



## The global insurance industry: Post 9/11

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11/20/02**

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## The property/casualty insurance cycle

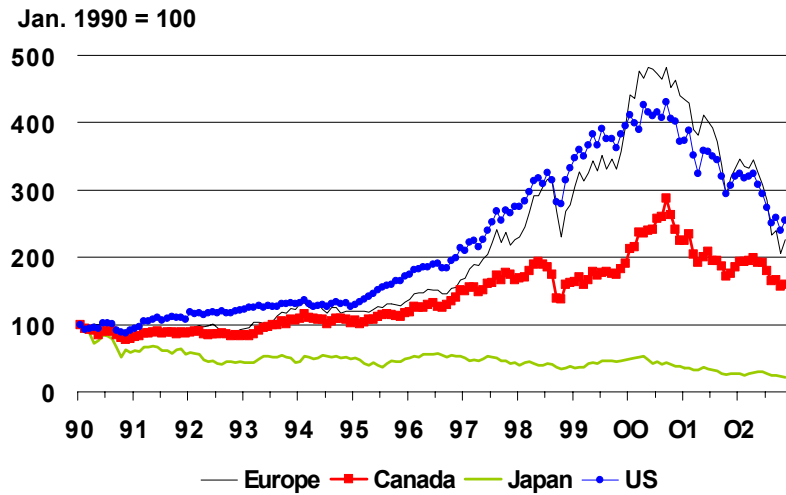
- Insurance companies generally lose money on underwriting
- Virtually all profits come from investing premiums before making payments on claims
- Insurance pricing cycle is determined by flow of capital into and out of the industry
- Bull market, capital in, prices down (late 1990s)
- Large losses, capital out, prices up (currently)

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## Stock markets have declined since early 2000

Source: DJ EuroStoxx 50, S&P/TSX Composite, Nikkei 225, S&P 500. All indexed to Jan. 1990 =100

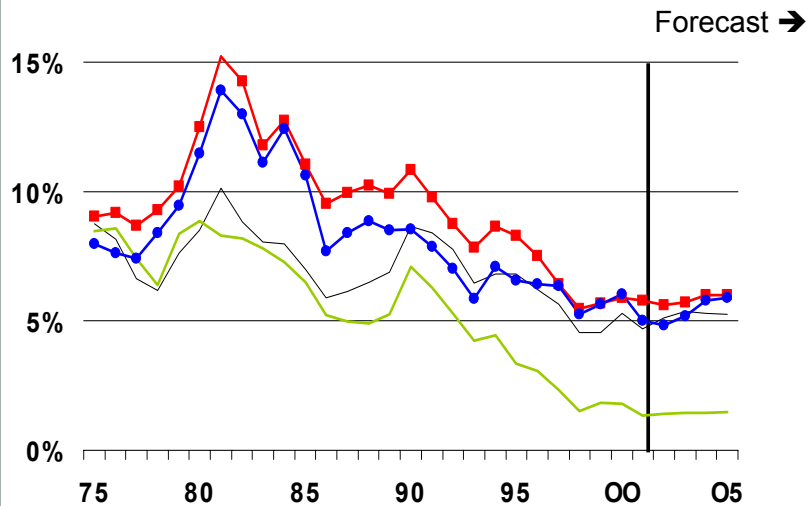


## Interest rates are low and will remain low

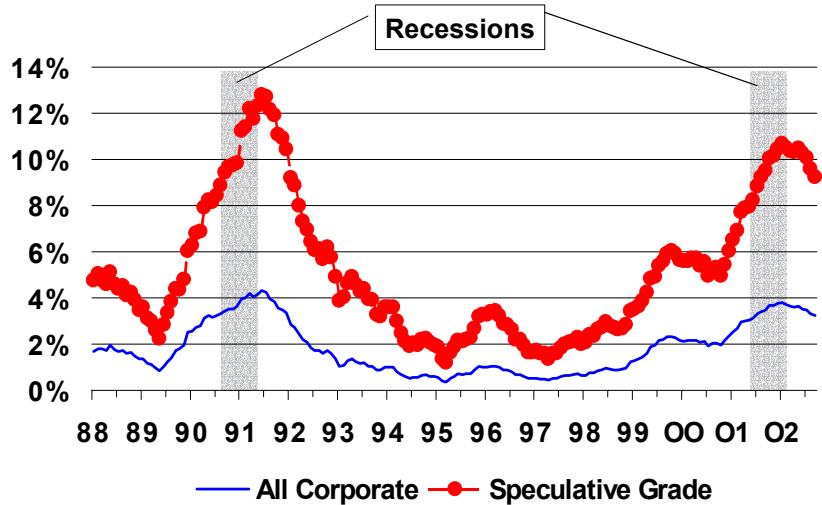
Long-term interest rates

— Canada  
— Germany  
— Japan  
— US

Source: Swiss Re Economic Research & Consulting, Global Insight



## Default rates on corporate bonds are declining, but are still at a high level



Source: Moody's

## Depletion of capital: US and Europe



|                  | Billions, USD              |        |
|------------------|----------------------------|--------|
| ■ September 11   | - \$30-50<br>(\$17.3 paid) |        |
| ■ Enron          | - \$3                      |        |
| ■ Bond defaults  | - \$7                      |        |
| ■ Equity markets | US                         | Europe |
| – 2000           | - \$20                     | n/a    |
| – 2001           | - \$24                     | - \$54 |
| – 2002 y-t-d     | - \$35                     | - \$56 |

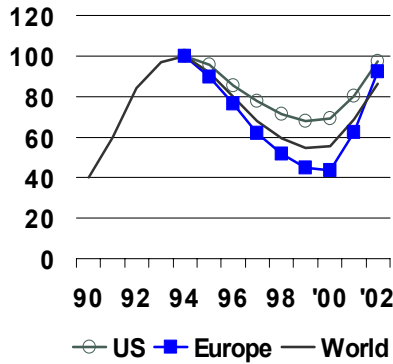
Source: Swiss Re Economic Research & Consulting

# Cat reinsurance and London market prices are increasing rapidly

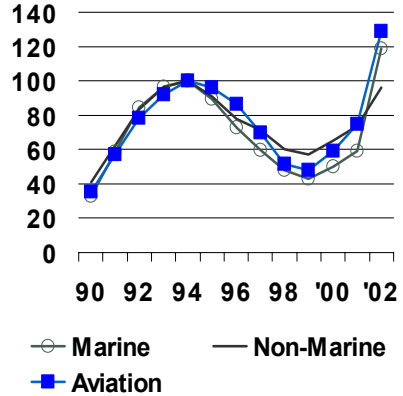


Source: Swiss Re Camares

Cat price index (Jan 1994=100)



London market indices (Jan 1994=100)



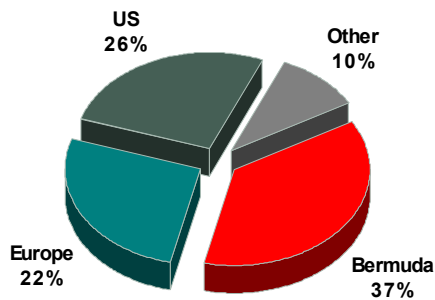
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Sources: Swiss Re, CBS Private Capital Ltd,

# \$31.5 billion in new capital was raised...but about \$9 bn was debt...

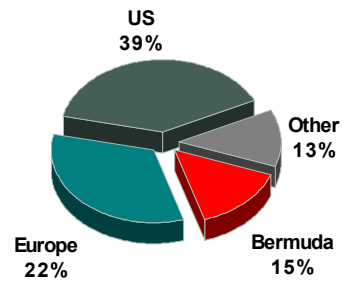


2001: \$20.2 billion



16% debt

2002: \$11.3 billion

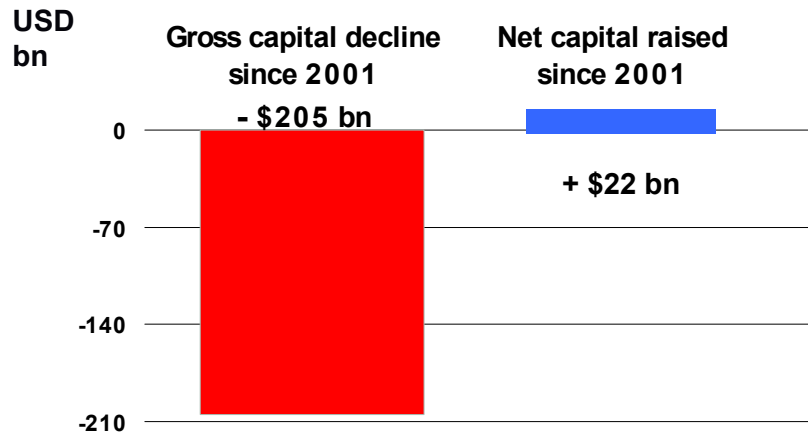


53% debt

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Sources: Morgan Stanley, Swiss Re Economic Research & Consulting

...which only compensated for a small part of the decline in global capacity



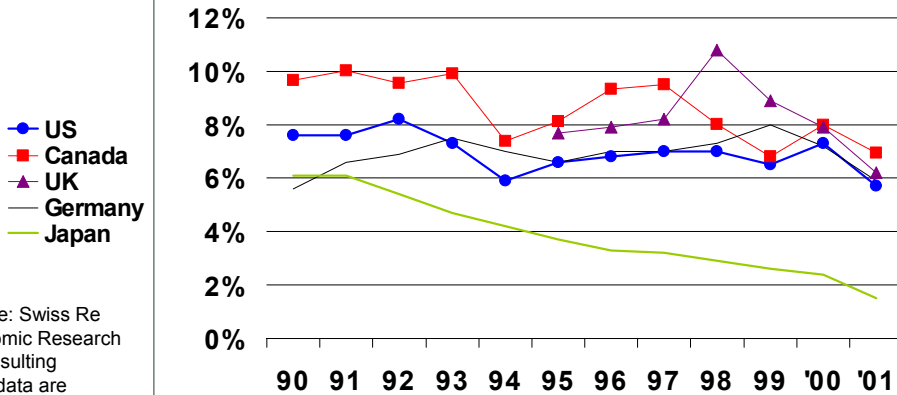
## Impact of new players



- Traditional players offered sufficient capacity at reasonable prices to meet most corporate needs.
- Most of the new players were not in a position to fully participate at the January 2002 renewals (staff, infrastructure, ratings).
- Wrote \$1.8 billion NPW in first half of 2002.
- Rate at which new capital is being raised has slowed.
- There will be a greater impact next year from the new players, but no change of trend in rates

## Investment yields declining

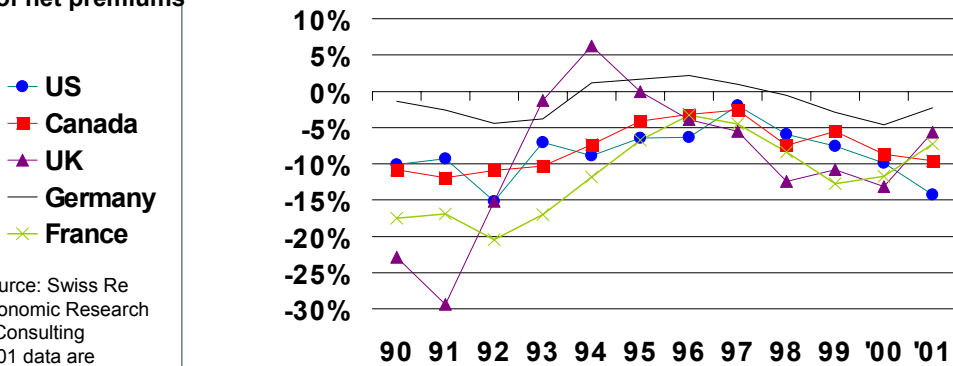
Investment income / invested assets



Source: Swiss Re Economic Research & Consulting  
 2001 data are preliminary or estimates

## Worldwide, underwriting results worsened through 2000

Underwriting result as a % of net premiums

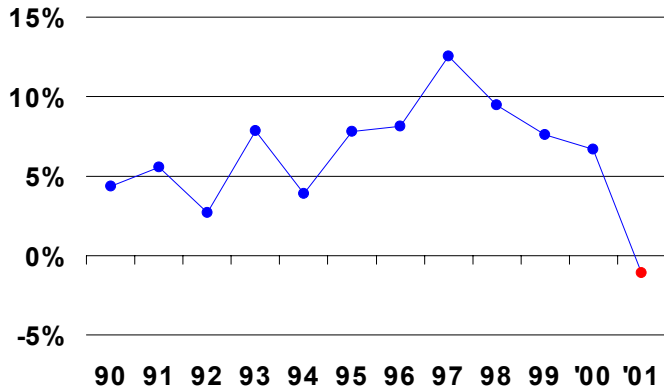


Source: Swiss Re Economic Research & Consulting  
 2001 data are preliminary or estimates



## US profit margin 2001: in the red

Net profit after taxes as a % of net premiums



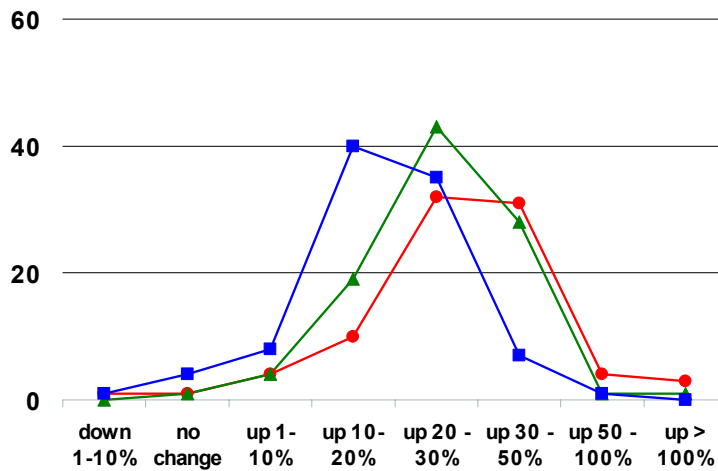
Source: Swiss Re Economic Research & Consulting  
2001 data are preliminary or estimates



## Rate increases in commercial lines: 20% to 30% in 2002

Share of commercial programs in %, mid-year 2002

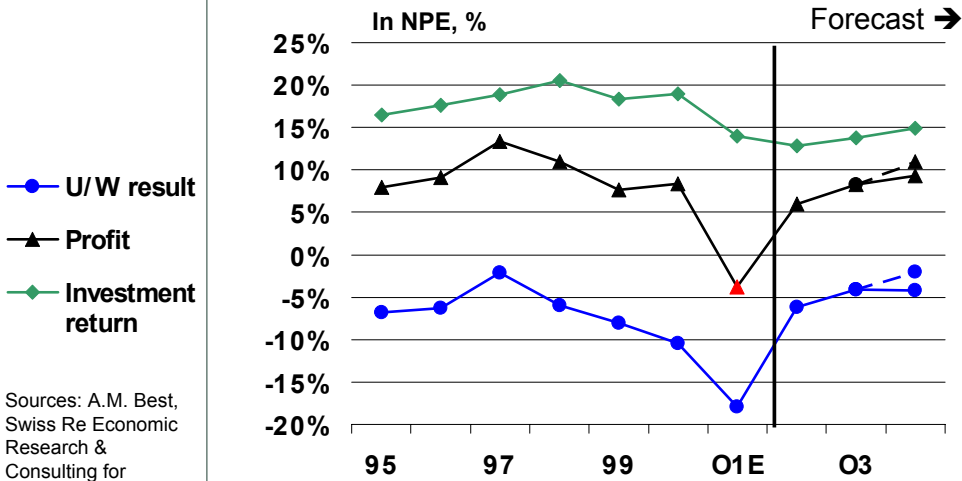
- large
- ▲ medium
- small



Source: Council of Insurance Agents & Brokers



## Improving profitability in US P/C



Sources: A.M. Best, Swiss Re Economic Research & Consulting for forecasts



## Summary: P/C

- Market began to harden before September 11
- In 2001, global capacity was reduced by about \$90 billion. Capacity decline has continued in 2002.
- Startups filled only a fraction of the capacity gap
- Rate increases and tighter terms and conditions in 2002 = substantial improvement of underwriting profitability
- Hardening market will continue until balance sheets are fixed - estimated to last at least until 2005
- Increased interest in ART products that make more efficient use of limited capacity



## Contact information

Presentation was based on *sigma* 4/2002, “Global non-life insurance in a time of capacity shortage”

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