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Our commitment to insurance-linked securities

SI Re has been investing in insurance-linked securities (ILS) for more than three years, and this asset class currently makes up approximately 4 percent of our investment volume. Our commitment to ILS is long-term rather than opportunistic in nature. We have been closely monitoring the convergence of the insurance and capital markets that began in the 1990s and we expect this trend to sustain as transaction costs fall and capital market investors become more familiar with this new asset class.

At the end of Q2 2013, the global ILS market provided approximately USD 16.8 billion of risk capacity, over 5 percent of the global capacity for catastrophe property business. A further increase in the volume of outstanding catastrophe bonds to approximately USD 18 billion is anticipated by the end of the year (source: Munich Re).

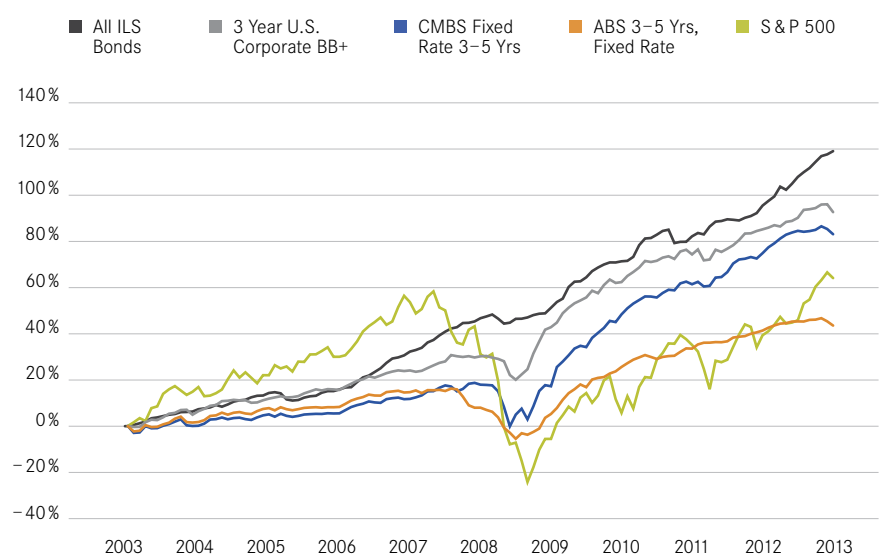
Rates of return continue to experience downward pressure as almost every new issue is oversubscribed by capital market investors – particularly hedge and pension funds – looking for new investment opportunities. In many cases, re-

turns have sunk so low that they do not seem adequate from an insurance risk perspective. This is almost reminiscent of the «cash-flow underwriting» deployed in traditional reinsurance. However, returns now seem to have reached the bottom (at approximately 70 percent of January 2012's levels), since most inves-

tors are no longer willing to accept lower interest rates.

A further clear sign of the «softness» of the ILS market is the so-called «upsizing» whereby issue sponsors simply extend volumes beyond the scope originally planned.

ALL BOND INDICES VERSUS FINANCIAL BENCHMARKS



SI Re – Mutually yours

Sustainable, agile, committed

As an ILS investor, SI Re has responded to this trend: Due to risk/return concerns, we have declined more than 50 percent of the issues presented to us since autumn 2012.

Nonetheless, we shall continue to increase the proportion of ILS in our investment portfolio, however, this will remain beneath the 10 percent threshold in the medium term. We are prudently

using our ILS purchases to ensure we are well positioned to benefit from the ongoing convergence of insurance and capital markets.

ILS investment allows us to diversify our risks globally in a way that would otherwise not be possible, given the Western European bias of our insurance operations (both in terms of location and line of business). The ILS market also per-

mits us to underwrite tranches that are considerably smaller than the minimum capacities typically available in traditional catastrophe property business.

Ultimately, our judicious involvement with the ILS markets is a step towards improving the capital efficiency and robustness of our business model.

European insurance mutuals are fit and well

In the October edition of «Versicherungswirtschaft», Bertrand Wollner, CEO of SI Re, surveys the current operating environment, the recipe for success and the role of reinsurance in the mutuals sector.

The European mutuals sector now comprises more than 3,000 insurance companies which are owned, managed and operated by policyholders (associated members) in their best interest. These insurers and their subsidiaries represent more than 60 percent of all legal entities operating in the European insurance market.

THE REASONS FOR MUTUAL INSURERS' SUCCESS

The financial crisis has clearly enhanced the appeal of the business model prac-

tised by mutual insurers, who derive their capital not from the capital markets but from their members, the policyhold-

ers. They are thus less exposed to financial or credit crises. Rather than attempting to maximise profits for external

CHANGES IN PREMIUM VOLUME IN THE TEN LARGEST EUROPEAN MARKETS¹ 2007–2011 IN %

Global ranking ²		Total market	Mutual insurance (VVaG) market	
3	GB	-27.6%	+37.9%	1 Premium growth in local currency
4	FR	-0.4%	+7.4%	2 Global ranking according to Swiss Re data
5	DE	+8.1%	+11.6%	3 Strong growth of mutual insurance premium volume due to takeovers of local companies by foreign mutual insurers
7	IT	+11.0%	+32.1%	
10	NL	+4.9%	+26.3%	
12	ES	+8.3%	+22.5%	
16	CH	+7.5%	+34.2%	
18	IE	-17.3%	+27.6%	
19	RU ³	+63.8%	+285.9%	
20	SE	+16.6%	+4.1%	

Source: International Cooperative and Mutual Insurance Federation (ICMIF), Market Insights Europe 2011, p. 3



© Armin Strittmatter, detail of «Seele»

shareholders, the mutual model is principally geared towards members/policyholders. As such, mutual insurers typically take on fewer risks than limited insurance companies, both on the asset and liability side of the balance sheet. Some mutual insurers nonetheless felt the full force of the financial crisis and its aftershocks.

THE IMPORTANT ROLE OF REINSURANCE

Given the structural challenges faced by mutual insurers, reinsurance plays a particularly prominent role. Of the over 3,000 European mutual insurers, the overwhelming majority are small compa-

nies concentrating on national or even regional markets, with many even specialising on a single client segment. Cross-border expansion or cooperation is thus not an option for most of the mutual insurance companies operating within the EU. This limits their scope for diversifying risk within their own insurance portfolio. It is not the best way to achieve high capital efficiency and, as already mentioned, makes it more difficult for mutual insurers to access capital.

Given these constraints, mutual insurers often strongly favour reinsurance as a way to increase their capital efficiency and thereby shield themselves against catastrophes or large losses. Although

the mutual sector is generally in good health, Europe's drawn-out recession has clearly further increased mutuals' reinsurance requirements. Subsequent to their distinctly local and regional focus, often exacerbated by close ties with parochial economic and social structures, most mutual insurers are strongly dependent on the performance of their home markets. In this respect, the often close links to the sector's local and regional financial institutions (such as savings banks) is a risk factor that reinforces this dependence even further. Such risks need to be closely monitored and tightly controlled.

SIGNAL IDUNA Group maintains positive growth trajectory

The SIGNAL IDUNA Group, to which also SI Re belongs, looks back on a successful financial year for 2012. Premium income stayed at EUR 5.51 billion while gross claims incurred dropping slightly to EUR 4.54 billion. Investments, including financial subsidiaries, grew by 4.7 percent to EUR 56.2 billion.

All the group companies performed well, reporting positive key figures across the board. The SIGNAL IDUNA Group improved its overall result to EUR 819

million, a rise of nearly 10 percent. The allocation of profits for clients increased by approximately 16 percent to EUR 692.01 million.

On 1 July 2013, Ulrich Leitermann, whose previous role as an Executive Board Member included responsibility for investments, took over as CEO from Reinhold Schulte, who joined the Board of Directors.

High premium stability enabled the two health insurers Deutscher Ring Kranken

and SIGNAL Kranken to increase their income by 5.7 percent and 0.4 percent respectively. At EUR 2.78 billion, aggregate gross premiums written for the two health insurers was 1.7 percent up on the previous year.

Both companies have assured their policyholders that premiums will remain unchanged in the coming year. SIGNAL Kranken distributed EUR 100.9 million of premium refunds to its members, while Deutsche Ring Kranken returned EUR 25.5 million.

IDUNA Leben also had a satisfying performance for the 2012 financial year. Premium income from new business rose by 14.7 percent to EUR 105.7 million, thus outperforming the market average of -3.2 percent by a considerable margin. Premium income from in-force business amounted to more than EUR 1.1 billion by year-end, up 0.8 percent on the previous year.

At EUR 1.12 billion, gross premiums written for the SIGNAL IDUNA Group's domestic property/casualty companies

recorded a 3.0 percent increase on the preceding financial year, while gross claims incurred rose by only 1.9 percent to EUR 763.8 million.

The SIGNAL IDUNA Group's financial subsidiaries SIGNAL IDUNA Bauspar AG, DONNER & REUSCHEL Private Bank and HANSAINVEST all improved their previous year's performance and paid an increased dividend to the Group.

2012 also saw the Group's (including financial subsidiaries') assets under man-

agement increase by more than EUR 2.5 billion to EUR 56.2 billion, a rise of 4.7 percent (previous year: EUR 53.6 billion).

The SIGNAL IDUNA Group had a promising start into 2013 and recorded increases in both premium and investment income.

SIGNAL IDUNA employs an average of 13,200 employees.

Congratulations SI Re

Happy birthday to SI Re on celebrating their tenth anniversary next year! We are extremely proud of our achievements and of our success in positioning SI Re as a trusted, competent and committed partner in the (re)insurance industry. Therefore, we would like to thank our clients, business partners and employees for their loyalty, trust and support.

We have accomplished a lot over the last 10 years: In pursuing our business strategy, we have maintained a clear focus on our customers and markets, we have consistently applied our corporate philosophy and, thanks to a dynamic and highly professional team, we have successfully grown our company.

We shall continue to pursue long-term business relationships in the future and thus look forward to working with our partners in mutual trust and confidence. We know how much a profound understanding of our clients' needs and business models matters.

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