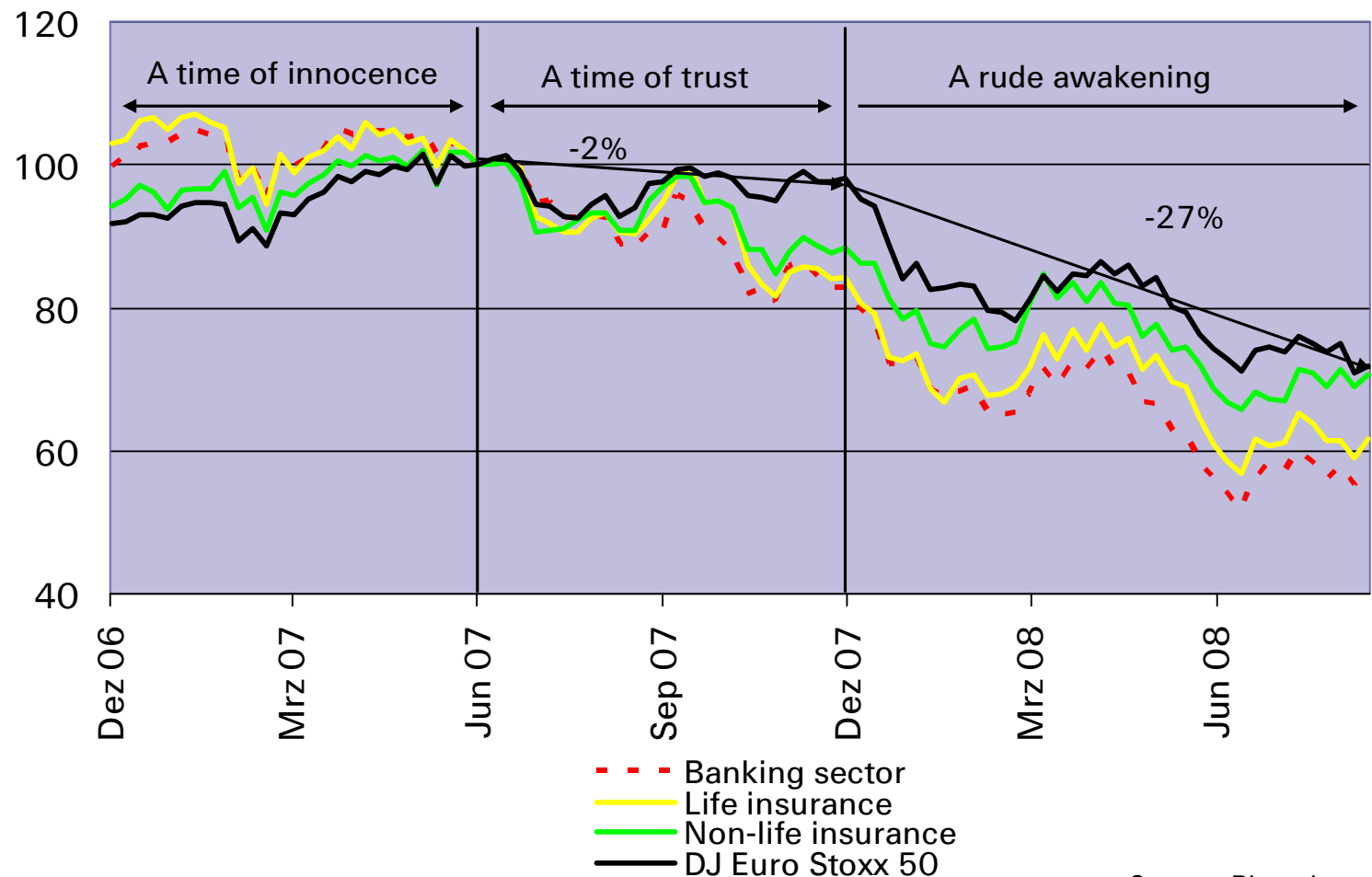
*includes: Monolines, CMBS, Leveraged loans, SIVs.

Insurance stocks have fared worse than the market, and just slightly better than banks



The impact on insurance

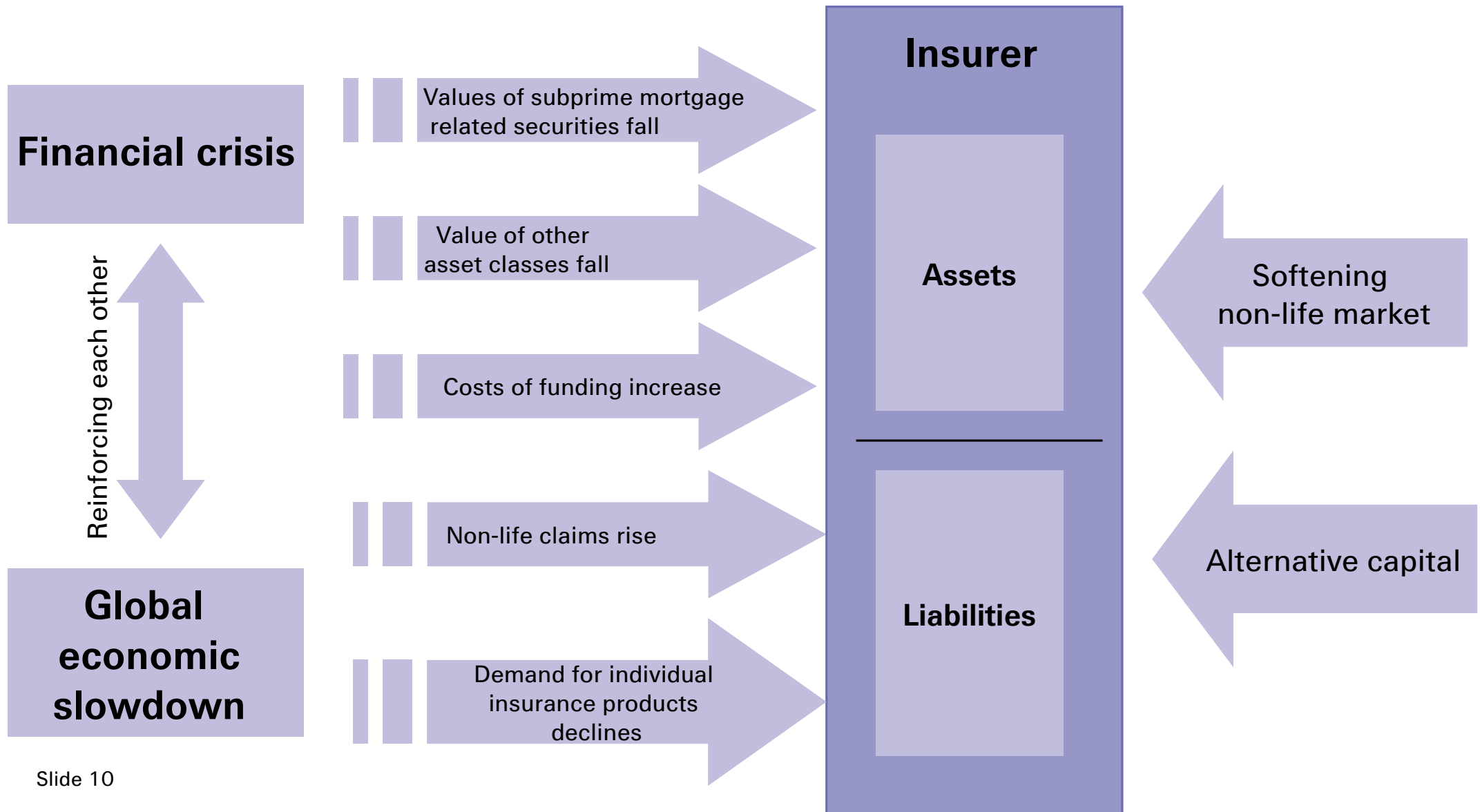
European stock indices, rebased June 29, 2007 = 100





The impact of the credit crisis on the insurance industry

The impact on insurance

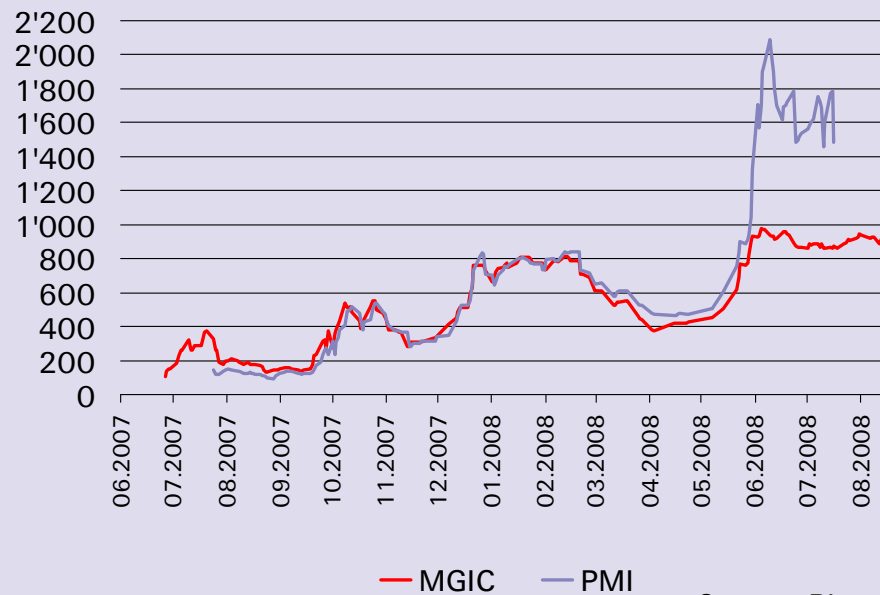




Mortgage guaranty insurers' prospects look grim

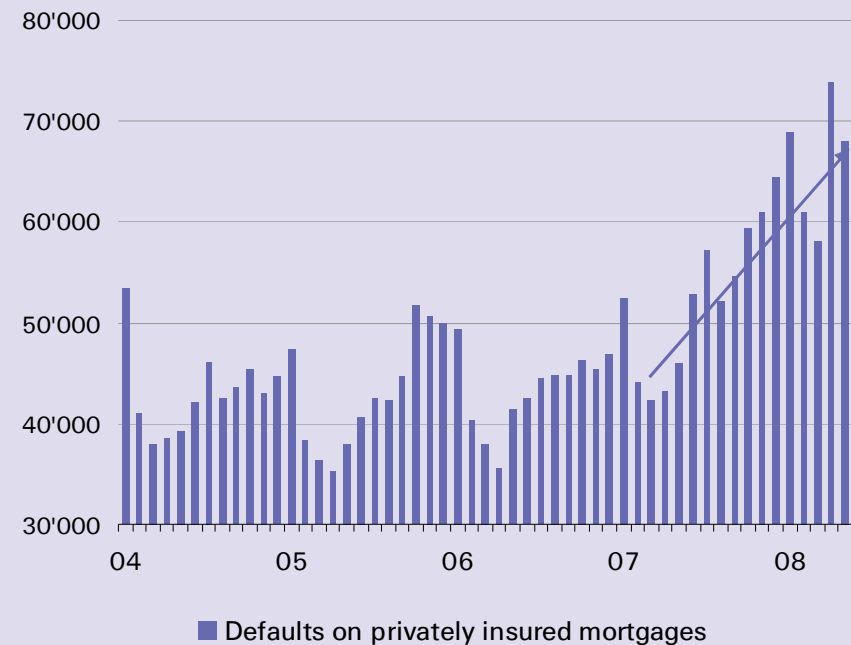
The impact on insurance

Credit default swap spreads (5yr, bps)



Source: Bloomberg

Defaults on privately insured mortgages



Source: MICA

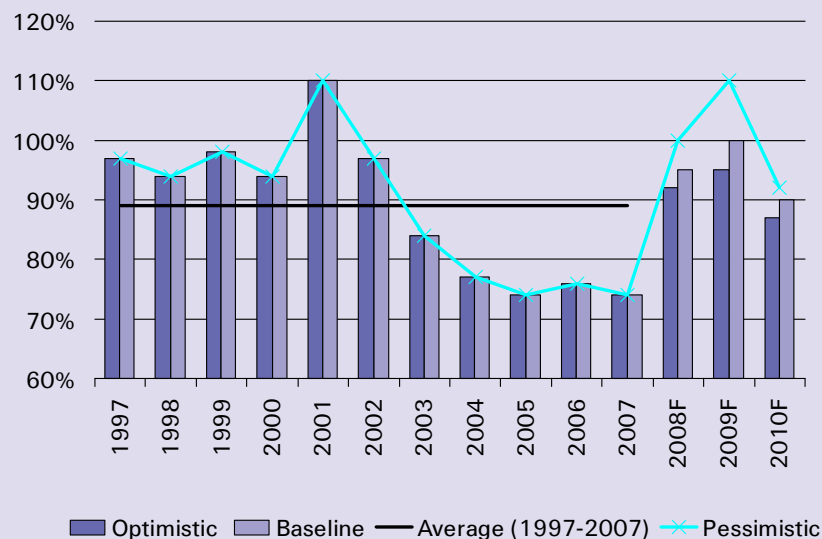
Credit insurers face a perfect storm, but capital base is sufficient

Swiss Re



The impact on insurance

Net combined ratio of major credit insurance groups



Source: Company reports, Economic Research & Consulting

Key aspects

- Global economic downturn is leading to rising claims and delays of payments
- Rapidly rising claims come after years of soft market conditions and thus low premium rates
- Euler Hermes, the world's largest credit insurer, reports 49% increase of claims compared to year before

Subprime Strategy Meeting
September 16, 2008



The impact on insurance

The effects of the credit crisis on insurers - A stylized ranking

Monoline financial guarantors	Expected losses: USD 30-40 bn, or about 75% of capital base
Mortgage guaranty insurers	Claims rising rapidly; 50% of capital base may be lost; ratings under pressure
Bancassurers	Losses primarily due to their exposure as a bank
US life	High leverage, over-proportional exposure to risky assets
D&O / E&O	ARS & subprime related lawsuits are rising, losses USD 3 bn – 9 bn expected
Suretyship	Exposed to public construction sector
Trade credit	Heavily exposed to global economic downturn
Non-US life	High leverage, but less exposure than US companies
US non-life	Non-life insurers exposures generally manageable
Non-US non-life	Minor exposures



The market situation remains intransparent and uncertain

Sign-posts of a recovery

- X** Transparency on how big the credit losses will be and who is exposed to credit losses
- X** Indicators signalling that the deterioration of the US housing market (resp. US-recession) is coming to an end
- X** Recovery of global consumer and business confidence
- X** Re-capitalisation of financial institutions
- X** Re-negotiation and unwinding of mortgages
- X** Rating action stability (in structured finance)

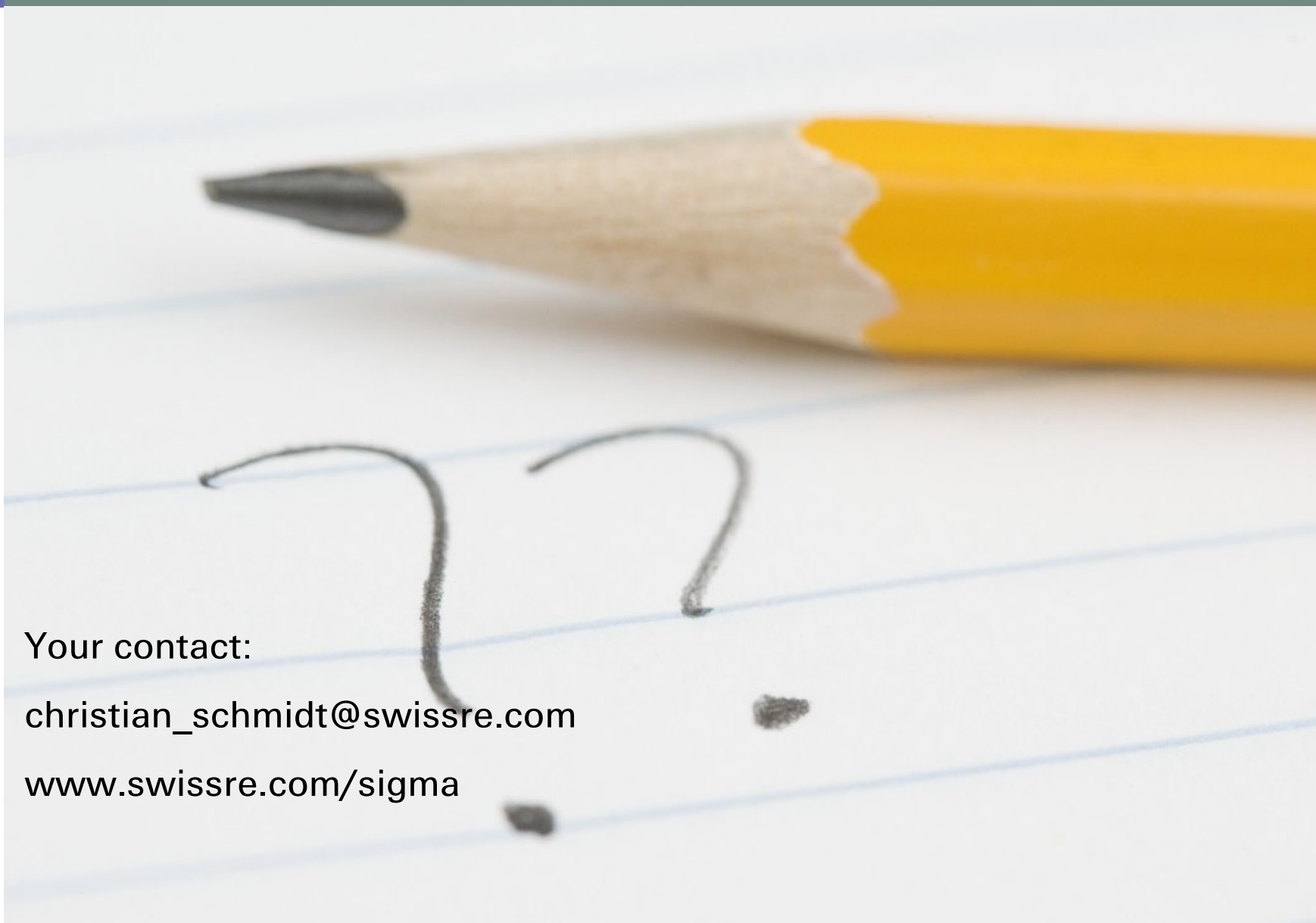


Conclusions

- The insurance industry is struggling with the combined effects of softening market conditions and the impact of the financial crisis.
- Since the outbreak of the financial crisis, insurers' profitability has dropped significantly. Considerable amounts of unrealized investment losses are not recognised within the recent earnings statements, but are likely to reduce profits in the coming quarters.
- The insurance industry is generally still sufficiently capitalized, and able to weather the financial turbulences well. However, the longer the turmoil continues, the more vulnerable the industry becomes.
- The main exceptions are specialist bond and mortgage guaranty insurers in the United States and a small number of primary and reinsurers that had offered financial derivatives transactions.
- Non-life insurers' underwriting results will probably worsen. Given that the financial stress is reducing insurers' investment returns across the board, there is a clear need to focus on strict underwriting discipline.



Thank you!



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