

# Reinsurance Update 2007

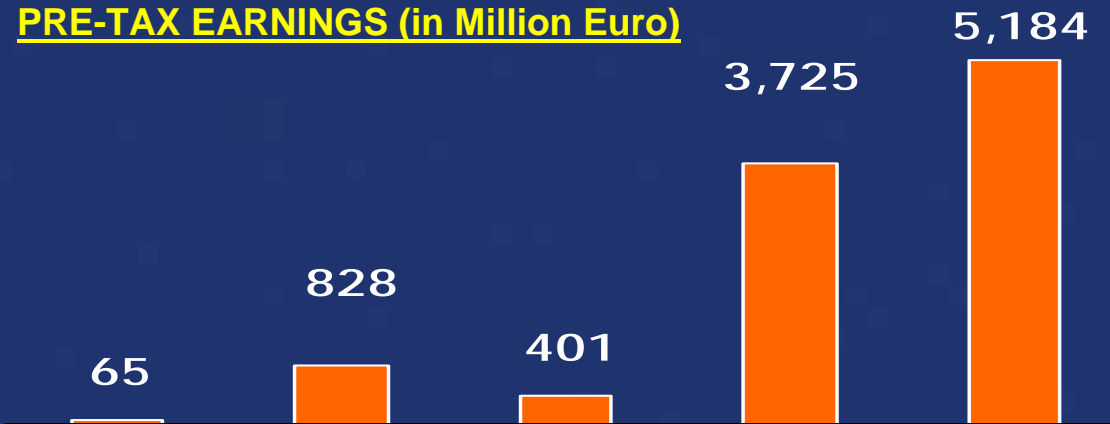
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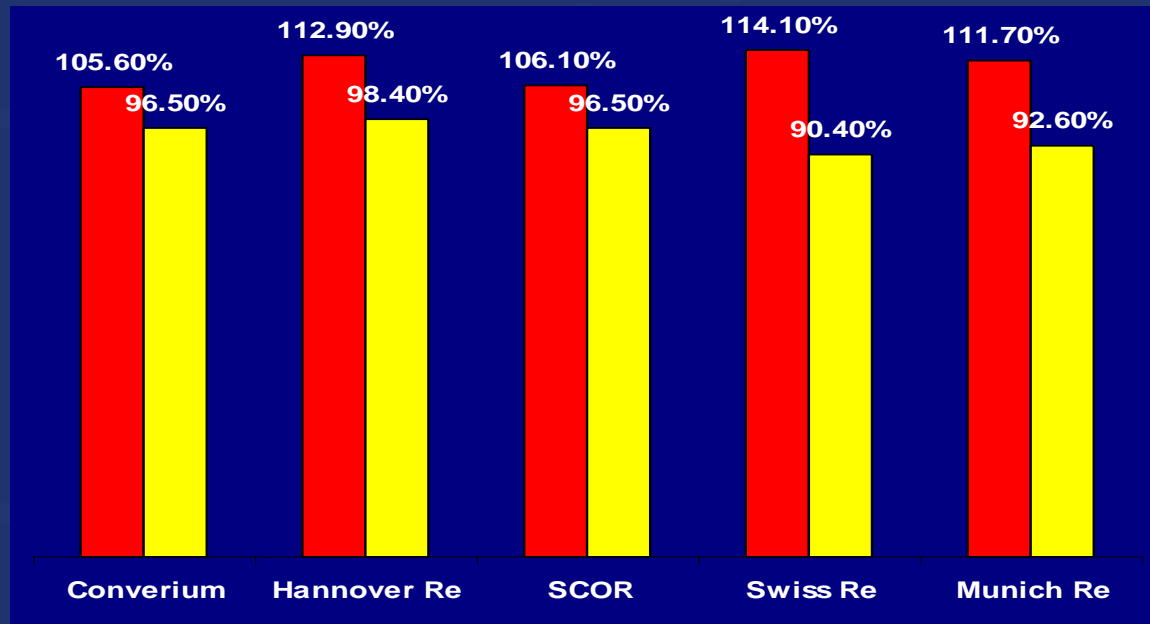
A.M. Best Europe

## European Reinsurers Strong Earnings in 2006

### PRE-TAX EARNINGS (in Million Euro)



### COMBINED RATIO



- Most reinsurers significantly improved profits in 2006
- Exception: Converium due to sale of North American operations
- Limited impact of reserve strengthening

## Record profits – What's next?

- Softening P/C market limits growth opportunities
- What strategy comes next?
- Share buy back
  - Munich Re , Swiss Re , (Converium)
- Is this enough for investors?
- Capital from hedge funds still available
- Some reinsurers fear hostile bid

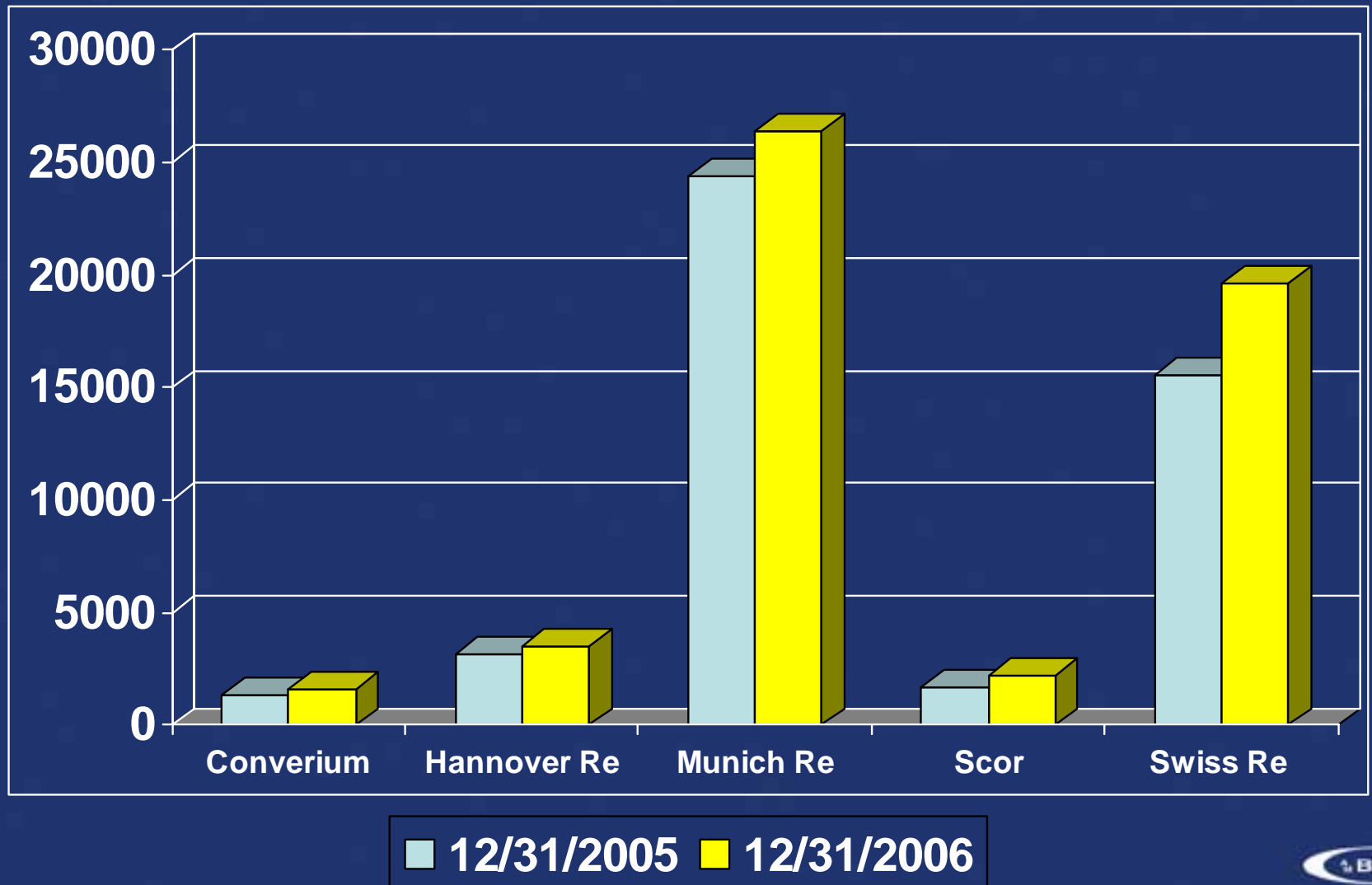
## Non-Life Reinsurance Renewals 2007

- January renewals mostly limited to European treaties
  - Swiss Re 90% of European business
  - Munich Re 50% of renewable business
- Clear softening of rates in most classes
- Overall rates remain attractive and should ensure good underwriting results in 2007
- Primary insurers also reported strong profits enabling them to retain more risks

## Strong M&A Activities are continuing in 2007

- 2006 Transactions
  - Swiss Re / GEIS completed
  - Scor / Revios
  - Hannover Re – sale of Praetorian
  - Scottish Re to Mass Mutual/Cerberus
  - Swiss Re – GE Life UK
  - AXA Re to Stonepoint
- 2007?
  - Converium – Scor?

## Shareholder Funds Development

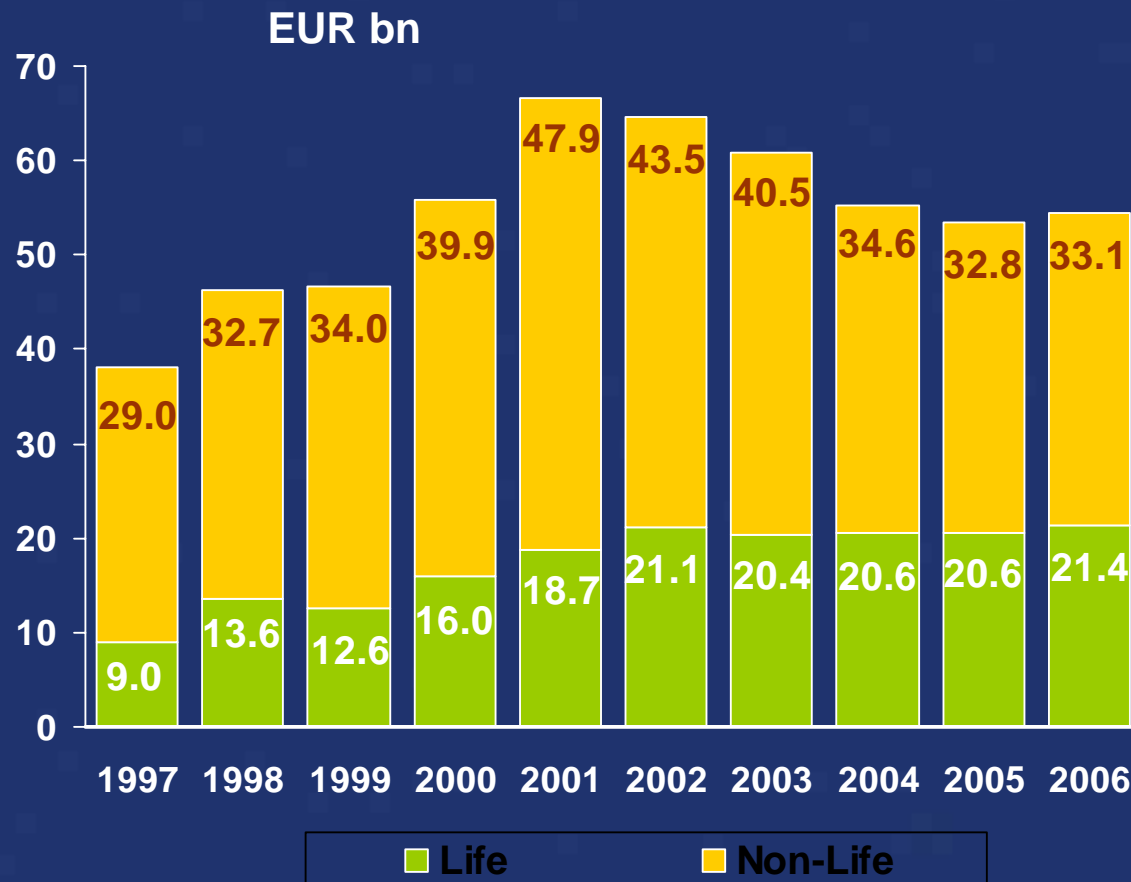


## Major Trends on Life Reinsurance

- Overall premiums and profits grow
- Profit margins reduced while increased level of risk being transferred
- Securitisation replacing reinsurance of large portfolios
- Major reinsurers acting as consolidators prior to securitisation
- Stronger emphasis on growth in life/health due to softening P/C market

## Emphasis on Life Reinsurance Continues

Premiums of top 6 reinsurance groups



- Life business continues to grow
- Accounting for more than 1/3 of the portfolio of main reinsurers
- Segment still the focus of only the larger reinsurance groups

## EU Reinsurance Directive

- Currently being implemented in all members states:
- Abolition of collateral requirements could improve liquidity
- Single member state license should reduce transaction costs
- In member states with more “lenient” regulation EU Directive will increase requirements for reinsurers
- US collateral requirements could come under pressure following implementation of EU Directive
- Home country regulation makes it easier to streamline operations within Europe
  - Swiss Re is concentrating all European subsidiaries in Luxembourg
  - Others could follow
  - Easier capital allocation
  - Allows move away from more demanding regulators

## A.M. Best's Outlook for Composite Reinsurers 2007

- By and large P/C premium rates remain attractive.
- Larger reinsurers are setting the tone
  - No growth for growth sake
  - How long will this last?
- Securitisation of cat risks – still limited to relatively high trigger points
  - However, stronger drive to reduce complexity
- Other forms of securitisations continue to be tested
  - Hannover Re – Reinsurance Recoverables
  - Swiss Re – Mortality
- Share buy back – flavour of the month
  - Partially replaced by hybrid instruments
- Solvency II and Swiss Solvency Testing are having a positive impact on risk management culture