The Re/Insurance sector - challenges and opportunities

Michel M. Liès, Group CEO Swiss Re
AM Best, London, 15 October 2014
Today's Agenda

- Setting the scene
- Challenges & opportunities
- Long-term investing
- Industry trends: increasing regulation
- Q&A
Setting the scene
Swiss Re is a leading and highly diversified global re/insurance company

- **151 years of experience** in providing wholesale re/insurance and risk management solutions

- **We deliver both traditional and innovative offerings** in Property & Casualty and Life & Health that meet our clients' needs

- **A pioneer in insurance-based capital market solutions**, we combine financial strength and unparalleled expertise for the benefit of our clients

- **Our financial strength** is currently rated: Standard & Poor's: AA-/stable; Moody’s: Aa3/stable; A.M. Best: A+/stable
Differentiated through history

• Swiss Re is a global operator, with over 60 offices in more than 20 countries

• Swiss Re has both a superior capital rating\(^1\) and 150 years of experience in providing reinsurance solutions for our clients

• A long history of paying claims is valued by clients; during 2012 we paid claims originating from a 1950 P&C contract and a 1951 L&H contract

• This track record provides Swiss Re with preferential access to long tail business, such as Casualty

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Business Unit strategies
Unchanged

Swiss Re Group

Reinsurance
- P&C
- L&H

Strategic goal
- To be the world's leading reinsurer

Current position
- The foundation of our strengths

Corporate Solutions

Strategic goal
- To be a focused, lean, global player in large commercial business

Current position
- A key opportunity for growth

Admin Re®

Strategic goal
- To be a recognised force in the closed life book market

Current position
- Providing cash dividends

- Setting the scene
- Challenges & opportunities
- Long-term investing
- Industry trends: increasing regulation
- Q&A
Challenges & opportunities
Primary Insurance
Efficiency gains through innovation is key

<table>
<thead>
<tr>
<th>Scene Setting:</th>
<th>Performance Levers</th>
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<tbody>
<tr>
<td>Rate hardening, which began in 2011, slowed or ceased in commercial lines and in personal lines coming into 2014</td>
<td>To enhance profitability, primary insurers will aim for efficiency gains in multiple areas, for example:</td>
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<tr>
<td>Investment returns are close to bottom and will remain depressed</td>
<td></td>
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<tr>
<td>Profits in primary insurance are not expected to improve this year or next</td>
<td>▪ improvement to operating models and capital efficiency</td>
</tr>
<tr>
<td>Increased capital requirements due to changing regulatory environment</td>
<td>▪ drive technology to make distribution more effective and client centric</td>
</tr>
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<td></td>
<td>▪ adopt predictive modelling to improve underwriting</td>
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High growth markets (HGMs)
Premium growth with strong compounding effect

<table>
<thead>
<tr>
<th>Market premium (real) growth 2000-2013E</th>
<th>CAGR</th>
<th>Cumulative</th>
</tr>
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<tbody>
<tr>
<td>Emerging Asia</td>
<td>14%</td>
<td>468%</td>
</tr>
<tr>
<td>MENA and Turkey</td>
<td>9%</td>
<td>213%</td>
</tr>
<tr>
<td>Latin America</td>
<td>8%</td>
<td>173%</td>
</tr>
<tr>
<td>CEE</td>
<td>6%</td>
<td>124%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3%</td>
<td>55%</td>
</tr>
<tr>
<td>High growth markets</td>
<td>10%</td>
<td>233%</td>
</tr>
<tr>
<td>World</td>
<td>2%</td>
<td>34%</td>
</tr>
<tr>
<td>Mature markets</td>
<td>1%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Swiss Re Economic Research and Consulting

Emerging Asia has so far sustained the highest growth rates
High growth markets expected to continue to grow faster than mature markets
Urbanisation trends and infrastructure growth
Urbanisation and implications for insurance

- **Economic**
  - Higher income and wealth drives demand for motor, home and savings products
  - Industrialisation and higher concentration drives growth of commercial lines

- **Social**
  - Longevity and reduced inter-generational support will create opportunities for old-age health and pension products
  - Rise of consumer rights has implications for casualty/liability lines

- **Infrastructure**
  - New opportunity for commercial insurance during the construction phase of infrastructure projects
  - Post-construction recurrent insurance demand will likely remain strong, but this will also depend on whether governments act as de facto insurers

- **Environment**
  - Many large cities located in areas exposed to multi-natural disasters to create higher demand fornat cat re/insurance
  - Increasing awareness of city risk management and the benefit of public-private partnership will open up additional opportunities
Natural catastrophe protection gap
Massive gap between total and insured losses shows insurance potential

Natural catastrophe losses 1980-2013, in USD billion (2013 prices)

Source: Swiss Re Economic Research & Consulting, sigma catastrophe database
Demand for natural catastrophe capacity will continue to increase

- Demand for nat cat insurance expected to increase on average by approx. 50% in mature markets and 100% in HGM by 2020
Large mortality protection gap
Life insurance opportunities – eg closing the mortality protection gap

Source: Swiss Re Asia-Pacific Mortality Protection Gap Study 2011

Asia - Pacific Mortality protection gap per working person with dependents

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Long-term investing
Insurers create value from understanding risk....

- Cost, price, structure and diversify risk
- Underwriting
- Receive up-front premiums
- Invest until money is needed
- Compensate for losses
- Value Created

• Setting the scene
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Long-term financing for infrastructure is facing a gap...

Project Finance spending vs. needs
annual, in USD trillion

Selection of tradable long-term assets

Note: Based on 2013 trading volumes / issuance

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Swiss Re, McKinsey, Dealogic, OECD, ASCE, JPM. Global infrastructure spending expected to grow at 3% p.a. to reach total of USD 60tn through 2030
...which long term investors could help to address

<table>
<thead>
<tr>
<th>Ability to invest long-term</th>
<th>Estimated AUM (US$ trillions)</th>
<th>Key stakeholders</th>
<th>Liability profile</th>
<th>Risk appetite</th>
<th>Decision-making structure/agency concerns</th>
<th>Estimated allocation to illiquid investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family offices</td>
<td>$1.2</td>
<td>Family</td>
<td>In perpetuity</td>
<td>High</td>
<td>Low</td>
<td>35%</td>
</tr>
<tr>
<td>Endowments/Foundations</td>
<td>$1.3</td>
<td>Non-profit beneficiaries</td>
<td>In perpetuity with yearly payout requirement</td>
<td>High</td>
<td>Low</td>
<td>20%</td>
</tr>
<tr>
<td>Sovereign wealth funds</td>
<td>$3.1</td>
<td>Governments/Nations</td>
<td>In perpetuity</td>
<td>Moderate</td>
<td>Moderate</td>
<td>10%</td>
</tr>
<tr>
<td>Defined benefit pension funds</td>
<td>$11</td>
<td>Members/Shareholders</td>
<td>Average duration 12-15 yrs</td>
<td>Low</td>
<td>High</td>
<td>9%</td>
</tr>
<tr>
<td>Life insurers (general account)</td>
<td>$11</td>
<td>Policyholders/Shareholders</td>
<td>Average duration 7-15 yrs</td>
<td>Low</td>
<td>High</td>
<td>4%</td>
</tr>
</tbody>
</table>

*WEF, Future of Long Term Investing, 2011*

Source Celent, NACUBO, The Foundation Center, SWF Institute, OECD, US Federal Reserve Flow of Funds, CEA, Wharton Global Family Alliance, The Monitor Group, Mercer, Capital IQ, Corporate annual reports, Oliver Wyman analysis
Unlocking the potential of the long-term investor base: The wish list

- Create a transparent, harmonized and accessible **infrastructure asset class** on a global level
- Promote **information sharing and disclosure**
- **Reduce policy uncertainty** through consistent global regulatory roadmaps across sectors
- **Mitigate the pro-cyclicality** of regulatory changes under way
- Harmonize legislation for infrastructure investments and **revive securitisation markets**, notably in Europe
- **Review risk weighting** of Solvency II standard formula and other regulatory capital charges
- **Strengthen investors' rights** in cases of sovereign debt restructuring
- Public sector to **develop best practices** (MDBs, national development banks) together with the private sector for infrastructure bond documentation and due diligence
Industry trends
increasing regulation
Macro trends affecting the industry

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Source: Swiss Re Group Strategy
Macro trends affecting the industry

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Source: Swiss Re Group Strategy

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Tighter capital requirements globally
Part of a global regulatory agenda that continues to accelerate

- G20 agenda driving new rules and regulations:
  - FSB list of global systemically important insurers (G-SIIIs)
  - FSB consultation on non-bank resolution and EU Directive on banking recovery and resolution
  - IAIS to introduce global insurance capital standards (ICS)

- Momentum grows for economic, risk-based solvency
  - Switzerland: Swiss Solvency Test (SST)
  - EU/Africa: Solvency II (back on track), South Africa
  - Americas: Chile, Mexico
  - Asia: China, Hong Kong, Singapore, Malaysia, Japan

- ORSA developing towards a global standard

  Global players will remain actively engaged in the regulatory debate – mitigating negative impacts and supporting reforms that generate supervisory convergence and recognise risk diversification benefits
Swiss Re ready to help its clients meet the challenges – and capture opportunities

<table>
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<tr>
<th>Examples</th>
<th>Challenges and concerns</th>
<th>Opportunities and benefits</th>
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<tbody>
<tr>
<td>Solvency II</td>
<td>▪ Excessive volatility</td>
<td>▪ Economic and risk-based regime</td>
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<td></td>
<td>▪ Governance pressure</td>
<td>▪ Incentives to ERM</td>
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<td></td>
<td>▪ Fragmented implementation</td>
<td>▪ Group perspective</td>
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<tr>
<td></td>
<td>▪ Limits of the standard formula</td>
<td>▪ Equivalence</td>
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<tr>
<td>IAIS ComFrame</td>
<td>▪ Additional layer of supervision</td>
<td>▪ Improve supervisory cooperation</td>
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<tr>
<td></td>
<td>▪ Duplication of requirements</td>
<td>▪ Foster regulatory convergence</td>
</tr>
<tr>
<td></td>
<td>▪ Fragmented implementation</td>
<td>▪ Increase recognition of regimes</td>
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<tr>
<td></td>
<td>▪ Pre-stage of SIFI measures</td>
<td></td>
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<tr>
<td>G-SII</td>
<td>▪ Excessive requirements based on banking</td>
<td>▪ Safety attracting clients</td>
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<td></td>
<td>▪ Inconsistent application in different countries</td>
<td>▪ Strengthened group structure and risk governance</td>
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Summary
Question & Answer Session
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