- // Short-term view threatens our industry
- // SIGNAL IDUNA Group: business continues to develop favourably
- // Jürgen Hildebrand is SI Re's new Underwriting Manager for Germany and Austria

SI Re

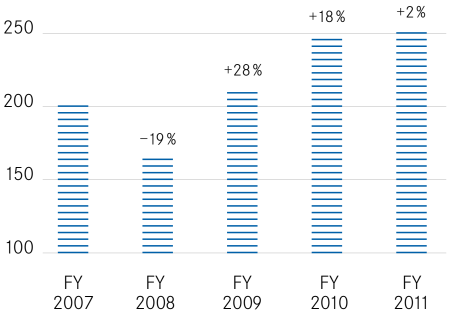
# STEPS 2/12

## Short-term view threatens our industry

Major uncertainties continue to overshadow the global economic outlook primarily due to the dramatic deterioration of the sovereign debt problem. The central banks are pursuing a «cheap money» policy in order to flatten interest curves, thus making refinancing easier for governments and banks. Yields have plunged to all-time lows as a result of this policy.

Against this backdrop, the insurance business – one of the leading players in the financial markets with assets under management in excess of USD 20 billion – faces difficult economic and particularly structural challenges. The on-going economic slowdown requires insurers to adjust to a lengthy period of stagnation

AON BENFIELD AGGREGATE (ABA): SHAREHOLDERS' FUNDS
(in billions USD)




Source: Aon Benfield Market Analysis. The ABA includes 28 reinsurer.

for earned premiums. This impacts reinsurers as well, since budget considerations are prompting many cedants to react by increasing retentions.

The implications of record-low interest rates and the absence of prospects for a speedy turnaround are even more serious. Current monetary policy may well benefit governments and banks, as refinancing costs are declining and interest margins are growing. However, this policy imposes a heavy burden on insurers and their clients. The low-interest rate policy is jeopardising the ability of financial institutions and markets to function because interest rates are deprived of their signalling effect. This leads to a focus on short-dated bonds, thereby changing the debt profile that, in turn, heightens the risks of refinancing. There is a danger that substantial amounts of capital may be misallocated and incorrectly valued. Consequently, a huge redistribution of wealth from creditors to debtors will occur. Some experts are even alluding to an insidious expropriation of small savers and dramatic cuts in pension entitlements.

Under these circumstances, underwriting profitability becomes a matter of survival for the sector. Combined ratios have to be lowered in the non-life segment, while technical margins for life insurance must increase. It remains to be seen whether these measures will allow the industry to compensate (even in approximate terms only) for the collapse in earnings from investments. However, this does not change the fact that currently no strategic alternative exists to the imperative of earning a profit from underwriting – even more so, as there are no signs of a reversal of the macroeconomic trend or a turnaround in monetary policy.

### DECEPTIVE SECURITY

For many reinsurers, adaptation to these circumstances goes hand-in-hand with increasingly volatile technical results. This is to some extent intentional, since they are writing more short-term catastrophe exposed property business. In this case, investment income is not such a major factor. Nonetheless, the increase in volatility is also due in part to the changed purchasing behaviour of direct insurers, which are ceding more peak risks while retaining high-frequency risks.

The current high levels of equity positions in the reinsurance industry are not sustainable. In fact, they are driven by one-off income statement effects and in particular, by profitable sales of fixed-interest securities as well as releases of

# SI Re – Mutually yours

## Sustainable, agile, committed

claims reserves. Accounting effects are also at play here: As a result of the decrease in interest rates, unrealised capital gains are triggering a further increase in equity capital, thereby stepping up competition and bringing more pressure to bear on prices.

Sooner or later, the central banks' loose monetary policy will make it necessary to raise interest rates, with serious consequences for the insurance industry. The value of bond portfolios will decrease: The longer the maturity and the more abrupt the interest-rates increase, the greater the loss will be. In contrast to the current capacity glut, this could lead to a sudden contraction of available risk capital, thus leading to serious consequences for long-tail risk hedging. Companies with a weak capitalisation basis and those with limited potential for diversification would be most impacted.

However, the future options available to direct insurers are not unlimited. The introduction of new regulatory standards will make further increases in retentions difficult, unless they are due to solvency considerations. Moreover, the introduction of the Controlled Foreign Corporation Rules (CFC) by the EU, the new EU Reinsurance Directive as well as IFRS will severely curtail the formation of captives. As things look at present, there will be no way of avoiding the inclusion of captives in the consolidated financial statements of parent groups.

SI Re is well aware of the impact these measures will have on risk management, thus, it has focused its underwriting activity strongly on retention-based solutions. We offer reinsurance solutions that enable our clients to optimise their retentions by combining lines of business and by deploying a variety of triggering mechanisms.

In addition, SI Re has initiated the following measures to ensure that it emerges stronger from the current crisis:

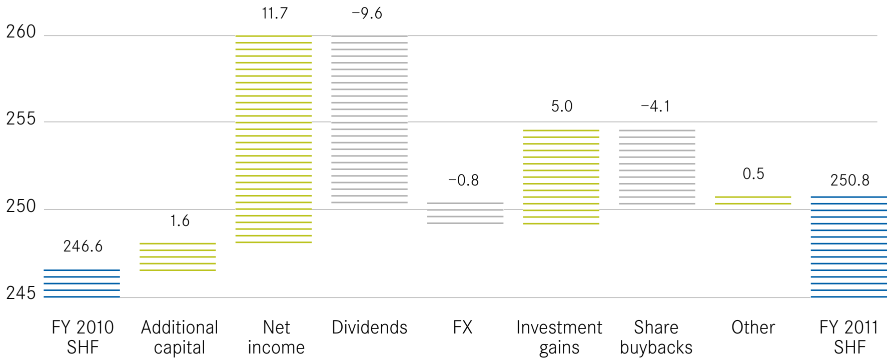
- We have reduced our investments in government bonds to 13 % of the portfolio, and we are not investing in hedge funds.

- We protect our capital by hedging all foreign-exchange surpluses.

- We have systematically strengthened our technical reserves in recent years.

All market players should be aware of the risks inherent in the status quo, and they should endeavour to normalise their business environment so that life and liability risks can be appropriately hedged on a long-term basis. A lengthy continuation of the current environment, geared as it is to the short term, does not merely entail substantial risks. What is ultimately at stake is little less than the industry's value proposition – to shoulder risks in order to contribute to growth and safeguard prosperity in the business world and in society as a whole.

ABA SHAREHOLDERS' FUNDS DEVELOPMENT
(in billions USD)




Source: Aon Benfield Market Analysis. The ABA includes 28 reinsurer.

© Armin Strittmatter, detail of «Canyon voice II»

# SIGNAL IDUNA Group: business continues to develop favourably

«The SIGNAL IDUNA Group is strategically well positioned; we are in a sound economic shape and we can face new challenges.» This was the summary of Reinhold Schulte, our Group's Managing Director, on business development in 2011 as well as the outlook for the current financial year during our annual accounts press conference in May 2012.

Our Group can look back on 2011 as a successful financial year, which saw us obtaining a spot amongst the top ten German insurers. With premium income of EUR 5.47 billion, our company was almost able to match previous year's encouraging result of EUR 5.64 billion. The drop of 1% is mainly due to the deliberate reduction of single-premium business in the life insurance segment. In overall terms, our Group was able to boost sales results by 25% over the last two years, with the 2011 financial year accounting for 7% of the increase.

The development of the operating result was equally pleasing. Before tax, this figure rose from EUR 757.7 million in the prior year to EUR 771.2 million in 2011. Net profit for the year equalled EUR 76.4 million, after EUR 81.7 million the previous year. This decrease was a result of larger provisions for premium refunds, i.e. provisions for our clients from the profit surplus.

Assets under management (including our financial subsidiaries) also developed positively. Our assets rose by more than two billion euros in 2011 to EUR 53.6 billion (prior year: EUR 51.5 billion).

Our Group's insurance activities can be broken down into health insurance, life insurance, non-life or property and liability insurance as well as activities abroad (including SI Re). Health insurance accounts for about 50% of our Group's insurance activities, and this line continued along its growth path. Booked premiums rose to EUR 2.731 billion after EUR 2.652 billion in 2010 and EUR 1.933 billion in 2009. SIGNAL IDUNA has therefore delivered convincing proof that the integration of Deutscher Ring Krankenversicherungsverein has been a resounding success.

The Group's gross expenditure for insurance claims amounted to EUR 4.63 billion, after EUR 4.38 billion in 2010. This translates to an increase of 5.6%. Our company employed about 13,200 staff in 2011, including personnel at SIGNAL IDUNA Bauspar AG, Hansainvest and the Donner & Reuschel Bank.

# Jürgen Hildebrand is SI Re's new Underwriting Manager for Germany and Austria

Jürgen Hildebrand joined the SI Re team as Underwriting Manager for Germany and Austria in May 2012. He is delighted about his new challenge: «Germany and Austria are two competitive markets. However, I can benefit from the work already accomplished by the SI Re team in recent years.»

Commenting on SI Re's market strategy, Jürgen Hildebrand adds: «These two countries are key elements of our growth strategy. We intend to acquire new clients as well as increase our shares with existing cedants. Our focus is on mutual associations, where we have advantages as a subsidiary of the SIGNAL IDUNA Group: We understand their business and we are familiar with their specific needs.»

With regards to his expectations for the forthcoming renewal season, Jürgen Hildebrand notes: «Due to the financial crisis and the generally weak state of the economy, we have to anticipate only limited growth for original premiums in both countries. Low interest rates pose another challenge with regards to liability and long-tail business. Nevertheless, we perceive this business as profitable in the long term. In addition, stringent solvency requirements, to be introduced in 2015 or 2016 due to Solvency II, will work to our advantage. On the one hand, clients will have to retain more solvency capital. On the other hand, SI Re can benefit from the experience we already gained from the introduction of the Swiss Solvency Test (SST). For the upcoming renewal, we do not expect any significant price increases – that particularly applies to claims-free programmes – since sufficient capacity is available in the market.»

«SI Re is in demand as a risk carrier,» Jürgen Hildebrand points out. «We are known as a reliable reinsurer with a long-term perspective. That is why we are often approached to provide quotations. Clients appreciate our unbiased judgment as a traditional reinsurer that neither acts opportunistically nor takes a transaction-driven approach only. This clear positioning suits me personally, and it also makes it easier for us to communicate with our clients.» He appreciates the company's direct decision-making processes and flat hierarchies. «That means I can dedicate more time to our clients, so I can respond rapidly and offer them flexible support.»

Jürgen Hildebrand started his career in the insurance business in 1999 as a Corporate Policy and Business Strategy Analyst with the Insurance Corporation of British Columbia (ICBC), a Canadian direct insurer based in Vancouver. In 2002, he joined Converium (later known as Scor), where he started out as Executive Board Advisor in Cologne before transferring to underwriting for the Scandinavian and Baltic markets. From 2010 on, he was a Senior Underwriter at New Re with responsibilities for Germany, Austria and Turkey. Jürgen Hildebrand holds an MBA from the Simon Fraser University in Vancouver, Canada. The father of two children was born and raised in Germany, near Lake Constance. His leisure activities, snowboarding, mountain biking and playing football for a club, help him to feel very much at home in Switzerland.


www.sire.ch

SIGNAL IDUNA
Reinsurance Ltd

A subsidiary of
SIGNAL IDUNA Group

Bundesplatz 1
CH-6300 Zug
Switzerland

Telephone +41 41 709 05 05
Fax +41 41 709 05 00
info@sire.ch