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SI Re

STEPS 1/12

SI Re pursues controlled growth in a challenging environment

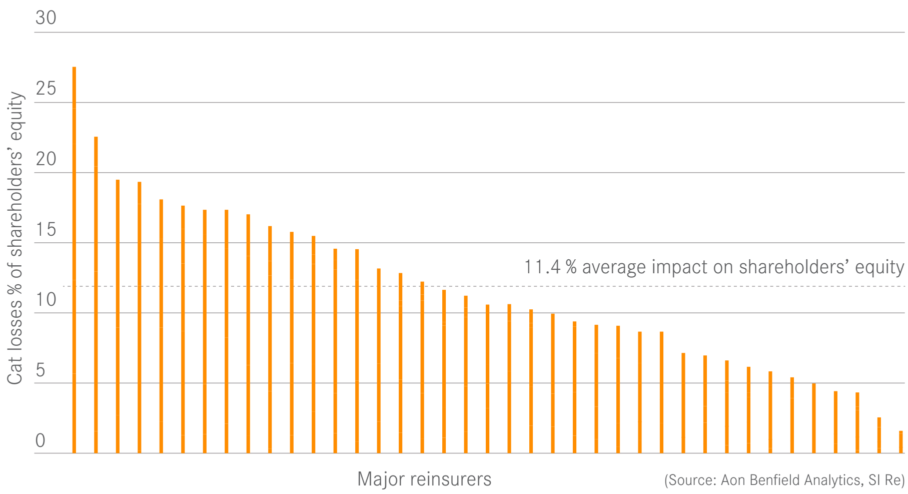
Editorial Bertrand R. Wollner, CEO

We would like to present an overview of our results from our renewals 2012, singling out the trends that we believe will shape developments in the current year. We are also delighted to introduce you to Luca Valli, our new actuary, who joined our Risk Management team.

SI Re continued to show encouraging development last year. Although it will be a few more weeks before we present our audited results, we can already confirm that 2011 saw growth of more than 20 % in our booked gross premiums in EUR, the currency in which we write over 90 % of our business. This growth is based on two quota share transactions that were acquired during 2011 in keeping with our strategy, which targets technical profitability and long-term relationships with clients.

Our sector had to absorb a record-breaking claims burden amounting to more than 25 % of premiums in 2011. By contrast, SI Re's claims burden from the events in New Zealand, Australia and Japan, the tornados and Hurricane Irene in the US, and the floods in Thailand will amount to only a little over 1 %.

IMPACT OF 9 M 2011 NATURAL CATASTROPHE LOSSES ON MAJOR REINSURERS



(Source: Aon Benfield Analytics, SI Re)

Thanks to this positive performance, the SIGNAL IDUNA Group, our parent company, has decided to make additional equity capital of CHF 25 million available to us as of December 2011. This expanded our capital base to a total of CHF 130 million. As a further token of its confidence in our firm, the Group is granting us the option of accessing another CHF 25 million in the coming years. Based on the Swiss Solvency Test (SST), SI Re's solvency ratio was in excess of 280 % as at 1 January 2011, placing it well above the regulatory requirements. The increased capital cover will be of further positive influence on our solvency, and will open up new opportunities. Some of our clients regard the size of their reinsurer's equity capital as a quality in its own right – and SI Re can exploit this attitude in order to gain access to more business.

Although SI Re's own performance has been pleasing, we take a critical stance regarding current trends in the reinsurance industry as a whole. In the last issue of STEPS (2/2011), we already voiced the view that our sector is confronted with some serious challenges: market volatility has soared and at the same time, prices are coming under pressure due to excess capacities. This

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makes it more and more difficult to meet investors' high expectations. The recent renewals season confirmed these observations.

At present, our industry appears to be more fragmented and opportunistic than ever before. Access to vendor models in the NatCat segment has opened up possibilities for flexible capital allocation and market penetration. Global cycles are resolving into microcycles, split by lines of business, regions and client segments – a development that is triggering increased market volatility as the capital seems to herd in whichever direction promises the highest returns in the short term. One fact which makes this particularly clear is that despite the record claims burdens which our sector had to absorb last year, prices in claims-free short-tail programmes remained stable or even decreased.

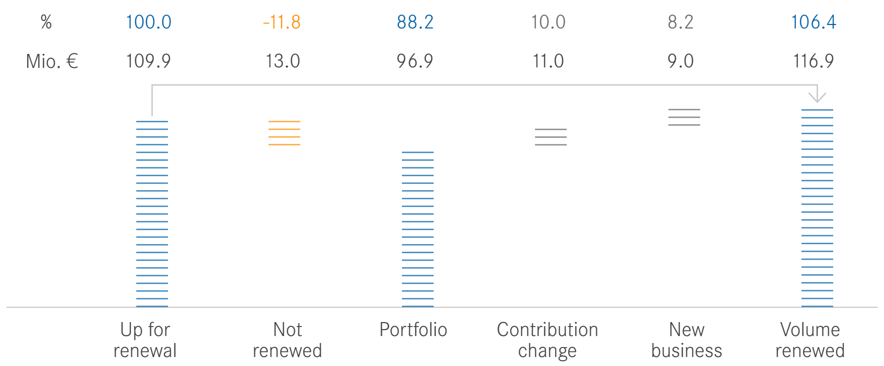
In addition there are the macro-economic challenges: the financial system is contracting. There are fewer and fewer investment opportunities, which at best offer record low yields or even negative real returns, as in the case of various government bonds. Appetite for investment is therefore diminished, which in turn impedes economic growth. At the same time, credit risk is increasing due to the large proportion of bonds from heavily indebted governments held in the portfolios of insurers – who, in turn, are exposed to a greater risk that their ratings may be downgraded.

Demanding though this market environment may be, it also offers opportunities. The loss of creditworthiness by several direct insurers in conjunction with a growing need to write off investment portfolio positions should result in an increased capital requirement on the part of cedants; and in our view, this will exert the strongest influence on future price trends.

Renewals 2012: SI Re increases premiums at reduced risks

SI Re successfully completed its renewals. Premiums totalling EUR 109.9 million were up for renewal. The volume decreased by EUR 13 million due to reduced shares and business not renewed. However, share increase and new business significantly outperformed the reduction. Consequently, SI Re's premium volume grew by 6.4 % to EUR 116.9 million (Fig. 1).

FIG 1: RENEWALS 2012



We increased our gross premiums for in-force business (excluding new and group business) by 6 %. Non-proportional business grew by 2.9 %, while the proportional business increased by 10.9 % (Fig. 2).

Within the lines of business, SI Re reduced its proportion of motor insurance by 7.3 % points to 21.3 %. On the other hand, there were increases in the shares for property and casualty, as well as for technical insurance and accident and health. The proportion of business with the SIGNAL IDUNA Group decreased to 36.6 %.

The renewals season showed that interest in working with SI Re is continuing to grow. We received 63 % more offers falling within the scope of our strategy than in the previous year. This boosted the percentage of business closed by 12 %, while the number of client relationships rose by 16 %.

FIG 2: CONTRIBUTION CHANGES

	Non-proportional	Proportional
Absolute	2.94 %	10.88 %
- Price changes	1.97 %	-0.21 %
- Share changes	4.40 %	4.09 %
- Volume and currency effects	-3.43 %	7.00 %

Despite the price increases that SI Re was able to implement, renewals in our markets during the 2012 season were largely based on price. In many cases, cedants endeavoured to optimise their programmes according to cost criteria. The larger companies consolidated their reinsurance relationships and increased their retentions by up to 50 % in some cases.

Competition remained fierce because the reinsurance industry's capital base continues to be strong. During 2011, price increases were only achieved in programmes that reported claims. Most claims-free programmes remained unchanged, and some were even renewed at slightly reduced prices. Moreover, competition tightened due to several brokers selling the same programme in some instances.

Coupled with the exceptionally heavy losses in the prior year, the 2012 renewals season is triggering a series of trends that will continue to preoccupy the sector in the current financial year. The major losses that occurred during 2011 in non-peak zones such as Australia, New Zealand and Thailand make it clear that the diversification strategies of several reinsurers have failed. In the absence of viable risk models, risks were underwritten at inadequate prices in these markets. Now, as a result of last year's events, capacities are frequently being reduced and channelled back into regions for which reliable data are available – with corresponding consequences for prices here.

The earthquake and tsunami in Japan and the flood in Thailand have highlighted the vast implications of business interruptions and contingent risks in the global supply and manufacturing chain. It is not only the sheer size of the losses that stands out. The delays in identifying and reporting these losses also give cause for concern. In December 2011, Swiss Re was still assuming an insured loss of at least USD 10 billion for the floods in Thailand but barely six weeks later, Lloyd's assumed insured losses twice as high. As already mentioned in the Editorial, SI Re's claims burden due to the natural events of 2011 was a mere 1 % of its premium income.

For these reasons, SI Re will continue to pursue the same strategy and underwriting policy in the current financial year. We shall steer and possibly adapt our mix of lines of business in keeping with the development of prices and segments. However, we intend to maintain our unwavering focus on cultivating long-term client relationships.

SI Re strengthens its actuarial services with Luca Valli

SI Re welcomed Luca Valli to its actuarial team on 1 November 2011. The young Swiss national, who graduated in physics from ETH Zurich in 2008, joins SI Re from the financial-services consulting firm Orbium, where he helped banking clients implement group-wide systems – in particular solution modules for assessing credit and market risk.

By regularly dealing with these risks for which an understanding of maths and statistics is essential Luca developed an interest in actuarial sciences and his desire to investigate actuarial challenges in greater depth was sparked. «At SI Re I have the opportunity to explore every aspect of actuarial work and have an active say in how it's carried out,» explains Luca Valli. «I am learning how insurance, investment and financial risks mesh together, what influence market risks exert and how prices, reserves and insurance securitisations are calculated. I wouldn't be able to gain such broad-based and hands-on experience at a large insurance company.»

Luca Valli's interest in practical solutions and applications stretches back to his experimental physics degree, for which he explored the possibilities of treating carcinomas with radiation therapy in his exams. After graduation, he decided against a career in research or a laboratory, opting instead for the financial-services industry as he was looking for a professional challenge where he could make practical use of the skills he had acquired at university.

He has yet to say goodbye to higher education entirely, however, as he is currently qualifying as a member of the Swiss Association of Actuaries at the ETH and hopes to complete the course in three or four years. Luca Valli, who in his function reports to Andreas Gadmer, SI Re's Chief Risk Officer, tells us: «Calculating and assessing risks accurately will become more and more important in every aspect of life. The complexity and interrelatedness of our world is increasing our awareness of risk. In addition to our experiences of the past we need to elaborate scenarios to be able to anticipate potential future events. Mathematics and actuarial theory are crucial in analysing and quantifying these risks. That's what I find fascinating about my training and my job.»

Luca Valli is a keen mountaineer and loves ski touring – both activities where he is surrounded by risks that must be correctly assessed. «My hobbies are not without their dangers, of course, but you can take the risk if you have judged it correctly and taken the appropriate precautions,» explains Luca Valli.

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