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SI Re

STEPS 1/10

Challenging reinsurance market environment

Reinsurers are looking back at a difficult renewal round 2010, with prices and conditions coming under pressure. The severe recession of 2009 resulted in a fall in insurance premiums in numerous markets and lines of business and a drop in insurance demand from both private and commercial clients. This had immediate repercussions for proportional business. In general, cedants made efforts to reduce their reinsurance costs across the board.

At the same time, the meteoric recovery of the capital markets and a business year with exceptionally few major losses led to significant improvements in reinsurers' capital strength, which by the end of 2009 had exceeded even the pre-crisis levels of mid-2007. Despite increasing capacity and weak demand, there has been no dramatic deterioration in prices as most reinsurers – responding to pressure from both rating agencies and shareholders – have maintained strict underwriting discipline. This behavioural pattern stands in marked contrast to the late 1990s, when the market share-driven underwriting policy pursued by reinsurers was largely responsible for the «soft cycle».

Aside from cyclical developments and economic trends on the supply and demand side, the «flight to diversification» which is noted since 2008 has continued unabated. Primary insurers' heightened awareness of counterparty risk in the wake of the financial crisis has caused them to seek reinsurance from a greater number of providers. This has certainly benefited small and medium-sized players but it has also increased the importance of reinsurance brokers as a channel of distribution.

Solvency II is still the most important development on the regulatory horizon. Although the outcome of the ongoing QIS5 consultation process remains unclear, the new legislation is set to raise some primary insurers' capital requirement, for the following four reasons: firstly, regulators are consistently using natural hazards with a return period of 250 years as their basis for calculating the probable maximum loss (PML). Secondly, the EU is still working from an insolvency hypothesis of 0.5%, based on a one-year probability of ruin; this point is currently the subject of fierce political debate, as many supervisory authorities and rating agencies have a considerably lower risk tolerance. Thirdly, market, operational and credit risks (e.g. relating to the bankruptcy of a reinsurer) will exert a considerable influence on cedants' capital requirement over and above traditional insurance risks. Fourthly, small and medium-sized insurers may not be able to keep pace with larger, better-diversified companies, whose new stochastic methods may help them achieve a lower capital requirement and give them greater flexibility in their pricing policy.

Given this background, a considerable number of European primary insurers may fail to meet the minimum solvency capital requirement and this may lead to a round of consolidation, capital increases and rising reinsurance demand. This said, we believe Solvency II issues played a secondary role in the most recent renewals. The primary focus was on the accelerating pace of consolidation and on the fact that cedants may have fewer and fewer reinsurers to choose from in future.

SI Re – Mutually yours

Sustainable, agile, committed

© Hannes Bok, detail of «Kaleidoskop»

SI Re continues to grow in a disciplined manner

SI Re concluded a successful renewal round in 2010. For the current year we expect a total gross premium volume of more than CHF 130 million, an increase of some 4% after currency conversion. In EUR, third-party business, adjusted for currency effects, grew by 7%. This was principally due to an expansion of our client portfolio, whose total number increased by nearly a third, matching the performance of the previous year. While internal group business remained unchanged, the proportion of third-party business within SI Re's total portfolio increased from 65% to 67%. We are very pleased to have achieved this growth without compromising our strict profitability standards, and we have successfully offset recession-related pressure on proportional business by growing our non-proportional business by over 12%.

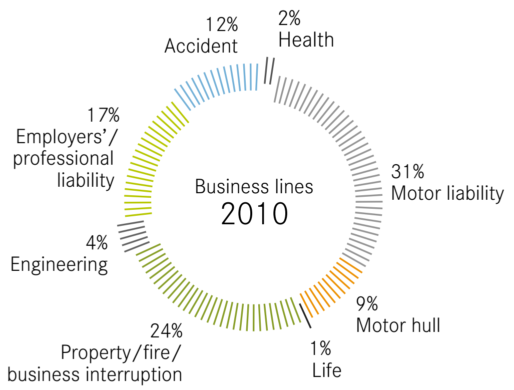
We have expanded our client portfolio in core markets in particular. Our Swiss domestic market is currently also offering attractive avenues for growth, although the business we have been offered from Spain and Portugal has largely failed to meet our profitability criteria.

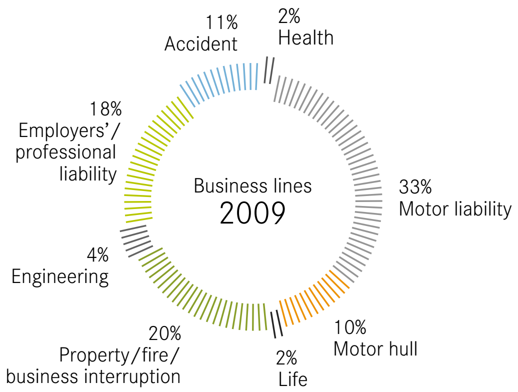
We were also able to further improve the diversification of our portfolio during the recent renewals. As can be seen from the graphic, the weighting of motor liability has been reduced in favour of other lines, such as property/fire/business interruption.

Despite increasing capacity and modest demand, reinsurance prices remained comparatively stable. No price erosion was detectable in «long-tail» business, although moderate price reductions were observed in claims-free «short-tail» business. Contracts affected by events such as hailstorms Klaus and Wolfgang recorded rate increases. Overall, these developments reflect the strict discipline of market participants.

We are generally satisfied with the results of the recent renewal and were once again able to achieve far greater growth in our target markets than the majority of our competitors. Improved brand recognition, our proximity to clients and the direct availability of our management team, combined with a desire on the part of cedants for improved diversification and the special services we offer, have enabled us to further expand our portfolio. We have successfully weathered the tough operating conditions in the reinsurance market as well as specific factors such as the emergence of additional capacity from new, Swiss-based reinsurance branches and subsidiaries.

PORTFOLIO COMPOSITION





Michael Reeder – a strong addition to the SI Re Underwriting Team

Michael Reeder, a 50-year-old German national with impressive experience in the reinsurance industry, joined the SI Re Underwriting Team on 1 March 2010. As Senior Underwriting Manager, he will be responsible for markets in Germany, Austria, the Netherlands and Scandinavia.

After qualifying as an insurance specialist at the University of Applied Sciences, Cologne, Michael Reeder began his career 26 years ago with Pallas Insurance, a subsidiary and captive of Bayer AG. As a non-life underwriter, he worked with Cologne Re, the HDI, Converium, XL Re and Allianz SE, amongst others, where he was responsible for markets such as Germany, the Netherlands, South-Eastern Europe, parts of the Middle East, and Africa. In his capacity as an independent consultant, he has, inter alia, periodically advised and supported reinsurance companies in their training of underwriters, teaching the fundamentals of reinsurance, book-keeping and client acquisition.

«I chose SI Re because of the experienced reinsurance experts at the company. The team is the right size, the decision-making process is streamlined and I can bring all my experience to bear in building up a profitable portfolio in collaboration with my new colleagues», says Michael Reeder. «SI Re is a professional and serious partner for its clients, and I am delighted to be involved in further cementing its market position.»

Michael Reeder sees particular growth potential in mutual insurance companies, SI Re's largest client segment, renowned for their partnership-based model founded on long-term business relationships. He is anticipating exciting times ahead as insurance mutuals undergo consolidation, companies seek to protect their growing capital base with reinsurance solutions, and demand for non-proportional and more complex reinsurance solutions increases.

He foresees attractive opportunities for growth for SI Re in his German, Austrian, Dutch, and Scandinavian markets. «Soft market conditions prevail in some insurance lines in these markets», he suggests. «I'd like to position SI Re to take advantage of the coming upswing.»

A married father of three, Michael Reeder devotes his leisure time to art and has a particular interest in Classical Modernism and the Surrealists; he even picks up a brush himself, when time permits. He also collects antiquarian books and is a keen sportsman.

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