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STEPS 1/22

Market developments – insurance facing difficult challenges

Natural catastrophe losses again reach new record highs, ongoing uncertainty about the impact of the COVID-19 pandemic, accelerating inflation and increasingly unstable supply chains, persistent and intensifying geopolitical friction as well as a cyber insurance market mirroring these distortions – rarely has an insurance renewals round involved social, economic and industrial challenges on the scale seen in the last year-end negotiations.

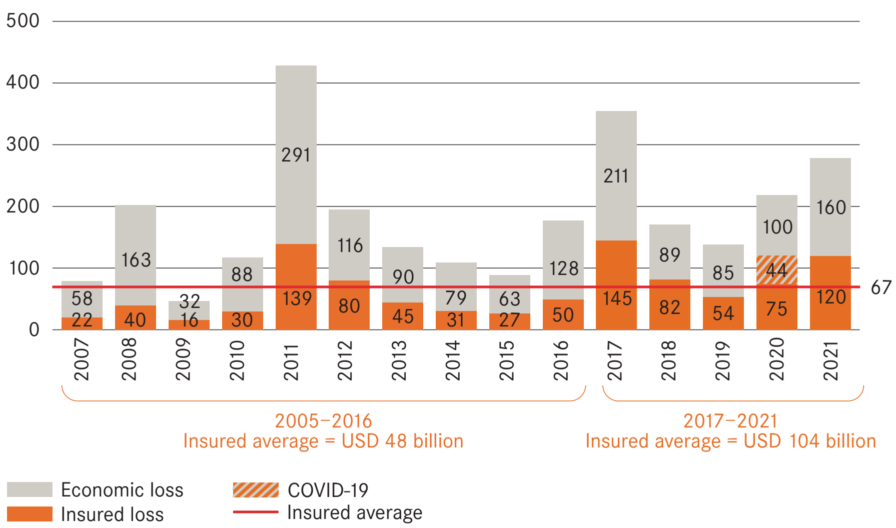
Although cedants had hoped for a relaxing of prices and conditions following the hard market phase of recent years and in light of the adequate reinsurance capacity, these hopes were dashed against a backdrop of insufficient margins and historic price lows in Europe. This ultimately resulted in more stringent conditions and rates were adjusted to reflect the increased exposure, claims experience and higher retrocession prices. This was achieved by using diverging strategies. For example, some reinsurers took the opportunity and available capacity to broaden their offering, while others were dissatisfied with the price increases and thus restricted their capacities.

According to the British broker Howden, global prices for catastrophe cover were up 9 %, higher than the prior-year increase of 6 %. SI Re achieved price increases averaging 18 % in natural catastrophe business.

Secondary perils – rising losses

In 2021, the insurance sector incurred natural catastrophe losses of USD 105 billion - the fourth largest on record and the second time only in just five years that the claims burden exceeded USD 100 billion. While natural catastrophe losses averaged USD 48 billion in the eleven years from 2005 to 2016, the average doubled to over USD 100 billion from 2017 to 2021. Moreover, the sector incurred additional losses of about USD 44 billion due to COVID-19, on top of natural catastrophe claims, placing an additional burden on insurers' equity base.

GLOBAL LOSSES FROM NATURAL CATASTROPHES AND COVID-19 (IN USD BILLION)



Sources: Swiss Re Institute, Sigma Explorer, Munich Re, NatCatSERVICE. Note: Data as at 1 January 2022. Note: averages include COVID-19 estimate

Secondary perils have also been rising in recent years, for example floods, drought, hail, frost, forest fires and heavy rain. These smaller to medium frequency losses are weather-related and often localised events. That makes them hard to model, leading to major pricing challenges.

The flooding catastrophe in Germany and Belgium was one such secondary peril. It caught the population and authorities largely unprepared and triggered record insured losses of USD 13 billion. It was the first time in many years that a natural catastrophe in mid-Europe realised the claims potential that insurers have to take into account as climate change becomes more pronounced. The same goes for the extreme frost in Texas at the start of 2021, which resulted in insured losses of USD 10 billion to 15 billion.

Secondary perils are also present in asset-backed securities. However, given their historically low exposure they have hardly ever caused major losses within securitised products. That is now changing in view of their growing frequency and severity. The collateralised bond market therefore fared worse than the Insurance Linked Securites (ILS) market in 2021, as ILS are more transparent overall and based more on clearly defined peak risks and regions as opposed to loss frequency.

The poor performance of the collateralised securities market led to significant price increases. In this environment, SI Re has maintained the strategy it has followed since 2017 by positioning itself in the higher natural catastrophe layers to avoid the segment's enduringly unsatisfactory price structures plus the growing claims frequency.

Price increases despite high reinsurance capacity

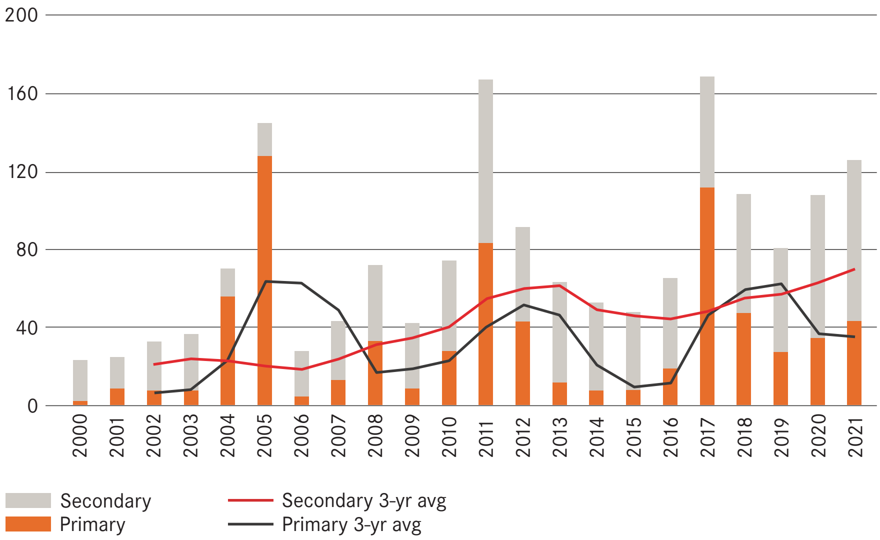
Nonetheless, the reinsurance market was more capitalised than ever at the end of 2021 with capacity in the region of USD 660 billion. Compared to the previous year, the sector posted growth of USD 10 billion, almost exclusively from traditional reinsurance capacity. Alternative capital, on the other hand – the growth driver in the past – has stagnated at below USD 100 billion since 2018, as investors still have to absorb high claims from past years and the lack of transparency of some bonds.

Although capital increased, reinsurers were still able to raise prices. This was mainly due to a changed risk assessment. The sector seems to accept that natural catastrophe losses will remain high in future and rising inflation will also increase claims costs. The combination of these factors caused the sector to stay disciplined and obtain higher rates.

Retrocession – major price increases based on claims experience

Since 2017, prices on the retrocession market have risen more than in reinsurance. Those reinsurers that depend on the availability of alternative capital for their capacity are exposed to the

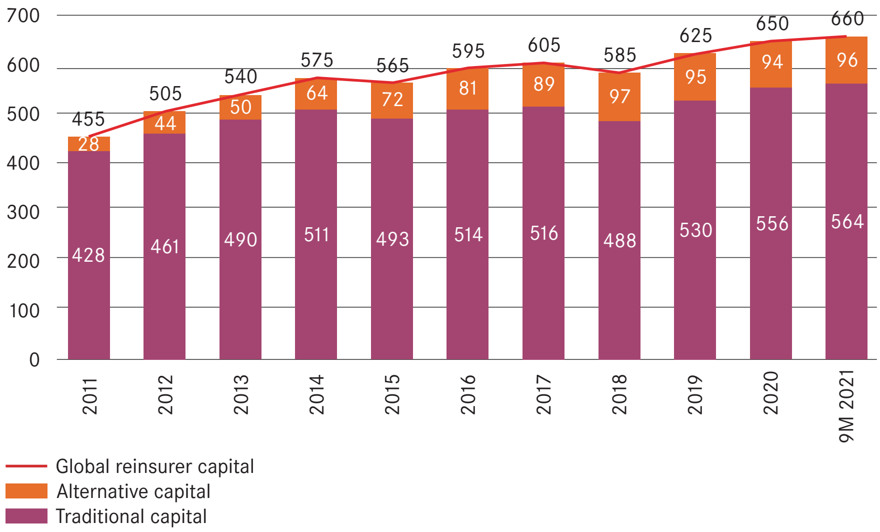
COMPARISON BETWEEN PRIMARY AND SECONDARY NATURAL CATASTROPHES (IN USD BILLION)



The main hazards are tropical hurricanes, European storms and earthquakes. Secondary perils are severe convective weather events, flooding, drought, forest fires, winter storms and others.

Source: Aon Catastrophe Insight, 16. November 2021

GLOBAL REINSURANCE CAPITAL FROM 2011 TO THE THIRD QUARTER OF 2021 (IN USD BILLION)



Sources: Company financial statements, Aon Business Intelligence, Aon Securities Inc.

high volatility of that market. This increases their operational risk, while impacting their capitalisation quality in the eyes of the rating agencies.

Due to high natural catastrophe losses in recent years, capital has often remained tied up in claims-afflicted securitisation products instead of being reinvested. Thus, the alternative market has become more sceptical regarding aggregate covers. Reinsurers have reduced their capacity for certain risks as they have not been able to access enough retrocession capacity to cover their capital requirements.

Claims-afflicted retrocession programmes saw significant price increases. The broker Howden estimates that retrocession prices increased by 15 % on average. The Howden online-retro-rate index has risen by about 75 % since 2017 - a significant increase in a market where capital utilisation efficiency is consistently improving.

Inflation – high inflation set to last

Inflation was barely mentioned at the 1 January 2021 renewals round. Reinsurers had benefited from low claims frequencies during the first waves of the COVID-19 pandemic and the lockdown measures in 2020. Interest rates remained at historic lows. That was about to change in the course of 2021.

Even before the COVID-19 pandemic, geopolitical tensions and the shift of the Chinese economy from its export orientation towards stronger domestic consumption were weighing on supply chains. The COVID-19 pandemic and the restrictions placed on mobility led to delivery bottlenecks. At the same time, demand soared in those countries that were able to evade the pandemic. Raw material prices were particularly affected, with electronic semi-finished products such as semiconductors also becoming scarce.

This will make insurers mindful at renewal time of the potential for strong inflation in the prices of goods and services, especially with regard to settling future claims. In long-tail business, inflation influences the underlying primary portfolio and reserve adequacy against the backdrop of rising claims. In property insurance, higher reconstruction costs and general cost increases lead to pricing uncertainty. During the renewals, SI Re achieved average rate increases of over 16 % in liability business.

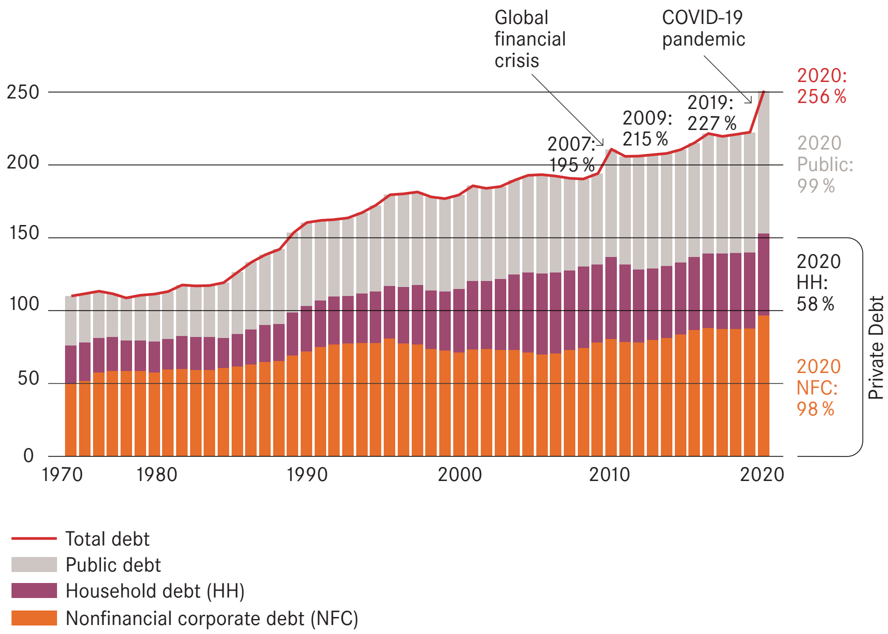
Outlook – a complicated underwriting environment set to become more complex

The headlines on the war in Ukraine are currently dominating the discussion in the financial markets. Nevertheless, it is also worth remembering that the US Federal Reserve monetary policy brake and associated withdrawal of liquidity officially began on 16 March. This signals the start of another highly controversial development for the financial markets as the Federal Reserve is tightening the monetary reins in spite of the economy emitting signs of weakness and the growing danger of recession. The liquidity withdrawal is massive. The fight against inflation is also the top priority of the European Central Bank management. The bond purchasing programme is now winding down and is set to end by the third quarter.

Increased natural catastrophes, rising inflation, Russia's invasion of Ukraine and the biggest monetary policy experiment in history have strongly changed the risk landscape, and made a complicated underwriting environment even more challenging.

The insurance sector's mid-to-long-term bond portfolio will not keep pace with these changes. If interest rates, operating and claims costs rise at the same time, this will add a lot of pressure to insurers' balance sheets. It will be up to underwriting to offset those losses. The industry needs to position itself for a sustained hard market phase.

GLOBAL DEBT IN 2020
(DEBT AS A PERCENT OF GDP)



Sources: IMF Global Dept Database and IMF staff calculations. Note: The estimated ratios pf global dept to GDP are weighted by each country's GDP in US dollars.

SI Re achieves another record result in the 2022 renewals

SI Re has increased premiums year-on-year in every renewal round in recent years. Since 2018, volume has risen by a solid 37 % from EUR 133.5 million to EUR 182.4 million. SI Re has contributed consistently to price increases and improved contract conditions during renewal rounds in recent years. We also achieved this positive development in our own reinsurance book and thus enhanced our portfolio profitability through new business and restructuring of existing programmes. Following an extremely costly 2021 in Europe with insured flood losses of EUR 11 billion, SI Re achieved major price increases in the last renewal round averaging 18 % for its natural catastrophe portfolio. Non-proportional business development was particularly pleasing, as SI Re posted 7.5 % growth over the previous year.

SI Re improves prices and conditions

SI Re achieved a substantial result in the 1 January 2022 renewal round. Premium volume increased by EUR 3.5 million to EUR 182.4 million. Improvements in prices and conditions in the underlying business are particularly pleasing and they will filter through to our business profitability over the long term.

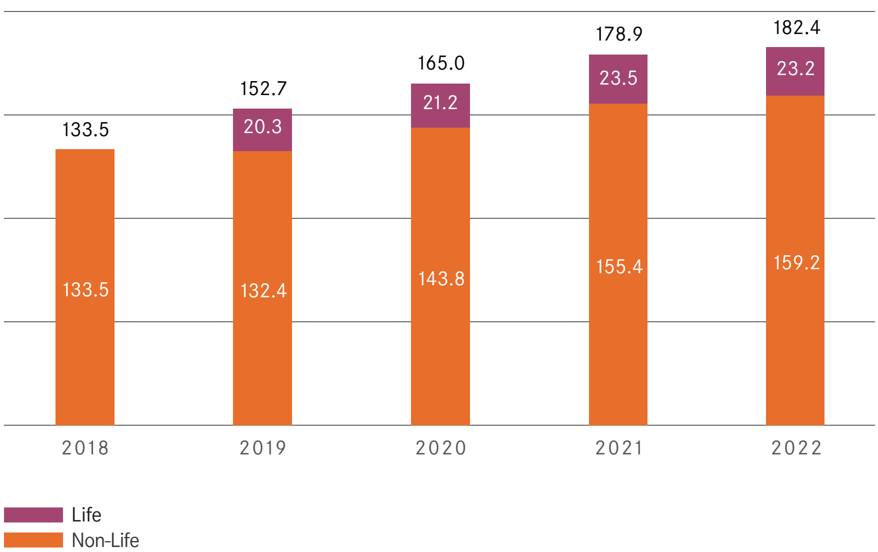
With 17 % of the total portfolio ready for cancellation or restructuring, we succeeded in rewriting over 90 % of this business at improved conditions.

The in-force business increased by a further 0.4 % due to volume and price increases. We also wrote 3.1 % new business, leading to a 4.4 % expansion in the client base.

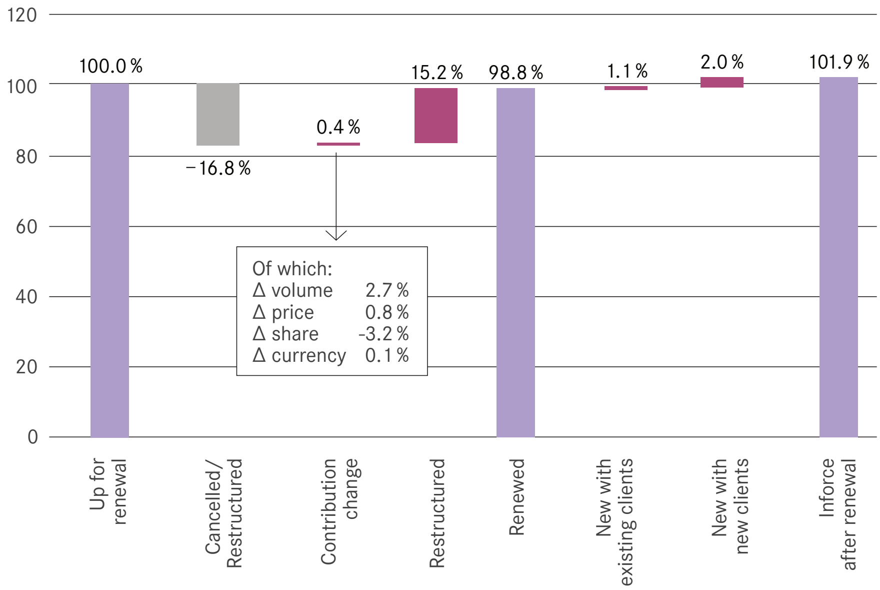
The portfolio changes impacted different areas. SI Re selectively increased its shares of profitable programmes and wrote more new business in the hard natural catastrophe cover market, reflecting the major losses from the catastrophic flooding in Germany and Belgium in July 2021. We achieved price increases averaging 18 % in this segment.

The line-mix remained almost entirely unchanged. There were minor increases in property insurance from 25.9 % in 2021 to 26.8 % in 2022 and motor vehicle insurance from 20.1 % to 21.2 %. Declines occurred mainly in liability: down from 10.4 % in 2021 to 8.7 % in 2022. SI Re is nonetheless very pleased with the line-mix development as additional new business was written in marine, engineering and accident. The ratio of third-party to group business remained almost the same as the prior year at 71.8 % versus 28.2 %.

PREMIUM VOLUME DEVELOPMENT FROM 2018 TO 2022 (IN EUR MILLION)



RENEWALS OF TOTAL BUSINESS AS AT 1 JANUARY 2022
(IN %)



The country mix also remained largely stable in 2022. Renewals in Germany, Austria and Switzerland were marked by immense flood losses in 2021. In particular, the catastrophic event Bernd in July 2021 led in part to record damage. Contracts with high natural catastrophe exposure thus experienced rate increases in the mid double-digit range. SI Re also improved diversification and conditions in these countries.

France was hardly impacted by the adverse weather in 2021, so that natural-catastrophe exposed programmes only incurred selective rate increases. In these programmes, SI Re focused on established and profitable business relationships. Total premium volume for France, Belgium and Luxembourg remained unchanged from 2021.

In Italy, SI Re consolidated growth of recent years with further share increases. In the Spanish market, rates increased significantly in those programmes exposed to natural catastrophes following a major snowstorm in 2021. There were also adjustments in motor liability insurance. Following the COVID-19-induced recession, gross premiums were up in the marine and engineering lines.

SI Re made further gains due to its good positioning in the Northern European markets, particularly in Denmark, Norway, Finland and Iceland. As in prior years, there were rate increases in those programmes burdened by claims, while claims-free contracts were mainly renewed at prior-year conditions on a risk-adjusted basis.

In Central and Eastern European countries, this renewal round also saw differentiation between loss-afflicted programmes, while claims-free contracts were renewed at prior-year conditions on a risk-adjusted basis.

The exclusion of silent cyber from standard lines progressed further. The different market approaches mean this issue will continue in the coming 2023 renewals.

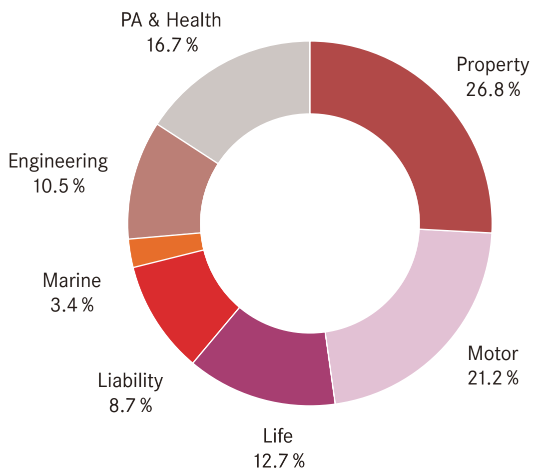
Insurance Linked Securities (ILS) business expanded successfully

SI Re prudently expanded and optimised its ILS portfolio last year. The market value of the portfolio increased from USD 56.4 million in 2020 to USD 58.1 million by the end of 2021. SI Re has been writing catastrophe bonds since 2010 to globally diversify its insurance risks the traditional reinsurance book, which are almost exclusively in the European market.

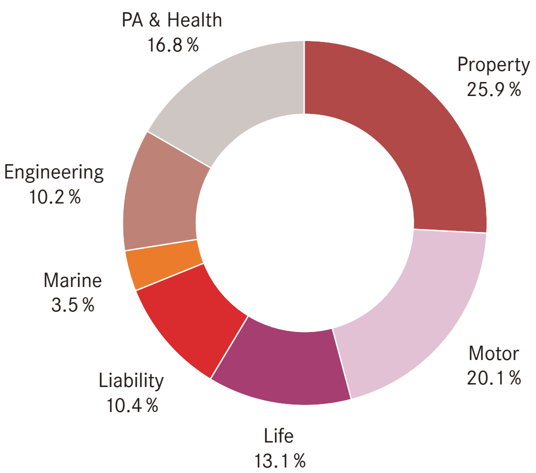
The ILS market experienced another record year. New highs were reported both for the outstanding catastrophe securitisations and for the volume placed in 2021. This milestone was reached in spite of, or possibly because of, a difficult year with very high catastrophe losses. The ILS market thus again showed a high level of resilience and will be used increasingly as an alternative retrocession capacity source. In 2021, new bonds were placed on the market in every month apart from August, resulting in a total volume of just under USD 13 billion. The growing number of new sponsors is also encouraging, as is the rising number of ESG bond declarations and their sponsors.

LINE SPLIT BY UNDERWRITING YEAR AS AT 1 JANUARY 2022

Estimated premium income (EPI) 2022 – EUR 182.4 million



EPI 2021 – EUR 178.9 million



Growth and price trends were not uniform for all risks, structures or sponsors. For example, prices for well researched primary hazards that can be modelled, such as earthquakes in California, were down. As the earthquake hazard is not connected to climate change, the modelling can be seen as relatively stable. Prices for secondary risks increased: they are subject to climate change and their modelling has thus lost reliability, for example, storms and forest fires. Business volume, however, fell. That can be seen as a sign of a more mature and better functioning market.

Although risk spreads narrowed over the year, the ILS market offered attractive alternatives to the credit markets. The sector still plays a vital role in risk diversification. Catastrophe securitisations also achieved a surplus margin, thus securing their role as an important instrument in a fixed income portfolio and in broad multi-asset strategies.

Bola Yoon, Underwriting Assistant at SI Re

Bola Yoon has been supporting the SI Re team as an Underwriting Assistant since March 2021. Prior to that, the native South Korean worked at Gate Gourmet Switzerland GmbH as an insurance analyst where she was, inter alia, responsible for risk assessments, developing new risk management reporting formats, and the renewal of the Group non-life insurance programmes.

Bola Yoon was involved in this year's January renewals with SI Re and supported the underwriting team in the markets of France, Belgium, Luxembourg, Germany, and the Nordic and Baltic countries. In conjunction with the team, she manages new and existing client contracts, prepares triage decisions for new business and compiles underwriting analyses.

Bola Yoon followed a circuitous route to reinsurance. She initially trained in hotel management backed by her knowledge of German, French, English, Spanish and her native language Korean, before moving to Zurich Insurance, where she worked as a customer services manager. Her love of insurance, plus her being one of a family of mathematicians led her to study mathematics at the University of Zurich. She successfully completed her Bachelor's in 2017.

Bola Yoon's move into reinsurance is a continuation of the experiences she accumulated, initially at Zurich Insurance and then in risk management at Gate Gourmet. She particularly values the positive and friendly atmosphere at SI Re as well as the helpfulness of her colleagues and line managers. Although she joined the company while everyone was confined to working from home, she still had a professional introduction that enabled her to get to know her colleagues and the company and quickly felt well integrated.

Bola Yoon is excited about the challenges in her new position. She has already learnt a lot in her first year at SI Re, particularly during the renewals, and she has been able to benefit from the professional knowledge of the SI Re underwriters. She is nonetheless keen to expand her reinsurance knowledge further and will complete a technical accounting course in-house. She will also do a course in reinsurance management at Zürcher Hochschule für Angewandte Wissenschaften (ZHAW) in tandem with her job.

Outside work, Bola Yoon enjoys sport. She is a keen tennis player, amongst others, and enjoys the numerous leisure activities on offer around Lake Zurich in the sunny weather.

Patrizio Rusconi is the new Head of Information Technology at SI Re

Patrizio Rusconi has been in charge of IT at SI Re since August 2020 and also oversees the company's information security. Patrizio Rusconi has detailed knowledge and longstanding experience of the financial sector. Prior to joining SI Re, he served as Chief Technical Officer (CTO) and deputy Chief Information Officer (CIO) at PriceWaterhouseCoopers. In his new position at SI Re, he is responsible for all information technology matters and has already implemented a very broad range of projects over the past 18 months.

IT is of paramount strategic importance to the SI Re management as it is key to the company's digital future. Cloud-based solutions are currently being tested that are in line with both regulatory requirements and the exacting data protection specifications. As the number of cyber attacks rises, cyber security is also becoming more important to the company's security. As information security officer, Patrizio Rusconi is responsible for developing solutions that enable both the necessary security and control without impeding work efficiency.

Patrizio Rusconi's IT team also has an operational management role in addition to strategic projects. The COVID-19 pandemic and resulting restrictions on office work entailed totally new requirements regarding established working processes – including at SI Re. For example, the teleconferencing infrastructure had to be improved. The conditions also had to be implemented to enable employees to work from home. Furthermore, SI Re decided to use digital signatures for signing contracts. The IT department enabled and supervised that process as well. Patrizio Rusconi's team also manages hardware renewal, such as providing new PCs to SI Re employees. During rollout days, colleagues are introduced to the new systems and technologies, when they are shown the numerous functions available and how to make efficient use of those .

The bulk of Patrizio Rusconi's professional experience has been in banking, which translates well to insurance. For example, regulatory requirements introduced at banks years ago are progressively being extended to insurance. Data protection requirements and the handling of sensitive client data also require the application of the latest technologies in the insurance sector in order to keep administration to a minimum. SI Re is well positioned in that respect as the company has already addressed the European General Data Protection Regulation (GDPR) in detail and moved early to adjust its processes. IT technology will help to automate the relevant processes from the outset in the future.

At SI Re, Patrizio Rusconi values the strategic focus, plus the opportunity to advance the digital transformation and its associated broad range of tasks. Other plus points, in his view, are short decision-making paths, manageable bureaucracy and constructive dialogue among employees, which he thinks contribute to a harmonious and efficient working environment.

In his free time, Patrizio Rusconi plays the piano in two different bands. As public concerts were banned during the COVID-19 pandemic, the musicians decided to use the time for studio recordings and thus they produced a CD and vinyl record. Patrizio Rusconi's enthusiasm for technology extends into his private life, whether by developing drones, setting up smart home technology or fixing analogue automatic watches. He balances this out by going on long hikes with friends.

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