STANDARD & POOR'S

Global Reinsurance Highlights

2003 Edition

A Reactions publication

To gain recognition in this world, you must have a hand in shaping it.

Converium is a major player in the world of reinsurance, a world we help shape. We gladly take the lead in the development of new industry standards. In fact, our way of underwriting, our ancillary services, the way we look at things and the quality of the advice we provide today, might become the industry benchmarks of tomorrow. We know that it takes innovative action to make a lasting contribution to our clients' success. That is why the recognition we have gained is in no small part due to our ability to innovate. For further information, please visit us at www.converium.com

Converium Zurich
Tel. +41 1 639 9393
Fax +41 1 639 9090

Converium Germany
Tel. +49 221 539 0
Fax +49 221 539 2022

Converium North America
Tel. +1 212 898 5000
Fax +1 212 898 5052

STANDARD
&POOR'S

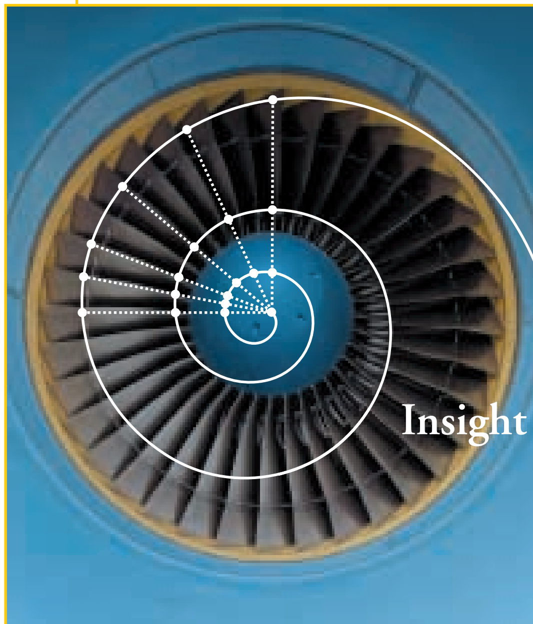
Global Reinsurance Highlights

2003 Edition

For further details on any aspect of the work of Standard & Poor's Insurance Ratings, please contact:

Peter Hughes
Standard & Poor's Insurance Ratings
9 Appold Street
London EC2A 2AP
Tel: (44) 20-7847-7016
Fax: (44) 20-7847-7002
open_door@standardandpoors.com

Darryl Carpenter
Standard & Poor's Insurance Ratings
55 Water Street
New York, New York 10041
Tel: (1) 212-438-7177
Fax: (1) 212-438-7195
darryl_carpenter@standardandpoors.com



and Analysis

The Golden Mean is a mathematical ratio employed for centuries by architects, musicians, and artists to build symmetry in their works. At Endurance, we also seek to establish the patterns that impact our insurance and reinsurance clients worldwide. Combining our expertise with sound scientific principles, our devotion to the fundamentals helps ensure we will be around when our clients need us the most.

Please visit our website to learn more about Endurance and the Golden Mean:

www.enduranceww.com

Read **Reactions** on the web at

WWW.REACTIONSNET.COM

● Visit us at **www.reactionsnet.com**

If you have any problems logging onto or using www.reactionsnet.com please call our dedicated help desk +44 (0) 20 7779 8006 or email mailto:web-help@euromoneyplc.com

Project Leader
Stephen Searby, London

Contributors
Karole Dill Barkley, New York
Adrian Chee, Singapore
Rodney Clark, New York
Jay Dhru, New York
Steve Dreyer, New York
Runa Ichihari, Tokyo
Rob Jones, London
Nancy Koh, Singapore
Earl Lancaster, London
Fred Loeloff, New York
Kai Nakajima, Tokyo
Mark Puccia, New York
Carolyn Rajaratnam, Melbourne
Stephen Searby, London
Kate Thomson, Melbourne
Michael Vine, Melbourne
Connie Wong, Hong Kong

Data Team
Camille Diafas, Melbourne
Neilay Mehta, New York
WeeKiat Sim, Singapore
Lucy Stupples, London
James Sung, New York
Chikako Yoshinaga, Tokyo

Editorial
Marion Kerfoot, London
Edward Lazellari, New York
Greg Paula, New York
Ian Reed, New York
Peter Russ, Melbourne

For Reactions Publishing Group

Publisher
John Walsh Tel: (44) 20-7779-8184 jwalsh@euromoneyplc.com

Associate Publisher – Sponsorship and Business Development
Nicholas Lipinski Tel: (44) 07770-931-955 nlipinski@euromoneyplc.com

Senior Sales Executive
Andrew Griffiths Tel: (44) 20-7779-8199 agriffiths@euromoneyplc.com

Sales Executive
Thomas St Denis Tel: (1) 212-224-3711 Fax: (1) 212-224-3014 tsdenis@iinvestor.net

Production and Design
Kristina Eldred kristina@eldred20.demon.co.uk

Although Euromoney Institutional Investor PLC has made every effort to ensure the accuracy of this publication, neither it nor any contributor can accept any legal responsibility whatsoever for consequences that may arise from errors or omissions or any opinions or advice given. This publication is not a substitute for professional advice on a specific transaction.
Directors: Padraic Fallon (chairman and editor-in-chief); Sir Patrick Sergeant; Richard Ensor (managing director); CJ Sinclair; Neil Osborn; Dan Cohen; Christopher Brown; Gerard Strahan; JP Williams; John Botts; Edoardo Bounous; Colin Jones; The Viscount Rothermere; Simon Brady; Tom Lamont; John Bolsover; Gary Mueller; Diane Alfano; Mike Carroll

Published in part by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc.
Executive offices:
1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041.

Copyright 2003 by The McGraw-Hill Companies, Inc.
Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

STANDARD & POOR'S

Global Reinsurance Highlights

2003 Edition

8 Foreword

10 Global Overview
Global Reinsurance: Calmer Waters Ahead?
including the Top 40 Reinsurance Groups Ranked by Net Reinsurance Premiums Written

16 Standard & Poor's Global Reinsurance List by Country

36 U.S. Review
Collateralization: Cure or Curse?

40 Bermuda
The Sun Continues to Shine on the Bermuda Market… For Now

42 Financial Reporting
International Accounting Standards: Threat or Opportunity?

46 Life Reinsurance
Changes Within, and New Competition from Without

50 Financial Guaranty
Multiline Reinsurers Grow Up With the Pain of Credit Enhancement Business

54 Asia-Pacific Review
Asia-Pacific Reinsurance Sees Light at the End of a Long Tunnel

58 Insurance Ratings Definitions

Many of the world's best insurance companies look to the XL Re companies for fundamental strength. They trust our technical expertise, local knowledge and financial resources to help them achieve their business objectives. Experience our strength. Visit www.xlre.com.

XL Re companies are rated AA or A+ by S&P.

FUNDAMENTAL STRENGTH - CAPITAL AND PEOPLE

The strength to lead

STANDARD
&POOR'S

Foreword

In the warm glow of improving profitability, it would be natural for the reinsurance industry to think that the worst of the problems that have beset the sector over the past five years are behind it. True, the rises in price and tightening of terms and conditions have gone a long way to redressing the imbalance between reinsurers and their cedents that emerged in the last few years of the millennium. However, a big shopping list of challenges remains for the management of the major reinsurers. Among these are: the changing nature of the reinsurer/cedent relationship; the potential imposition of a new set of accounting standards; the direct regulation of the European reinsurance industry; the need to constantly develop and update pricing and reserving methodologies in the face of ever-shifting loss frequency and the emergence of new risks; the increased focus on security; rising collateral requirements; the opportunities and threats posed by the capital markets; the heightened expectations of shareholders; and, perhaps most importantly, the need to create, reinforce, and exploit true franchise value to respond to those expectations, and thereby reduce the amplitude of the cycle.

The way in which management responds to these challenges, and the speed at which it does so, will obviously be critical for the future health of large parts of the industry. History has shown that the hard phase of a cycle, during which overall prices are increasing, runs for four or five years at most. This would suggest that the remaining window of opportunity for instigating real change has only a couple more years to run.

In facing these challenges, difficult decisions lie ahead. Already, we have seen a number of high-profile company withdrawals from the industry, and very many more withdrawals from particular lines of business. Managements will need to decide whether their current business model is enduring. What 2002 clearly demonstrated was that previous strategic decisions have had an enormous effect on the bottom line. Last year was a significant year, not only because of the overall poor result (the average combined ratio for the reinsurance industry was 105%), but also for the variation among reinsurers (notably, there was a greater spread of results in 2002 than the 2001 year with its large man-made losses). In a benign year for catastrophes, new capital made hay while the rest continued to pay for the sins of the past. However, it is possible that a series of large natural catastrophes in the next few years could also expose the sustainability of business models based largely on short-tail property risks.

Historically, reinsurers have been able to sleep easy on a bedding of excess capital. Certainly, this helped to cushion the effect of the large man-made losses of 2001. However, 2002 has been described by some as the reinsurance industry's own "perfect storm", with its combination of significant adverse reserve development and the meltdown in the capital markets. The year was therefore something of a watershed as the remaining pockets of excess capital were exhausted. While having obvious short-term implications for financial strength, the enforced rationing of capital for many of the larger established players is already encouraging more sophistication in the way that risks are monitored, capital is allocated, and relationships are managed. If these changes are fully embraced, this could paradoxically be the fillip the industry requires to permanently establish long-term sustainable profitability, but only time will tell.

Stephen Searby,
London
(44) 20-7847-7053
stephen_searby@standardandpoors.com

First in court. First in deals.

Our 30 years in reinsurance have brought us matters involving nearly every one of the largest companies in the industry. They value our unique blend of trial and negotiating skills. They also trust our dealmaking experience—including reinsurance transactions with aggregate reserve amounts of more than $13 billion in the past five years. All of which led to our insurance group's #1 ranking* for corporate M&A, restructuring and capital-raising work, as well as for litigation and dispute management.

www.lordbissell.com

*Reactions, May 2003, worldwide survey of insurance-industry buyers of legal services.

Global Reinsurance: Calmer Waters Ahead?

The past 12 months, since the publication of the 2002 edition of Global Reinsurance Highlights, have seen unprecedented upheaval in the global reinsurance industry. The impact of a string of large, mainly man-made losses in 2001 had left the capital of the established players depleted, and the expectation was that 2002 was to be the year when the industry emerged from five dark years of deteriorating underwriting results.

For many, however, 2002 was to prove to be a false dawn. Overall, Standard & Poor's estimates that the industry combined ratio and ROR in 2002 were 105% and negative 1.2%, respectively, therefore showing relatively little improvement on the poor 1999 and 2000 years (see Chart 1).

There were two main factors that turned 2002 on its head. First was the meltdown of the global credit and equity markets, combined with the lowest interest rates in decades. The S&P 500 was down 23% in 2002, while the decline in the European markets was more severe, with the FTSE Eurotop 100 falling by 33% during the same period. These declines hit the capital of many of the European reinsurers who have historically been more heavily weighted toward equities. For instance, Munich Reinsurance Co. (Munich Re) suffered €21 billion in unrealized and realized losses on its equity portfolio, representing 58% of its adjusted capital. As well as the direct impact on investors' balance sheets, the decline in the broad indices also had a knock-on effect on the share prices of reinsurers (the MSCI European Insurance Index fell by 52% in 2002). This consequently made management more reluctant to tap the equity markets for fresh capital, in effect reducing financial flexibility.

The second issue affecting 2002 was the additional reserving required by some groups to meet the endemic underpricing in U.S. casualty business that occurred during the 1997-2000 underwriting years. Claims under lines of business such as professional liability can be, and frequently are, received a number of years after the expiry or cancellation of the policy. For various reasons, the final cost of settling these claims can exceed the reserve originally established to meet such claims. As a consequence, reserves relating to unpaid losses arising from prior years have to be revised upward.

This problem was graphically illustrated by the reserving actions of General Electric Co.'s subsidiary, Employers Reinsurance Corp. (ERC), which required additional reserves of $3 billion; Munich Re's American Re-Insurance Co., which required additional reserves of $2 billion; and Berkshire Hathaway Inc.'s subsidiary, General Reinsurance Corp., which needed a top-up of $1.4 billion. Smaller in absolute terms, but no less significant, were similar announcements from SCOR, Converium, XL Reinsurance America Inc., PMA Capital Insurance Co., and Trenwick Group Ltd. The business lines affected by this development include motor liability, workers' compensation, medical malpractice, professional liability, and general (umbrella) liability lines.

Add to these the impact of eight major marine losses, the European floods, and losses relating to reinsurers' involvement in the credit derivatives market, and it is not surprising that many in the industry consider that extensive remedial action is required.

While insurer financial strength ratings emerged relatively unscathed from 2001, the converse was true in 2002, as the expected return to profitability failed to transpire among many groups. Chart 2 shows the change in distribution of ratings since the last edition of Global Reinsurance Highlights. Perhaps most significant is that, with the exception of those companies benefiting from explicit external support, the 'AAA' rated reinsurer has ceased to exist.

Notable Exits

As well as rating downgrades, several groups ceased underwriting or were spun off from their parents in 2002. Most notable among these were Gerling-Konzern Globale Rückversicherungs-AG (GKG), whose non-life reinsurance operations were placed into run-off in

"While insurer financial strength ratings emerged relatively unscathed from 2001, the converse was true in 2002, as the expected return to profitability failed to transpire among many groups."

October 2002; Trenwick America Reinsurance Corp., which was forced to stop underwriting following deterioration in its financial condition and cancellation of an underwriting arrangement with a subsidiary of The Chubb Corp.; the putting into run-off of Sirius International Insurance Corp.'s Bermudian operation, Scandinavian Reinsurance Co. Ltd.; the closure of SCOR's CRP subgroup, comprising Commercial Risk Reinsurance Co. Ltd. and Commercial Risk Re-Insurance Co.; and the decision by French financial services group AXA to put its U.S. subsidiaries, AXA Corporate Solutions Reinsurance Co. and AXA Corporate Solutions Life Reinsurance Co., into run-off. Among the more orderly business reorganizations were the spin-off of St. Paul Cos. Inc.'s renewal book into Platinum Underwriters Holdings Ltd., a new $1.0 billion Bermudian start-up; and the acquisition by Endurance Specialty Insurance Ltd. of the majority of Hartford Financial Services Group Inc.'s (HIG) property/casualty reinsurance business.

Divergent Fortunes

The contrasts in profitability between relatively young groups and the old guard, global players and focused niche companies, and accident- and calendar-year results, were brought into sharper focus by the 2002 results. This is leading Standard & Poor's to question whether the old reinsurance model, based on global diversity and financial muscle, is the right paradigm in a marketplace where the rules are changing. Certainly, the financial performance of the big four reinsurance groups — Munich Re, Swiss Reinsurance Co., ERC, and General Re — has been poor in the past three years and is not expected to improve as quickly as some of the more nimble players. The average combined ratio for these four groups for 2000–2002 was 127%, and the average ROR over the same period was negative 5.5%. In contrast, Bermuda-based operations have fared

Chart 1: Reinsurance Industry — Combined Ratio Versus Return on Revenue

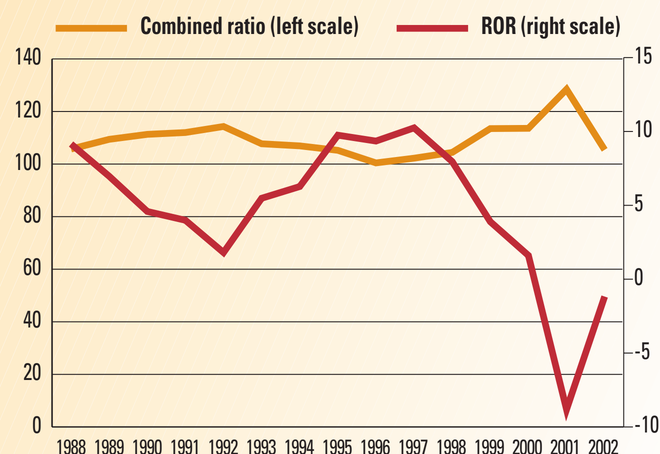
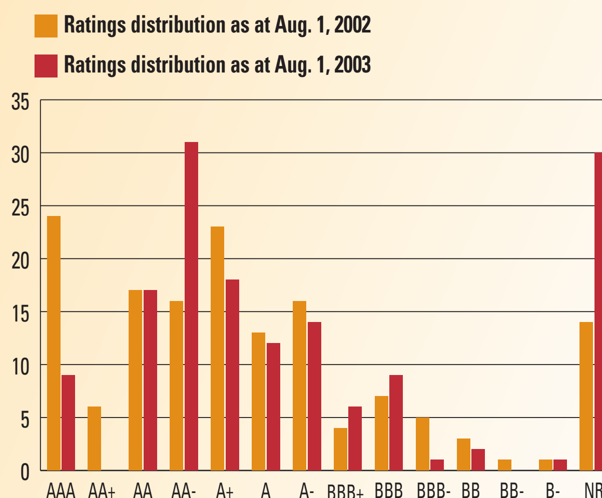


Chart 2: Change in Distribution of Ratings for Top 150 Reinsurers Globally



much better during the same difficult period. For those companies trading on the island during the three years in question, the combined ratio was 108%.

Is Big Still Beautiful?

The apparent inverse relationship between market share and the strength of reinsurers' operating performance in the past few years provides an interesting

"Pricing improvements, an apparent clearing of the decks of U.S. prior-year liability problems, and a stabilization of the capital markets would suggest that 2003 should be a year when the industry moves significantly back into profit. However, there are several factors that could spoil the party."

contrast to traditional business thinking. What, therefore, are the unique characteristics of the reinsurance industry that explain why scale may matter less than in other corporate sectors? Certainly, reinsurers that have been able to step in and out of business lines and whose only metric for doing business has been risk-adjusted rates of return have fared well in recent years. The larger groups, which have tended to be more relationship based, have perhaps been slower to move and have been impeded by longer lines of communication and cultural inefficiencies resulting from the difficulty in some instances of assimilating acquisitions made over the past few years. Equally, the larger established groups have been disadvantaged by their business mix: cash flows on longer tail lines of business typically written by the larger groups support higher combined ratios at an equivalent economic return to short-tail lines. Some groups have also been hampered by their focus on proportional business, which has tended, during normal loss years, to carry higher combined ratios. These are structural issues that will take some time to fix. In the meantime, investment returns look set to remain low for some time to come, and writers of long-tail business have the double challenge of lower investment returns and continued claims development uncertainty, particularly in the U.S.

Tighter Terms Will Boost the Bottom Line

On a brighter note, the established industry has managed to reduce its risk exposure over the past few years. Standard & Poor's estimates that compound price increases in the industry averaged about 60% during 2001 and 2002. This ignores the impact of changes to other terms and conditions, such as the increased levels of risk retention by the reinsured and greater levels of exclusion of specific risks. Anecdotally, the beneficial impact of the changes to such terms and conditions likely exceeds that of the price increases.

The impact of price increases and improvements in other terms and conditions now flowing through is illustrated by the contrast between accident- and calendar-year results for many reinsurers. Standard & Poor's estimates that, ignoring the impact of adverse developments on prior years' business, the combined ratio for the industry was about 105% in 2002, while the reported result is likely to be nearer 115%. At the same time, operating cash flow is strong. Most reinsurers increased reported operating cash flows by more than 50% in 2002 over 2001, a year which itself was already significantly positive. Admittedly, cash flow analysis in the insurance industry is far from a precise science, but it does nevertheless provide additional evidence of the extent of the improvement in accident-year profitability. Therefore, assuming that the calendar-year results of the longer established reinsurers are going to follow the same trend as the accident-year results, the industry should theoretically begin to post some much-improved technical results.

Reinsurance — Set Fair for 2003?

Pricing improvements, an apparent clearing of the decks of U.S. prior-year liability problems, and a stabilization of the capital markets would suggest that 2003 should be a year when the industry moves significantly back into profit. However, there are several factors that could spoil the party.

First is the obvious threat of large losses during the second half of 2003 (2002 is considered to have been a relatively average year for natural catastrophes, particularly for those writing mainly U.S. business, and the first half of 2003 has been remarkably benign).

Second, a series of recent announcements has brought the problem of asbestos-related liabilities back into sharp relief, with three insurance groups having recently announced significant additions to the reserves of their primary operations. ACE Ltd. strengthened its reserves by $0.5 billion net, $2.2 billion gross of reinsurance recoverables; Travelers Insurance Co. added $2.7 billion net (reinsurance recoverables not disclosed) to its reserves; and HIG announced reserve strengthening of $2.6 billion net, $3.9 billion gross. On top of this, American International Group Inc. reported development of $2.8 billion net and $3.5 billion gross, unrelated to asbestos, in the fourth quarter of 2002.

So far, the response from the reinsurance industry has been muted. Some of the additional development has been absorbed by Equitas, the vehicle set up to run off the 1993 and prior-year liabilities of Lloyd's. Perhaps the reinsurers believe that they are already adequately reserved and that this latest round of asbestos reserving is unnecessary self-flagellation. Whatever the outcome, there is now a significant gap between what the primary industry believes it is owed and what the reinsurance industry believes it owes.

Third is the industry's exposure to reinsurance recoverables. Ceded premiums among those groups also writing inward reinsurance increased by 22% in 2001 and by a further 6% in 2002. Given the losses in these years and the slow payout of most aspects of the World Trade Center loss, this has created significant growth in reinsurance recoverables. Standard & Poor's estimates that reinsurance recoverables among those groups may be as high as $80 billion. If recoverables were evenly spread, this would not be a problem. However, some groups have relatively greater exposure to

the systemic risk that results from having significant recoverables. It is not only the failure of reinsurers such as GKG that affects the recoverability of this particular asset class, there is also the increased tendency for debtors to dispute the claim. Reinsurance disputes will be receiving ever-greater attention as reinsurers attempt to stem the tide of claims resulting from business written in earlier years.

The Cycle is Here to Stay

The precise panacea required varies from company to company, although one theme is consistent: the need for the industry to continue to build upon the tightening of prices and other terms and conditions that started in early 2001. Worryingly, there are early signs that certain sectors of the market have already reached or passed their pricing peak; in particular, U.S. property, global property-catastrophe, retrocession in general, and big-ticket global aviation business. Conversely, rates in many casualty classes, particularly workers' compensation, directors' and officers', and medical malpractice, continue to rise, due to the poor loss record and inherent pricing uncertainty in these lines. The sustainability of the improvement in terms and conditions is therefore still subject to some conjecture. Companies with no legacy liabilities and abundant capital may rightly believe this to be the correct time to competitively assert themselves. Since they do not have to make up for the sins of the past, they may be able to do so profitably. This could force the established players to compete more aggressively, thereby shortening the hard market.

There is one other important factor that applies to all reinsurers, regardless of size or age. The flow of fresh capital into the industry following the events of Sept. 11, 2001, illustrates that this is a sector that will remain dogged by cyclicality. It is apparent that barriers to entry are low and the mobility of the industry's main resource, underwriting talent, is high. This volatile mixture makes it difficult to fully leverage on business position. As a result, it may well be that the ratings on some of the smaller groups also come under pressure.

It is somewhat early to predict the profitability of the industry for 2003. Standard & Poor's believes that the overall outcome will once again mask a wide variation in results, depending in part on the business mix. For many of the multiline reinsurers in 2003, technical profits, while improving over 2002, will still fall short of the expectations set a year ago in the face of hardening markets. Many of the multiline reinsurers are still struggling to get their combined ratios materially below 100%, even though a ratio in the low- to mid-90% range was expected. These levels are still low in historical terms, but must be viewed in the context of today's low interest rate environment. Given the string of disappointing years of operating performance and Standard & Poor's expectation that the hard market does not have that many more years to run, the reinsurance industry's leading players are behind the curve in establishing a sustainable level of profitability. These lower-than-expected results for 2003 further underline the assertion that the industry's business position fundamentals are not as strong as they once were. Furthermore, the bottom line will continue to be affected by the need to strengthen reserves, either due to further prior-year developments, a desire to simply 'sandbag' against any future development, or, in some cases, continued impairments on investment portfolios.

***"It is apparent that barriers to entry are low and the mobility of the industry's main resource, underwriting talent, is high. This volatile mixture makes it difficult to fully leverage on business position.
As a result, it may well be that the ratings on some of the smaller groups also come under pressure."***

Looking further ahead, the acid test for the whole industry will be how it responds when prices begin to trend downward, as they inevitably will. Real competitive advantage will accrue to those organizations that have flexible business models, the tools to identify trends, and, most importantly, the wherewithal to cut back on capacity when the time comes.

Stephen Searby,
London
(44) 20-7847-7053
stephen_searby@standardandpoors.com

Laline Carvalho,
New York
(1) 212-438-7178
laline_carvalho@standardandpoors.com

Top 40 Reinsurance Groups Ranked by Net Reinsurance Premiums Written

Rank	Group	Country	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)	Total Adjusted 2002
1	Munich Re Group	Germany	24,924.3	16,610.7	50.0	14,801.9
2	Swiss Re Group	Switzerland	21,600.0	15,429.1	40.0	15,237.5
3	Berkshire Hathaway Re Group	U.S.	13,083.0	11,984.0	9.2	30,942.0
4	Hannover Re Group	Germany	8,526.4	6,287.2	35.6	1,823.1
5	Employers Re Group	U.S.	7,892.0	7,392.0	6.8	6,664.0
6	Lloyd's	U.K.	6,808.6	5,746.1	18.5	14,142.7
7	SCOR Re Group	France	4,693.4	3,651.3	28.5	1,121.5
8	Allianz Re Group	Germany	4,584.7	3,118.5	47.0	35,274.8
9	Gerling Global Re Group[3]	Germany	4,463.3	4,408.3	1.2	177.8
10	XL Re Group	Bermuda	3,544.2	1,708.3	107.5	N.A.
11	Converium Re Group	Switzerland	3,322.2	2,482.6	33.8	1,738.0
12	PartnerRe Group[5]	Bermuda	2,655.4	1,825.1	45.5	2,477.2
13	Everest Re Group	Barbados	2,637.6	1,560.1	69.1	2,368.6
14	AXA Re Group	France	2,572.1	2,489.1	3.3	1,511.0
15	Transatlantic Re Group	U.S.	2,500.2	1,905.6	31.2	2,030.8
16	London Re Group	Canada	2,487.2	2,111.1	17.8	453.4
17	Millea Insurance Group[6]	Japan	2,455.3	1,083.4	126.6	N.A.
18	Reinsurance Group of America	U.S.	1,980.7	1,661.8	19.2	1,222.5
19	Sompo Japan Insurance Group	Japan	1,524.8	507.7	200.3	9,102.2
20	Odyssey Re Group	U.S.	1,477.0	985.0	49.9	1,056.0
21	Mitsui Sumitomo Insurance Group	Japan	1,398.6	645.0	116.8	12,157.0
22	ACE Tempest Re Group	Bermuda	1,307.3	902.4	44.9	1,922.3
23	Aioi Insurance Group	Japan	1,218.8	603.6	101.9	4,126.4
24	Toa Re Group	Japan	1,161.0	950.7	22.1	1,488.7
25	Korean Re Group	South Korea	1,160.7	933.9	24.3	400.1
26	Caisse Centrale de Réassurance	France	1,030.3	775.1	32.9	1,038.8
27	RenaissanceRe Holdings Ltd.	Bermuda	923.7	339.5	172.0	1,492.0
28	QBE Re Group	Australia	862.2	763.0	13.0	1,667.9
29	Endurance Specialty Holdings Ltd.[4]	Bermuda	764.9	0.4	N.M.	1,217.5
30	St. Paul Re Group[2]	U.S.	751.1	1,309.7	-42.7	N.A.
31	Alea Group Holdings AG	Switzerland	708.2	325.5	117.6	492.2
32	Hartford Re Group[4]	U.S.	703.0	848.9	-17.2	N.A.
33	CNA Re Group	U.S.	605.0	524.0	15.5	N.A.
34	Mapfre Re Cia de Reaseguros S.A.	Spain	498.6	399.3	24.9	279.8
35	Royal Bank of Canada Insurance Co. Ltd.	Barbados	477.4	415.7	14.8	515.6
36	Sirius International Insurance Group	Sweden	446.3	634.4	-29.6	804.2
37	Platinum Underwriters Holdings Ltd.[2]	Bermuda	298.1	N.A.	N.M.	921.2
38	Aspen Insurance Holdings Ltd.	Bermuda	233.9	N.A.	N.M.	878.1
39	Scottish Annuity & Life Holdings Ltd.	Bermuda	202.5	68.3	196.3	491.1
40	Catlin Group Ltd.	Bermuda	117.3	43.5	169.3	509.0
		TOTAL	**138,601.2**	**103,430.3**	**34.0**	**172,546.9**

1. All figures, except net reinsurance premiums written, include primary and reinsurance business.
2. Platinum was formed in November 2002 as a spin-off of the St. Paul Reinsurance business. Certain reinsurance stayed with St. Paul.
3. In October 2002, Gerling announced that it was to cease underwriting new business in the non-life reinsurance market. This business is now in run-off.
4. In 2003, Hartford Re's business was acquired by Endurance Specialty Holdings Ltd.

Shareholders' Funds (Mil. $)[1]		Expense Ratio (%)		Loss Ratio (%)		Pretax Operating Income (Mil. $)		Return on Revenue (%)	
2001	Change (%)	2002	2001	2002	2001	2002	2001	2002	2001
14,920.2	-0.8	26.6	30.6	95.8	104.5	-4,000.8	-1,783.9	-15.8	-8.6
15,768.0	-3.4	27.0	29.0	77.0	95.0	397.1	-1,654.9	1.6	-8.8
29,549.0	4.7	25.0	21.0	82.0	117.0	N.A.	N.A.	N.A.	N.A.
1,481.1	23.1	16.9	18.6	77.9	89.2	327.5	10.2	3.7	0.2
6,362.0	4.7	33.0	35.0	119.0	97.0	-2,907.0	-813.0	-32.3	-9.3
6,220.3	127.4	36.3	35.8	62.3	104.5	1,337.6	-4,512.5	7.2	-28.3
1,167.5	-3.9	26.0	30.0	91.0	94.0	-350.1	-461.7	-7.1	-11.6
51,886.3	-32.0	28.2	34.3	79.0	93.0	-626.8	-764.8	-15.9	-25.6
680.1	-73.9	29.8	25.0	90.4	106.5	-587.2	-895.2	-10.9	-18.4
N.A.	N.A.	19.1	22.0	84.8	123.3	N.A.	N.A.	N.A.	N.A.
1,570.8	10.6	25.3	29.7	77.8	100.2	67.7	-518.9	2.0	-20.6
2,148.1	15.3	28.6	29.8	69.3	100.4	199.7	-277.8	7.5	-14.7
1,720.5	37.7	27.3	31.1	71.7	82.4	312.1	112.7	12.0	6.2
1,307.8	15.5	27.2	29.6	88.1	97.5	-246.6	-511.8	-8.5	-18.4
1,846.0	10.0	26.5	27.7	75.8	87.2	194.3	-33.9	7.4	-1.7
450.6	0.6	37.4	20.3	74.0	94.8	1.3	-23.3	0.1	-1.0
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1,005.6	21.6	19.8	18.3	77.7	82.9	208.6	134.6	8.7	6.6
8,686.7	4.8	33.9	35.3	55.0	58.0	315.4	61.7	14.8	6.5
821.0	28.6	30.2	34.8	69.1	80.6	119.0	-29.0	7.5	-2.8
12,737.1	-4.6	33.4	36.4	54.2	57.8	397.8	472.2	2.7	3.5
1,628.5	18.0	30.3	31.6	47.8	70.2	397.9	48.3	29.4	5.2
4,282.6	-3.6	35.3	38.9	60.1	67.0	-134.0	-967.0	-79.0	N.M.
1,559.7	-4.5	N.A.	N.A.	59.3	59.4	-8.0	-89.9	-0.6	-7.6
329.3	21.5	29.8	27.8	65.2	66.2	66.0	73.8	5.7	7.9
862.7	20.4	8.7	9.1	64.5	67.8	118.1	143.5	11.6	16.3
1,075.0	38.8	19.0	25.2	38.1	45.0	365.1	160.5	40.7	37.8
1,339.3	24.5	30.1	33.0	67.6	76.6	260.9	-57.3	7.7	-2.3
1,162.3	4.7	30.9	N.A.	55.3	N.A.	405.7	0.8	98.4	100.0
N.A.	N.A.	30.7	24.1	72.1	114.1	N.A.	N.A.	N.A.	N.A.
433.6	13.5	39.4	45.6	62.1	72.2	21.1	-35.5	3.9	-9.1
N.A.	N.A.	27.2	29.7	79.8	114.2	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	30.7	42.4	78.4	221.2	87.0	-874.0	N.A.	N.A.
239.1	17.0	33.5	33.3	63.4	78.4	31.7	-2.0	6.7	-0.5
487.9	5.7	15.9	17.9	56.0	55.5	166.3	141.6	32.6	31.2
699.9	14.9	41.0	17.0	60.0	102.0	12.7	-75.1	2.4	-9.9
N.A.	N.A.	29.1	23.5	66.3	110.6	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	23.0	N.A.	64.0	N.A.	141.9	N.A.	100.0	N.A.
331.3	48.2	30.0	36.0	70.0	75.0	41.6	21.2	13.1	17.0
54.8	828.2	33.0	30.6	80.8	87.9	-27.2	-37.7	-25.4	-57.9
174,814.7	**-1.3**	**26.9**	**28.0**	**81.2**	**98.7**	**-2,893.6**	**-13,038.0**	**-3.4**	**-8.7**

5. 2002 combined ratio is based upon property/casualty business only, all other figures represent total business written.

6. In April 2002, the Millea Group was formed by Tokio Marine & Fire Insurance Co. Ltd. and Nichido Fire & Marine Insurance Co. Ltd. Net premiums written are the combined result of these two companies.

N.A. Not available.

N.M. Not meaningful.

Global Reinsurance List by Country

To bring you the Global Reinsurance Highlights 2003 edition, Standard & Poor's collected data on over 240 reinsurance organizations, from 41 countries. Three sources were used to compile the data for this year's publication: Standard & Poor's internal insurance statutory database for U.S. operating companies, Standard & Poor's global insurance database to supplement any missing data, and figures from surveys that were completed by reinsurers for the global groups and non-U.S. operating companies.

In a change from previous years, the group ranking has been increased to 40 groups from 25. Furthermore, Standard & Poor's has for the first time included life reinsurers in the list, as well as a separate listing of the top 10 groups based on gross life reinsurance premiums

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
ALGERIA				
NR	Compagnie Centrale de Réassurance	17.9	18.9	-5.6
	Total	**17.9**	**18.9**	**-5.6**
ARGENTINA				
NR	General & Cologne Re Cia de Reaseguros S.A.	36.2	169.2	-78.6
	Total	**36.2**	**169.2**	**-78.6**
AUSTRALIA				
AA	Swiss Re Australia Ltd.	231.4	152.8	51.5
AA-	Munich Re Co. of Australasia Ltd.	139.1	94.6	47.1
AA	Swiss Re Life & Health Australia Ltd.	107.3	94.9	13.0
NR	Gerling Global Re Co. of Australia Pty Ltd.[4]	93.5	81.4	14.8
AAA	GeneralCologne Re Australia Ltd.	62.9	49.7	26.5
NR	Gerling Global Life Re Co. of Australia Pty Ltd.[4]	60.3	45.3	33.1
AAA	GeneralCologne Life Re Australia Ltd.	36.2	31.4	15.3
	Total	**730.7**	**550.1**	**32.8**
AUSTRIA				
NR	Generali Holding Vienna AG	552.1	272.2	102.8
A	UNIQA Versicherungen AG	453.2	320.9	41.3
NR	Generali Rück AG	68.3	51.1	33.7
AAA	GeneralCologne Re Rück AG, Wien	33.0	61.6	-46.4
	Total	**1,106.6**	**705.7**	**56.8**

written. Therefore, the main group listing and the country listing of all entities surveyed is representative of a group's or entity's total reinsurance business written, whether life or non-life.

One of the challenges has been to convince some companies to separate the reinsurance numbers from their primary insurance business, especially when the reinsurance operation is a division within a company and not a distinct operating entity that files its own financial results. While every effort has been made to identify a company's reinsurance premiums written, it is possible that data items may also include primary business.

Another issue to bear in mind when looking at the listings is that all data was converted to U.S. dollars as at the relevant year-end. Consequently, the fall in the U.S. dollar against many currencies in 2002 had a material impact for those companies reporting significant non-U.S. dollar revenues. Finally, to ensure that the whole reinsurance market has been captured, companies and groups that ceased underwriting and/or were placed into run-off during 2002 have also been included. The status of these companies and groups is provided in the footnotes.

Lucy Stupples,
London
(44) 20-7847-7083
lucy_stupples@standardandpoors.com

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
7.6	7.5	83.8	91.1	47.1	40.7	15.8	26.5	24.1
7.6	**7.5**	**83.8**	**91.1**	**47.1**	**40.7**	**15.8**	**26.5**	**24.1**
N.A.	28.5	N.A.	96.5	29.4	2.4	N.M.	N.A.	14.8
N.A.	**28.5**	**N.A.**	**96.5**	**29.4**	**2.4**	**N.M.**	**N.A.**	**14.8**
41.7	8.0	84.1	114.6	221.2	189.4	16.8	19.6	5.6
13.7	-6.0	96.0	114.1	168.1	101.4	65.8	9.4	-5.8
8.9	20.7	101.0	86.0	40.6	46.9	-13.5	6.6	17.6
9.2	1.5	96.6	97.7	39.6	25.8	53.3	8.3	1.6
-18.5	-8.5	145.3	145.9	103.7	102.6	1.1	-23.6	-13.4
-6.2	0.0	119.8	110.2	12.6	8.9	42.0	-9.3	N.M.
3.2	0.9	97.7	104.5	20.5	17.7	16.1	8.1	2.8
52.0	**16.6**	**99.3**	**109.0**	**606.4**	**492.7**	**23.1**	**7.6**	**2.3**
-122.6	10.3	112.8	101.9	1,269.3	1,720.2	-26.2	-23.5	2.8
-18.3	20.9	109.1	107.9	1,789.0	1,426.8	25.4	-3.3	5.7
6.3	1.9	110.4	111.8	139.8	117.7	18.8	8.0	3.1
-2.6	-0.1	121.3	110.4	31.1	26.7	16.3	-5.8	-0.2
-137.2	**32.9**	**111.9**	**105.8**	**3,229.2**	**3,291.4**	**-1.9**	**-8.9**	**3.9**

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
BAHRAIN				
NR	Trust International Insurance Co.	6.4	7.1	-9.8
	Total	**6.4**	**7.1**	**-9.8**
BARBADOS				
NR	London Life and Casualty Re Corp.	502.8	466.9	7.7
AA-	Royal Bank of Canada Insurance Co. Ltd.	477.4	415.7	14.8
NR	Gerling Global International Re Co. Ltd.[4]	355.8	514.0	-30.8
NR	Imagine Insurance Co. Ltd.	133.2	459.1	-71.0
NR	Gerling Global Life Re International Co. Ltd.[4]	110.4	20.3	443.3
NR	European International Re Co. Ltd.	45.3	40.0	13.3
	Total	**1,624.8**	**1,916.0**	**-15.2**
BELGIUM				
A-	SECURA Société de Réassurance	210.6	186.6	12.9
	Total	**210.6**	**186.6**	**12.9**
BERMUDA				
AA	XL Re Ltd.	1,857.9	1,111.1	67.2
AA	Partner Re Co. Ltd.[3]	1,319.8	797.3	65.5
A+	ACE Tempest Re Ltd.	1,307.3	902.4	44.9
A+	Centre Solutions (Bermuda) Ltd.	1,104.5	644.4	71.4
NR	Arch Reinsurance Ltd. (Bermuda)	1,068.2	16.7	N.M.
A-	Endurance Specialty Insurance Ltd.	764.9	0.4	N.M.
A	Inter-Ocean Re Co. Ltd.	658.7	1,255.6	-47.5
NR	Max Re Ltd.	592.7	594.1	-0.2
A-	Montpelier Re	565.9	0.2	N.M.
AA-	Everest Re (Bermuda) Ltd.	534.2	164.5	224.8
A+	Renaissance Re Ltd.	498.3	313.0	59.2
NR	Olympus Re	298.5	N.A.	N.A.
A	Axis Specialty Ltd.	260.3	2.3	N.M.
A+	IPCRe Ltd.	254.3	128.6	97.7
A-	Alea (Bermuda) Ltd.	228.6	124.8	83.2
NR	GoshawK Re	191.8	N.A.	N.A.
A	DaVinci Re	185.5	N.A.	N.A.
AA	XL Re Latin America Ltd.	150.0	126.1	19.0
AA	Security Life of Denver Insurance Co.	129.4	31.8	306.9
NR	Catlin Group Ltd.	117.3	43.5	169.3
NR	Allied World Assurance Holdings Ltd.	78.1	N.A.	N.A.
NR	Grand Central Re	50.4	77.5	-35.0

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
6.8	1.8	114.0	167.0	78.9	56.9	38.8	69.5	21.4
6.8	**1.8**	**114.0**	**167.0**	**78.9**	**56.9**	**38.8**	**69.5**	**21.4**
-25.5	0.6	136.1	126.0	255.5	287.9	-11.3	-3.9	0.1
166.3	141.6	71.9	73.4	515.6	487.9	5.7	32.6	31.2
-125.8	16.3	176.7	122.7	90.7	239.7	-62.2	-23.9	3.1
42.3	22.9	N.A.	N.A.	349.8	209.5	67.0	25.2	4.5
2.9	1.3	99.1	110.9	16.7	14.5	15.7	2.6	5.4
43.7	-27.5	110.7	272.7	394.2	354.8	11.1	48.4	-31.5
103.9	**155.2**	**121.7**	**113.7**	**1,622.4**	**1,594.3**	**1.8**	**6.7**	**8.1**
-28.8	-19.1	120.2	120.3	129.2	132.6	-2.6	-12.5	-9.9
-28.8	**-19.1**	**120.2**	**120.3**	**129.2**	**132.6**	**-2.6**	**-12.5**	**-9.9**
N.A.	N.A.	94.8	133.3	N.A.	N.A.	N.A.	N.A.	N.A.
276.3	-193.7	88.2	146.1	1,619.9	1,414.2	14.5	21.2	-23.6
397.9	48.3	78.1	101.8	1,922.3	1,628.5	18.0	29.4	5.2
-252.7	62.7	144.2	128.2	914.9	1,000.4	-8.6	-20.5	8.5
98.3	0.9	87.6	106.7	1,317.3	509.0	158.8	17.0	5.0
405.7	0.8	86.2	N.A.	1,408.2	1,162.3	21.2	98.4	100.0
5.3	5.2	108.8	108.8	67.6	62.1	8.9	0.7	0.8
-7.1	2.6	126.2	113.5	710.7	699.7	1.6	-1.4	0.5
144.4	-61.6	67.4	N.A.	1,252.5	860.7	45.5	38.1	N.M.
66.5	48.9	103.2	100.8	895.4	436.1	105.4	13.9	24.3
320.2	169.1	56.9	68.4	1,100.0	800.0	37.5	52.7	41.7
102.6	0.1	61.9	N.A.	622.7	495.0	25.8	42.4	93.7
N.A.	N.A.	62.3	74.4	1,961.0	1,649.6	18.9	N.A.	N.A.
201.3	-3.6	33.5	128.6	1,292.4	1,108.3	16.6	87.2	-2.3
-0.6	-11.3	107.1	116.9	437.2	386.0	13.3	-0.3	-7.1
25.5	N.A.	85.0	N.A.	216.6	N.A.	N.A.	20.3	N.A.
73.3	1.5	65.4	N.A.	584.2	500.5	16.7	41.5	108.5
N.A.	N.A.	98.2	137.0	N.A.	N.A.	N.A.	N.A.	N.A.
-19.1	1.1	165.7	137.9	44.6	30.3	47.2	-9.7	2.5
-27.2	-37.7	113.8	118.5	509.0	54.8	828.2	-25.4	-57.9
N.A.	N.A.	90.7	214.5	1,682.4	N.A.	N.A.	N.A.	N.A.
7.2	1.3	99.0	103.0	198.9	189.8	4.8	8.5	2.0

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
BERMUDA (CONTINUED)				
AA	Top Layer Re Ltd.	50.1	20.7	141.8
AAA	RAM Re Co. Ltd.	36.2	26.5	36.4
AA-	Tokio Millennium Re Ltd.	34.4	16.8	104.7
A-	Scottish Annuity & Life Insurance Co. (Cayman) Ltd.	10.3	13.7	-24.7
NR	Stockton Re Ltd.	5.3	52.3	-89.9
AA-	MS Frontier Re Ltd.	1.9	9.0	-78.9
A	Aspen Insurance Ltd.	0.7	N.A.	N.A.
	Total	**12,355.7**	**6,473.4**	**90.9**
BRAZIL				
BBpi	IRB-Brasil Resseguros S.A.	306.6	332.2	-7.7
	Total	**306.6**	**332.2**	**-7.7**
CANADA				
BBB+	SCOR Canada Re Co.	177.1	127.6	38.9
AA	Swiss Re Co. Canada	83.9	65.0	29.0
NR	Gerling Global Re Co. of Canada[4]	71.0	46.8	51.5
AA-	Munich Re Co. of Canada	67.4	58.9	14.5
NR	Gerling Global Life Insurance Co.[4]	2.6	2.7	-3.7
	Total	**401.9**	**301.0**	**33.6**
DENMARK				
AA-	GE Frankona Re A/S	364.3	272.0	33.9
NR	Tryg-Baltica International Insurance Co. Ltd.	89.8	62.4	43.9
NR	KaB International	7.0	5.4	30.1
NR	Copenhagen Re[6]	5.0	271.4	-98.2
	Total	**466.0**	**611.2**	**-23.8**
EGYPT				
BBBpi	Egyptian Re Co.	46.0	58.8	-21.8
	Total	**46.0**	**58.8**	**-21.8**
FRANCE				
BBB+	SCOR	2,273.3	1,744.8	30.3
AA-	AXA Re[5]	1,159.9	1,636.8	-29.1
AAA	Caisse Centrale de Réassurance S.A.	1,030.3	775.1	32.9
AA	PartnerRe S.A.	642.4	518.7	23.9
A+	Le Mans Ré	292.8	292.3	0.2

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
43.9	19.0	17.5	20.2	72.3	46.8	54.4	82.9	82.9
18.4	15.4	96.0	74.0	185.6	169.0	9.8	63.2	64.1
14.0	15.4	90.1	29.4	550.6	272.6	102.0	32.6	73.0
9.8	8.3	222.0	177.0	457.3	276.6	65.4	24.3	18.6
148.3	-28.9	465.1	173.1	673.8	563.6	19.6	70.8	-12.5
0.7	N.A.	222.7	98.0	101.3	11.0	820.9	13.7	N.M.
0.2	N.A.	44.0	N.A.	199.3	N.A.	N.A.	100.0	N.A.
2,053.3	**63.7**	**93.2**	**118.1**	**20,998.0**	**14,326.8**	**46.6**	**24.3**	**2.0**
N.A.	N.A.	N.A.	N.A.	309.1	379.1	-18.5	N.A.	N.A.
N.A.	**N.A.**	**N.A.**	**N.A.**	**309.1**	**379.1**	**-18.5**	**N.A.**	**N.A.**
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
11.3	9.1	101.9	107.0	80.9	82.1	-1.4	12.6	10.6
-0.7	0.1	107.5	107.4	37.7	34.8	8.5	-1.0	0.2
0.0	3.0	119.7	116.1	84.3	89.6	-5.9	0.0	4.4
-0.4	1.3	184.7	117.7	15.8	15.8	-0.1	-10.0	28.9
10.2	**13.5**	**110.0**	**110.4**	**218.7**	**222.2**	**-1.6**	**4.3**	**6.0**
45.2	32.9	116.8	106.5	238.5	254.6	-6.3	10.4	10.3
-34.4	-10.6	120.6	107.5	102.3	60.0	70.6	-45.8	-20.0
-5.2	-1.2	166.5	157.3	20.4	21.7	-5.9	-63.9	-16.2
-18.2	-159.0	N.M.	167.0	14.7	29.7	-50.6	-19.8	-50.9
-12.7	**-137.8**	**118.3**	**133.9**	**375.8**	**365.9**	**2.7**	**-1.8**	**-20.2**
13.0	17.7	134.0	120.0	165.2	188.3	-12.3	12.3	20.9
13.0	**17.7**	**134.0**	**120.0**	**165.2**	**188.3**	**-12.3**	**12.3**	**20.9**
-787.1	-219.7	128.7	125.2	844.8	1,210.0	-30.2	-39.7	-11.8
-254.6	-304.2	131.4	125.5	1,065.4	891.8	19.5	-0.2	-0.2
118.1	143.5	73.2	76.9	1,038.8	862.7	20.4	11.6	16.3
-4.4	-37.7	115.3	118.9	507.0	403.5	25.7	-0.7	-6.7
13.8	-40.0	106.0	128.0	311.5	251.6	23.8	4.4	-12.6

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
FRANCE (CONTINUED)				
NR	Mutuelle Centrale de Réassurance	198.9	173.0	15.0
AA-	SPS Réassurance S.A.	169.5	100.2	69.2
NR	CORIFRANCE	22.9	13.0	75.2
	Total	**5,790.0**	**5,254.0**	**10.2**
GERMANY				
AA-	Munich Re Co.	21,343.3	12,158.5	75.5
AA-	Allianz AG	4,046.4	3,118.5	29.8
AA-	Hannover Rück AG	3,965.5	2,539.2	56.2
NR	Gerling-Konzern Globale Rück AG[4]	2,247.7	2,321.2	-3.2
AA-	GE Frankona Rück AG	1,977.4	1,577.5	25.3
AAA	Kölnische Rück Ges AG	1,950.9	1,854.0	5.2
AA	Swiss Re Germany AG	1,645.6	1,525.9	7.8
AA-	E+S Rück AG	1,514.2	961.4	57.5
A	R+V Versicherung AG	652.9	542.8	20.3
NR	AMB Generali Holding AG	437.4	332.4	31.6
BBB	Wüstenrot & Württembergische AG	358.2	331.5	8.0
A-	Gothaer Rück AG[2]	326.3	249.5	30.8
A	Converium Rück (Deutschland) AG	289.8	257.8	12.4
BBB+	SCOR Deutschland	267.3	169.2	58.0
Api	Deutsche Rück AG[2]	238.9	200.4	19.2
NR	Versicherungskammer Bayern Konzern-Rück	203.5	155.5	30.9
NR	Europa Rück AG[9]	198.4	141.7	40.0
NR	Hanseatica Rück AG	4.9	9.0	-45.3
	Total	**41,668.4**	**28,445.9**	**46.5**
HONG KONG				
A-	China International Re Co. Ltd.	124.6	85.8	45.2
	Total	**124.6**	**85.8**	**45.2**
INDONESIA				
NR	PT. Reasuransi Nasional Indonesia (ReIndo)[9]	12.0	11.6	3.1
	Total	**12.0**	**11.6**	**3.1**
IRELAND				
AA-	Hannover Re (Ireland) Ltd.	627.0	935.0	-32.9
AA	Swiss Re Ireland	450.6	382.9	17.7
NR	London Life & General Re Co.	431.5	86.1	401.1

STANDARD
&POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
0.9	2.6	N.A.	N.A.	179.3	151.9	18.1	0.4	1.4
16.3	-10.5	84.9	111.0	180.8	85.7	111.0	10.4	-12.3
0.3	0.3	107.5	122.3	38.5	31.2	23.5	1.4	2.1
-896.7	**-465.8**	**114.9**	**117.1**	**4,166.2**	**3,888.5**	**7.1**	**-13.5**	**-3.2**
-4,473.4	-526.8	108.3	127.4	19,965.1	38,890.5	-48.7	-20.0	-3.9
-634.2	-764.8	107.2	127.3	34,628.2	51,886.3	-33.3	-18.8	-25.6
87.0	-96.8	99.0	112.8	2,255.1	1,704.8	32.3	2.1	-3.6
-715.3	-693.9	106.6	142.6	589.9	615.0	-4.1	-25.2	-27.9
N.A.	-592.8	102.5	143.2	N.A.	604.8	N.A.	N.A.	-36.8
-54.5	-139.7	114.7	117.5	969.8	994.6	-2.5	-2.3	-6.8
39.1	-61.9	109.8	112.8	1,408.5	1,582.0	-11.0	2.0	-3.9
54.6	-42.0	99.8	112.0	883.0	484.0	82.4	3.4	-4.1
226.7	47.4	112.8	105.4	2,698.0	1,736.9	55.3	33.2	7.8
181.4	176.9	102.8	103.2	6,583.6	6,099.9	7.9	23.1	30.4
-152.2	-67.8	108.0	106.7	3,423.2	4,093.2	-16.4	-30.5	-14.7
12.3	-7.0	106.4	112.1	185.7	175.4	5.9	3.4	-2.5
-40.9	-61.5	118.7	133.7	N.A.	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5.1	41.2	105.4	90.1	228.5	233.4	-2.1	2.1	17.3
6.4	14.0	88.8	88.3	97.7	78.1	N.A.	2.9	8.4
N.A.	-7.6	N.A.	124.6	N.A.	58.9	N.A.	N.A.	-5.0
-0.9	-5.6	176.1	177.0	12.9	14.2	-8.9	-11.3	-50.7
-5,459.0	**-2,788.6**	**107.0**	**124.7**	**73,929.3**	**109,252.1**	**-32.3**	**-13.5**	**-9.6**
20.6	11.3	93.0	102.9	131.6	116.8	12.7	14.9	11.4
20.6	**11.3**	**93.0**	**102.9**	**131.6**	**116.8**	**12.7**	**14.9**	**11.4**
N.A.	0.7	N.A.	96.1	N.A.	7.7	N.A.	N.A.	5.7
N.A.	**0.7**	**N.A.**	**96.1**	**N.A.**	**7.7**	**N.A.**	**N.A.**	**5.7**
39.1	48.8	114.5	114.3	206.4	169.9	21.5	4.1	4.4
33.8	31.3	105.4	110.1	280.3	262.5	6.8	6.8	6.9
31.5	-11.4	97.4	134.8	141.0	105.3	33.8	7.0	-11.2

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
IRELAND (CONTINUED)				
AA-	HDI Re (Ireland) Ltd.	297.9	465.8	-36.0
NR	Hannover Life Reassurance Ireland	290.9	299.0	-2.7
AA-	Irish European Re Co. Ltd.[2,3]	189.3	192.3	-1.6
AAA	Cologne Re Co. (Dublin) Ltd.	165.1	89.3	85.0
AA-	E+S Re (Ireland) Ltd.	130.5	293.6	-55.6
AA-	Tokio Marine Global Re Ltd.	87.9	114.4	-23.1
A+	QBE Re Europe Ltd.	87.4	126.6	-30.9
A-	Scottish Re (Dublin) Ltd.	82.8	75.7	9.4
NR	ESG Re (Ireland) Ltd.[2]	75.9	89.4	-15.2
AA-	Mitsui Sumitomo Re Ltd.	31.4	12.4	153.5
NR	Gerling Global Re Co. Ltd.[4]	27.3	76.0	-64.1
	Total	**2,975.7**	**3,238.6**	**-8.1**
ITALY				
NR	Swiss Re Italia SpA[3]	434.5	283.5	53.3
AA-	Münchener Rück Italia SpA[2]	396.2	311.1	27.3
BBB+	SCOR Italia Riassicurazioni SpA	187.6	120.5	55.7
	Total	**1,018.3**	**715.1**	**42.4**
JAPAN				
AA-	Tokio Marine & Fire Insurance Co. Ltd.	1,941.7	861.6	125.4
AA-	Sompo Japan Insurance Inc.[8]	1,505.7	489.6	207.5
AA-	Mitsui Sumitomo Insurance Co. Ltd.	1,398.6	645.0	116.8
A-	Aioi Insurance Co. Ltd.	1,174.9	605.4	94.1
AA-	Toa Re Co. Ltd.	922.5	748.8	23.2
A+	NipponKoa Insurance Co. Ltd.	729.8	338.1	115.8
AA-	Nichido Fire & Marine Insurance Co. Ltd.	513.6	221.8	131.6
A+	Nissay Dowa Fire & Marine Insurance Co. Ltd.	302.3	146.0	107.1
BBB	Fuji Fire & Marine Insurance Co.	292.2	137.7	112.1
BBB	Kyoei Mutual Fire & Marine Insurance Co.	180.4	101.6	77.5
BBB-	Nisshin Fire & Marine Insurance Co. Ltd.	154.9	78.1	98.5
A-	ACE Insurance Co. Ltd.	27.0	14.8	82.5
	Total	**9,143.6**	**4,388.6**	**108.4**
KENYA				
NR	Kenya Re Corp. Ltd.	20.4	16.0	27.6
NR	PTA Re Co.	11.9	9.7	22.8
	Total	**32.3**	**25.7**	**25.7**

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
79.5	17.5	93.9	111.2	148.6	145.2	2.3	21.7	3.3
-3.4	7.8	64.6	97.7	103.5	89.3	15.9	-1.0	2.4
141.5	-3.3	110.4	91.2	356.4	319.1	11.7	58.1	-1.4
30.1	17.3	87.9	99.4	204.3	205.3	-0.5	20.1	15.1
8.9	14.3	160.4	129.0	157.9	129.2	22.2	3.6	3.7
-16.9	89.9	107.7	81.6	62.7	61.4	2.0	-16.1	86.7
7.5	5.4	130.9	112.9	243.4	239.9	1.5	5.5	3.2
11.1	7.4	102.0	89.0	14.0	5.7	144.8	7.7	9.1
-6.0	-6.9	117.1	111.4	44.7	50.8	-12.1	-6.0	-5.5
1.0	-2.7	104.5	124.8	37.7	13.3	184.0	3.0	-25.0
-2.2	-3.3	117.6	107.3	64.3	56.0	14.8	-7.2	-4.4
355.6	**212.2**	**103.9**	**109.9**	**2,065.2**	**1,853.0**	**11.5**	**9.7**	**6.2**
30.1	50.9	102.7	104.5	N.A.	231.2	N.A.	5.6	13.3
N.A.	4.4	95.5	105.6	245.3	207.3	18.3	N.A.	1.5
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
30.1	**55.3**	**99.3**	**105.1**	**245.3**	**438.5**	**-0.4**	**5.6**	**7.1**
711.1	587.0	49.1	93.7	18,584.5	18,343.0	1.3	22.2	43.9
188.8	-26.1	90.2	93.7	8,882.5	8,604.2	3.2	8.6	-2.6
397.8	472.2	87.6	94.2	12,157.0	12,737.1	-4.6	2.7	3.5
-129.1	-1,008.4	N.A.	N.A.	4,017.1	4,164.5	-3.5	-71.3	N.A.
-48.0	-75.2	94.5	96.3	1,417.9	1,488.5	-4.7	-4.7	-8.0
89.4	194.4	90.6	97.0	5,576.8	5,712.2	-2.4	1.0	2.4
162.0	171.9	55.5	109.3	4,781.7	4,963.2	-3.7	26.1	83.9
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	63.5	119.3	N.A.	N.A.	N.A.	N.A.	N.A.
58.9	58.1	91.0	95.5	799.4	533.4	49.9	2.6	2.7
114.6	32.3	89.0	98.0	156.8	847.1	-81.5	N.A.	N.A.
2.1	1.3	64.7	99.5	N.A.	N.A.	N.A.	9.0	8.8
1,547.7	**407.4**	**76.4**	**96.7**	**56,373.5**	**57,393.2**	**-1.8**	**-1.6**	**15.4**
3.9	2.4	102.4	112.1	38.8	31.1	24.6	16.0	11.1
0.9	-0.3	82.7	93.9	7.1	5.9	21.9	7.9	-3.0
4.8	**2.1**	**95.1**	**105.2**	**45.9**	**37.0**	**24.2**	**13.0**	**5.7**

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
KUWAIT				
BBBpi	Kuwait Re Co. K.S.C.	10.3	5.9	74.9
	Total	**10.3**	**5.9**	**74.9**
LEBANON				
B-pi	Arab Re Co.	12.0	11.2	7.5
	Total	**12.0**	**11.2**	**7.5**
LUXEMBOURG				
AA-	Luxembourg European Re S.A.	147.7	181.5	-18.7
A	Namur Re S.A.	81.6	50.6	61.3
	Total	**229.3**	**232.1**	**-1.2**
MALAYSIA				
BBBpi	Malaysian National Re Bhd. [9]	121.3	116.5	4.2
	Total	**121.3**	**116.5**	**4.2**
MEXICO				
NR	Reaseguradora Patria S.A.[9]	60.0	54.1	10.9
	Total	**60.0**	**54.1**	**10.9**
MOROCCO				
BBBpi	Société Centrale de Réassurance	154.0	115.9	32.8
	Total	**154.0**	**115.9**	**32.8**
NIGERIA				
BBB+	African Re Corp.	104.3	75.5	38.1
	Total	**104.3**	**75.5**	**38.1**
POLAND				
NR	Polish Re Co.	38.4	39.3	-2.4
	Total	**38.4**	**39.3**	**-2.4**
RUSSIA				
NR	Russian Re Co. Ltd.	10.3	6.2	64.3
	Total	**10.3**	**6.2**	**64.3**

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
1.4	1.4	153.4	180.0	79.5	75.8	4.9	10.6	13.9
1.4	**1.4**	**153.4**	**180.0**	**79.5**	**75.8**	**4.9**	**10.6**	**13.9**
3.8	3.0	109.0	107.0	32.5	29.6	9.6	22.2	18.1
3.8	**3.0**	**109.0**	**107.0**	**32.5**	**29.6**	**9.6**	**22.2**	**18.1**
-1.9	-2.7	100.2	108.7	130.5	110.3	18.3	-1.2	-1.5
-2.5	0.1	82.2	91.9	36.5	32.8	11.4	-3.8	0.2
-4.4	**-2.6**	**93.8**	**105.1**	**167.0**	**143.1**	**16.7**	**-2.1**	**-1.1**
N.A.	25.3	N.A.	94.9	N.A.	133.1	N.A.	N.A.	20.5
N.A.	**25.3**	**N.A.**	**94.9**	**N.A.**	**133.1**	**N.A.**	**N.A.**	**20.5**
N.A.	N.A.	N.A.	116.3	N.A.	65.2	N.A.	N.A.	N.A.
N.A.	**N.A.**	**N.A.**	**116.3**	**N.A.**	**65.2**	**N.A.**	**N.A.**	**N.A.**
25.7	11.5	106.4	116.6	64.7	46.3	39.6	17.3	9.0
25.7	**11.5**	**106.4**	**116.6**	**64.7**	**46.3**	**39.6**	**17.3**	**9.0**
5.7	5.8	96.9	91.1	62.8	51.7	21.6	6.1	8.2
5.7	**5.8**	**96.9**	**91.1**	**62.8**	**51.7**	**21.6**	**6.1**	**8.2**
1.7	1.1	96.0	100.9	28.8	26.8	7.5	4.1	2.5
1.7	**1.1**	**96.0**	**100.9**	**28.8**	**26.8**	**7.5**	**4.1**	**2.5**
2.0	0.4	82.0	98.0	2.7	1.6	70.8	20.3	7.2
2.0	**0.4**	**82.0**	**98.0**	**2.7**	**1.6**	**70.8**	**20.3**	**7.2**

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
SINGAPORE				
BBB+	SCOR Re Asia Pacific	234.8	208.2	12.8
BBB+	Singapore Re Corp. Ltd.	31.2	26.8	16.4
	Total	**266.0**	**235.0**	**13.2**
SOUTH AFRICA				
BBpi	Hannover Re Group Africa (Pty) Ltd.[3]	179.3	157.3	14.0
BBBpi	Munich Re Co. of Africa Ltd.	140.3	56.6	148.0
NR	Swiss Re Africa Ltd.	92.2	49.5	86.1
NR	Swiss Re Life and Health Africa Ltd.	70.8	42.9	65.0
NR	Gerling Global Re Co. of South Africa Ltd.[4]	24.0	16.7	43.7
AAA	GeneralCologne Re Africa Ltd.	22.0	20.6	7.0
	Total	**528.7**	**343.6**	**53.8**
SOUTH KOREA				
NR	Korean Re Co.	1,160.7	933.9	24.3
	Total	**1,160.7**	**933.9**	**24.3**
SPAIN				
AA-	Mapfre Re Compañía de Reaseguros S.A.	456.3	377.5	20.9
A	Nacional de Reaseguros S.A.	168.5	126.7	33.0
	Total	**624.9**	**504.3**	**23.9**
SWEDEN				
A-	Sirius International Insurance Corp.	380.1	267.3	42.2
NR	Gerling Global Sweden Re Co. Ltd.[4]	56.2	144.6	-61.1
	Total	**436.4**	**411.9**	**5.9**
SWITZERLAND				
AA	Swiss Re Co.	11,352.1	6,822.5	66.4
AA	European Re Co. of Zurich	2,779.0	4,997.1	-44.4
A	Converium AG	1,670.5	1,185.0	41.0
AA-	New Re Co.	674.7	542.3	24.4
NR	Gerling Globale Rück AG[4]	259.3	239.1	8.5
A-	Alea Europe Ltd.	242.7	138.4	75.4
AA	Trans Re Zurich	198.0	141.5	40.0
NR	A.G. Re Cie de Reas Generales S.A.	28.4	22.9	23.9
	Total	**17,204.7**	**14,088.8**	**22.1**

STANDARD &POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5.9	5.6	106.7	103.7	86.1	78.3	10.0	14.4	16.4
5.9	**5.6**	**106.7**	**103.7**	**86.1**	**78.3**	**10.0**	**14.4**	**16.4**
-5.5	8.5	95.0	101.0	42.2	35.2	19.9	-3.0	4.9
1.9	16.9	101.1	115.0	88.5	70.7	25.1	1.2	26.3
-9.9	12.0	125.2	88.3	27.8	42.6	-34.7	-12.7	23.8
11.4	38.4	96.0	N.A.	90.5	105.8	-14.5	8.2	41.6
-0.8	0.9	112.7	111.1	11.6	10.0	16.3	-3.1	4.3
13.4	8.3	94.6	104.1	25.9	28.0	-7.7	31.3	26.5
10.4	**85.0**	**102.8**	**89.5**	**286.5**	**292.4**	**-2.0**	**-0.6**	**17.0**
66.0	73.8	95.0	94.0	400.1	329.3	21.5	5.7	7.9
66.0	**73.8**	**95.0**	**94.0**	**400.1**	**329.3**	**21.5**	**5.7**	**7.9**
22.7	-0.9	95.2	109.6	225.9	186.6	21.0	5.4	-0.2
7.6	6.0	96.3	101.4	72.4	56.5	28.1	4.6	4.4
30.3	**5.2**	**95.5**	**107.5**	**298.3**	**243.1**	**22.7**	**5.2**	**0.9**
58.9	-51.4	96.0	119.4	755.0	591.0	27.8	13.0	-12.5
0.7	0.2	91.4	98.7	18.2	13.8	32.1	1.1	0.1
59.6	**-51.2**	**95.4**	**112.1**	**773.2**	**604.8**	**27.9**	**11.4**	**-8.1**
1,015.5	-878.6	105.2	105.9	7,414.1	6,541.4	13.3	7.5	-11.5
-230.8	-194.5	101.0	141.1	210.5	331.2	-36.5	-8.3	-3.8
239.8	-181.2	87.8	123.1	N.A.	N.A.	N.A.	14.1	-16.4
-132.3	-29.1	127.8	109.9	187.5	268.9	-30.3	-18.4	-5.5
10.8	2.0	111.7	106.8	97.0	73.3	32.3	3.1	0.8
6.3	-13.4	101.0	115.7	98.6	70.4	40.0	2.8	-9.6
11.7	6.5	108.6	111.1	60.2	49.0	23.0	5.1	4.3
5.4	3.8	93.7	95.0	62.5	48.7	28.3	17.1	15.0
926.5	**-1,284.5**	**103.8**	**120.1**	**8,130.3**	**7,382.9**	**10.1**	**4.4**	**-8.5**

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
TAIWAN				
BBB+	Central Re Corp.	307.1	279.2	10.0
	Total	**307.1**	**279.2**	**10.0**
THAILAND				
BBB	Thai Re Public Co. Ltd.	50.5	42.5	18.8
	Total	**50.5**	**42.5**	**18.8**
TUNISIA				
BBB-	B.E.S.T. Re Co.	46.5	38.8	20.0
NR	Société Tunisienne de Réassurance	18.5	10.1	82.8
	Total	**65.0**	**48.9**	**33.0**
TURKEY				
B-pi	Milli Reasurans T.A.S.	161.7	150.9	7.2
	Total	**161.7**	**150.9**	**7.2**
U.K.				
A	Lloyd's	6,808.6	5,746.1	18.5
AA-	GE Frankona Reassurance Ltd.	747.9	794.0	-5.8
A+	QBE International Insurance Ltd.	658.8	346.1	90.3
AA-	GE Frankona Re Ltd.	452.7	247.8	82.7
AA	Swiss Re Co. (U.K.) Ltd.	320.0	251.5	27.2
A	Aspen Insurance U.K. Ltd.	246.8	1.5	N.M.
AAA	General Cologne Re U.K. Ltd.	243.8	180.2	35.3
NR	Markel International Insurance Co. Ltd.	223.2	155.7	43.4
A+	St. Paul Re Co. Ltd.	211.8	326.3	-35.1
A-	Alea London Ltd.	193.7	60.3	221.2
AAA	Faraday Re Co. Ltd.	178.1	172.3	3.4
NR	Brit Insurance Ltd.	175.8	36.2	385.1
BBB+	SCOR U.K. Ltd.	167.0	73.6	127.0
NR	Gerling Global General & Re Co. Ltd.[4]	145.7	115.2	26.5
A-	World-Wide Reassurance Co. Ltd.	73.5	N.A.	N.A.
NR	Hannover Life Re (U.K.) Ltd.	69.9	56.9	22.8
AA-	Great Lakes Re (U.K.) PLC	53.1	31.7	67.8
A	Liberty Mutual Insurance Co. (U.K.) Ltd.	44.1	113.1	-61.0
NR	Gerling Global Life Reassurance Co. (U.K.) Ltd.[4]	29.9	20.9	42.6
A	NGT Insurance Co. (Isle of Man) Ltd.	25.2	19.0	32.8
BBB-pi	Kyoei Mutual Fire & Marine Insurance Co. (U.K.) Ltd.	1.3	1.2	7.0

STANDARD
&POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
18.0	20.0	98.0	101.5	162.2	111.3	45.7	5.7	7.2
18.0	**20.0**	**98.0**	**101.5**	**162.2**	**111.3**	**45.7**	**5.7**	**7.2**
8.4	8.9	90.4	86.0	45.5	40.7	11.9	15.9	18.9
8.4	**8.9**	**90.4**	**86.0**	**45.5**	**40.7**	**11.9**	**15.9**	**18.9**
4.9	5.3	89.4	84.8	52.0	41.2	26.0	10.5	13.2
2.5	2.9	100.0	104.7	23.1	21.3	8.1	12.3	20.9
7.4	**8.2**	**92.4**	**88.9**	**75.0**	**62.6**	**19.9**	**11.0**	**14.8**
32.4	20.4	96.3	105.3	85.4	55.4	54.1	17.7	12.0
32.4	**20.4**	**96.3**	**105.3**	**85.4**	**55.4**	**54.1**	**17.7**	**12.0**
1,337.6	-4,512.5	98.6	140.3	14,142.7	6,220.3	127.4	7.2	-28.3
N.A.	N.A.	N.A.	N.A.	783.6	502.0	56.1	N.A	N.A
-2.6	-159.9	97.2	168.7	507.0	477.9	6.1	-0.4	-45.6
-114.8	-107.4	132.1	165.2	780.7	669.1	16.7	-22.6	-29.3
-28.4	-340.7	125.6	226.0	427.4	387.0	10.5	-8.6	-126.0
113.0	2.1	88.0	118.0	649.5	23.8	N.M.	100.9	97.4
52.0	-94.0	98.0	179.3	268.3	201.5	33.1	16.6	-41.5
-12.6	-64.3	115.6	150.7	76.7	151.6	-49.4	-5.1	-32.4
-25.2	-192.8	127.5	169.8	296.3	301.1	-1.6	-8.4	-54.8
16.4	-24.0	88.0	134.8	142.5	115.8	23.0	11.3	-27.9
30.5	0.7	99.6	116.6	89.3	66.5	34.3	13.8	0.4
33.6	-13.7	68.0	188.2	270.2	102.5	163.6	33.3	-36.1
37.4	21.1	87.4	90.7	89.4	62.4	43.3	20.4	24.3
-19.9	-27.0	126.6	144.1	37.1	64.7	-42.6	-12.1	-30.5
13.5	N.A.	73.0	N.A.	93.7	N.A.	N.A.	16.9	N.A.
0.5	-0.3	58.0	53.0	34.4	27.7	24.3	0.5	-0.5
9.5	2.4	87.5	108.5	158.8	107.7	47.5	12.8	5.8
-1.3	-323.9	116.7	282.7	171.7	187.7	-8.5	-0.6	-143.6
-0.5	-0.5	107.5	96.1	48.9	30.6	59.5	-1.5	-2.4
39.6	37.4	88.5	46.3	215.1	173.4	24.1	80.3	77.9
-0.6	-0.6	134.2	151.2	16.8	15.1	11.1	-18.3	-27.3

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
U.K. (CONTINUED)				
NR	Endurance Worldwide Insurance Ltd.	0.1	N.A.	N.A.
NR	CX Re Co. Ltd.[7]	-82.6	119.4	-169.2
	Total	**10,988.3**	**8,868.8**	**23.9**
U.S.				
AAA	General Re Corp.	3,617.4	3,671.3	-1.5
AA-	Employers Re Corp.	2,550.9	1,671.2	52.6
AAA	National Indemnity Co.	2,526.4	819.7	208.2
AA	Transatlantic Re Co.	2,219.8	1,675.9	32.5
AA-	Everest Re Co.	2,119.2	1,380.1	53.6
A-	Odyssey America Re Co.	1,439.2	836.5	72.1
AA	Swiss Re America Corp.	1,292.4	1,518.8	-14.9
A+	American Re Co.	1,198.1	2,810.1	-57.4
A	Converium Re North America Inc.	1,193.9	898.4	32.9
A+	Berkley Insurance Co.	934.1	429.3	117.6
AA	Partner Re Co. of the U.S.	754.0	498.8	51.2
A+	St. Paul Re Co.[10]	751.1	1,309.7	-42.7
A+	GE Re Corp.	735.9	906.4	-18.8
AA-	Hartford Re Co.	703.0	848.9	-17.2
A-	Folksamerica Re Co.	671.5	452.2	48.5
A-	PMA Capital Insurance Co.	636.4	315.9	101.4
A-	CNA Re Operations	605.0	524.0	15.5
NR	MARC-Life	588.4	532.7	10.5
BBB+	SCOR Re Co.	551.5	417.5	32.1
AA-	AXA Corporate Solutions Re Co.[5]	505.3	333.5	51.5
NR	Gerling Global Re Corp. of America[4]	465.2	737.1	-36.9
AA	XL Re America Inc.	411.1	228.1	80.2
NR	Trenwick America Re Corp.[11]	383.5	288.0	33.2
Api	American Agricultural Insurance Co.	377.7	288.2	31.0
A+	QBE Re Corp.	330.2	236.6	39.6
NR	Platinum Underwriters Re Co.[10]	298.1	N.A.	N.A.
NR	Hannover Life Reassurance Co. of America	277.1	215.8	28.4
AA-	Toa-Re Insurance Co. of America	229.8	201.8	13.9
A	PXRE Re Co.	210.6	86.3	144.1
NR	Overseas Partners U.S. Re Co.	156.8	82.7	89.5
BBB+	SCOR Life U.S. Re	146.7	155.9	-5.9
AA	Putnam Re Co.	116.8	88.2	32.5
AA	Radian Re	107.4	82.5	30.2
AAA	ACE Guaranty Re Inc.	106.9	85.9	24.4
NR	Dorinco Re Co.	105.0	136.8	-23.3
A-	Continental Re Corp.	99.4	181.5	-45.2

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
0.5	N.A.	N.A.	N.A.	223.8	N.A.	N.A.	91.8	N.A.
-87.0	-294.2	-126.3	387.7	128.4	29.5	335.6	-500.3	-174.4
1,391.2	**-6,092.0**	**102.4**	**151.1**	**19,652.3**	**9,917.6**	**98.2**	**11.6**	**-35.6**
701.2	-2,134.1	104.7	181.5	4,095.1	3,737.8	4,436.5	15.5	-50.6
235.5	-424.9	171.8	145.1	4,876.1	4,857.9	4,050.1	5.1	-18.5
1,641.6	-583.3	54.0	116.1	15,732.1	14,802.9	6.3	58.9	-179.9
143.1	-71.9	102.1	116.0	1,545.9	1,401.1	10.3	6.2	-4.0
216.3	56.1	98.8	115.8	1,494.0	1,293.8	15.5	10.0	3.5
35.4	-43.3	98.3	116.0	990.5	819.5	20.9	2.6	-5.1
-22.5	-301.0	114.0	139.0	2,715.0	2,725.0	-0.4	-1.3	-16.1
-1,825.9	-1,263.1	279.6	147.3	3,139.9	2,795.4	2,165.4	-105.6	-33.0
-80.9	-187.1	114.9	130.9	N.A.	N.A.	N.A.	-6.5	-19.2
-1.6	-139.8	100.3	148.9	757.2	623.1	21.5	-0.2	-27.1
7.4	-82.7	103.0	122.8	512.4	373.5	37.2	1.0	-17.7
N.A.	N.A.	102.8	138.2	N.A.	N.A.	N.A.	N.A.	N.A.
-553.4	-158.0	179.7	129.8	623.4	735.0	-15.2	-58.8	-14.8
N.A.	N.A.	107.1	143.9	N.A.	N.A.	N.A.	N.A.	N.A.
40.3	-61.0	103.5	125.4	857.1	804.8	6.5	5.8	-12.9
1.5	-30.5	107.8	122.1	580.2	559.6	3.7	0.2	-7.9
87.0	-874.0	109.1	263.6	N.A.	N.A.	N.A.	N.A.	N.A.
16.5	7.0	N.A.	N.A.	963.3	865.9	11.2	2.3	1.1
-68.7	-183.6	114.9	148.7	405.8	364.2	11.4	-15.1	-31.1
-9.9	-97.1	102.1	129.8	277.4	252.9	9.7	-1.9	-31.9
-191.5	-160.9	149.3	130.9	288.5	522.7	-44.8	-29.9	-19.6
13.6	-57.5	112.0	161.0	1,138.6	639.4	78.1	3.4	-21.9
-121.2	-22.3	134.7	113.7	125.9	374.8	-66.4	-33.6	-8.1
3.9	-11.7	104.7	111.4	275.0	281.4	-2.3	0.9	-3.8
4.8	-10.0	98.3	107.6	250.2	201.5	24.2	1.6	-4.4
-33.3	1.1	84.6	N.A.	300.2	19.1	N.M.	-29.9	N.A.
-1.3	-19.2	126.3	154.0	108.2	86.9	24.5	-0.4	-6.0
25.5	-17.2	102.6	124.8	253.0	238.9	5.9	10.1	-7.7
41.2	0.9	81.3	129.4	457.2	332.0	37.7	21.0	0.8
-9.4	-4.1	112.6	120.6	73.4	271.9	-73.0	-5.6	-4.5
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
9.8	-0.9	102.1	116.0	110.3	107.0	3.1	7.9	-1.0
71.0	54.1	57.1	60.7	272.1	188.6	44.3	55.2	54.7
59.5	58.2	81.2	69.2	287.0	334.0	-14.1	38.9	50.6
-1.7	-4.4	115.8	120.4	244.7	320.0	-23.5	-0.5	-1.5
11.0	-24.2	109.0	123.7	71.7	54.6	31.3	9.2	-13.7

Global Reinsurance List by Country

Rating as at Aug. 1, 2003	Company	Net Reinsurance Premiums Written (Mil. $) 2002	2001	Change (%)
NR	Mitsui Marine & Fire Insurance Co.	78.7	125.7	-37.4
BBB+	General Security National Insurance Co.	78.1	163.0	-52.1
NR	Great Lakes Insurance Co.	74.4	83.6	-11.0
BBB+	Commercial Risk Re Co.	71.4	94.1	-24.1
AAA	Wesco-Financial Insurance Co.	67.8	32.8	106.7
BBBpi	Shelter Re Co.	59.2	67.3	-12.1
NR	Citicorp Assurance Co.	58.6	73.1	-19.8
NR	Atrium Insurance Corp.	48.4	45.9	5.5
NR	Gerling Global Life Re Co.[4]	47.7	41.7	14.6
A-	Alea North America Insurance Co.	46.6	N.A.	N.A.
NR	Old Lyme Insurance Co. of RI Inc.	38.6	23.9	62.0
A-	Scottish Re (U.S.) Inc.	35.9	-21.1	-270.3
NR	Arch Re Co. U.S.	33.8	N.A.	N.A.
NR	First Mercury Insurance Co.	29.9	34.6	-13.6
A+	Centre Insurance Co.	26.2	33.1	-20.8
NR	Wasatch Crest Insurance Co.	9.2	26.4	-65.1
	Total	**30,220.6**	**25,770.3**	**17.3**
ZIMBABWE				
NR	Zimbabwe Re Co. Ltd.	72.6	33.4	117.6
	Total	**72.6**	**33.4**	**117.6**

1. All figures (except net reinsurance premiums written) include primary and reinsurance business.
2. 2002 figures are estimated.
3. 2002 combined ratio is based upon property/casualty business only, all other figures represent total business written.
4. In October 2002, Gerling announced that it was to cease underwriting new business in the non-life reinsurance market; this business is now in run-off. Life reinsurance business will be continued in a new company, Gerling Life Re GmbH.
5. In 2002, AXA Corporate Solutions restructured and subsequently changed its name to AXA Réassurance. AXA Corporate Solutions Re U.S. ceased underwriting in January 2003 and is now in run-off.
6. In September 2001, the company ceased underwriting and has subsequently been placed into run-off.
7. With effect from August 2001, the company ceased underwriting new and renewal business. In October 2002, the company went into run-off and changed its name from CNA Reinsurance Co. Ltd.
8. Yasuda Fire and Nissan Fire & Marine formed the company in July 2002, figures for 2001 relate to Yasuda Fire.
9. 2002 figures have been estimated by Standard & Poor's.
10. Platinum Underwriters Holdings Ltd. was formed in November 2002 as a spin-off of the St. Paul Reinsurance, certain reinsurance stayed with St. Paul.
11. During 2003, the company was placed into run-off.

N.A. Not available.

N.M. Not meaningful.

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)[1]			Return on Revenue (%)	
2002	2001	2002	2001	2002	2001	Change (%)	2002	2001
-21.5	-9.0	126.8	108.7	63.6	47.0	35.3	-23.2	-9.0
-12.6	-30.2	128.4	124.0	92.6	100.1	-7.6	-9.2	-16.7
29.9	37.8	67.3	64.5	34.0	111.8	-69.6	37.3	41.2
-20.6	-1.0	135.3	118.0	37.1	46.4	-20.1	-17.7	-0.9
92.1	80.6	91.5	143.5	1,839.1	1,802.4	2.0	66.2	67.6
10.7	-2.4	98.7	115.2	65.1	64.2	1.4	15.1	-3.4
59.8	72.9	17.7	14.7	230.9	191.4	20.7	85.2	87.1
38.8	38.4	24.9	25.8	51.7	33.8	52.8	76.4	76.5
-10.5	-1.0	142.9	124.6	46.7	58.4	-19.9	-18.2	-1.9
-2.8	0.0	89.4	N.A.	122.8	109.5	12.1	-11.5	13.6
5.1	4.2	88.4	89.0	35.4	34.6	2.5	11.7	11.8
-16.2	-4.4	106.0	76.0	124.4	84.7	46.9	-33.8	N.M.
11.2	-1.2	73.7	N.A.	359.2	258.4	39.0	N.A.	N.A.
4.1	0.1	102.3	107.5	26.3	23.8	10.7	11.1	0.4
2.6	25.5	125.4	91.4	84.2	91.8	-8.3	2.7	30.7
-12.0	-4.8	223.5	116.9	-8.7	3.1	-381.0	-97.8	-11.7
603.1	**-6,584.9**	**115.7**	**140.6**	**47,026.0**	**44,046.4**	**6.8**	**2.3**	**-24.3**
113.0	13.3	116.7	117.1	203.8	33.7	505.5	63.3	24.8
113.0	**13.3**	**116.7**	**117.1**	**203.8**	**33.7**	**505.5**	**63.3**	**24.8**

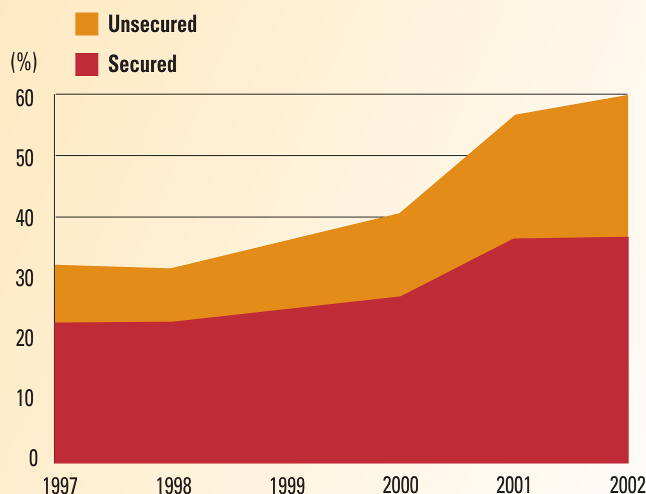
Collateralization: Cure or Curse?

The tensions between U.S. insurance companies and the reinsurers that back them have reached headline proportions of late, but now a potent plot-thickener has arrived to set reinsurers squabbling among themselves. It is the growing controversy over whether non-U.S. reinsurance companies should be compelled to sustain 100% collateralization for their exposures to U.S. insurers.

A Climate of Uncertainty

The background of this debate involves growing concerns about the unwillingness or inability of reinsurers to pay what primary companies will apparently demand of them. At year-end 2002, U.S. insurers expected to recover $171 billion — equivalent to 60% of their capital (see Chart 1) — under contracts with nonaffiliated reinsurers.

Chart 1: Dependence of U.S. Insurers on Reinsurance*



*Recoverables as a percentage of surplus.

In the realm of asbestos costs in particular, insurers are bringing their exposures like abandoned children to an unwilling reinsurance orphanage. ACE Ltd. is the most obvious example, with a $2.2 billion increase in reserves in early 2003 but a net increase (after anticipated reinsurance has kicked in) of only $500 million. A few months later, Hartford Financial Services Group Inc. announced a gross increase of $3.9 billion with a net increase of $2.6 billion.

In the first half of 2003 alone, four large insurers — ACE, AIG, Hartford, and Travelers Property Casualty Corp. — expected almost half of their collective $10 billion boost to reserves to come from reinsurers.

But insurance companies could be leaning ever more heavily on an increasingly rotten reinsurance crutch. Standard & Poor's has lowered its insurer financial strength ratings on nearly all of the large reinsurers in the past two years, reflecting swollen claims activity related to the U.S. litigation climate, losses inflicted by terrorism, and poor investments.

Several European reinsurance players, including AXA and Gerling Global, have placed their U.S. operations in run-off, while some U.S. insurance conglomerates, among them Hartford and St. Paul, have sold off their reinsurance operations. Bermuda players Annuity & Life Re and Trenwick ended up in run-off because of financial deterioration.

Compared with other risks insurers face — in pricing or investments, for example — reinsurance exposure is usually more concentrated among few names and subject to substantial estimation error. Moreover, the fortunes of reinsurance companies are highly correlated with those of their customers. In other words, reinsurers are likely to encounter difficulties just when primary companies need them most. Tensions are already evident between the two camps, with reinsurers scrutinizing claims far more closely than in the past and disputing them more often, especially when they relate to old business and the claimants are not current customers.

The Collateralization Controversy

Having established that reinsurance backing is a critically important and growing asset for U.S. primary companies, and that recoverability is a growing concern, the question is how best to safeguard insurers. Is

U.S. (Re)insurance Groups With Largest Reinsurance Recoverables (Mil. $)

Company	Reinsurance Recoverables	Surplus	Reinsurance Recoverables/ Surplus (%)
American International Group	8,965	13,627	65.8
CNA Group	4,007	6,858	58.4
Zurich Group	3,130	6,260	50.0
Allianz Group	2,636	2,649	99.5
Fairfax Financial Group	1,850	2,249	82.3
ACE Group	1,816	1,858	97.8
Kemper National Group	1,609	1,032	155.9
Munich Re Group	1,579	2,258	69.9
General Electric Group	1,480	8,695	17.0
Liberty Mutual Group	1,345	5,232	25.7
Total	**28,417**	**50,718**	**56.0**

Note: At year-end 2002, U.S. group members only, excludes recoverables from affiliates.

it by an arbitrary collateralization rule that applies only to overseas reinsurers? Is it by allowing the market to seek its own security by favoring reinsurers with higher ratings? Or is it by applying the same arbitrary rule to all reinsurers, irrespective of either location or creditworthiness, so that U.S. players are held to the same standard? All three approaches have their proponents.

Under the current regime, U.S. regulators allow insurance companies balance-sheet credit for overseas reinsurance (or "unauthorized" reinsurance, in the parlance of officialdom) only to the extent the overseas coverage is backed by collateral. If the reinsurance comes from a U.S. company, however, there is no such collateralization requirement. Not surprisingly, the European contingent complains of protectionism, arguing it is unfair to apply one set of rules to them and another to U.S. reinsurers.

They also point out that most regulatory structures in other markets — such as the Federal Deposit Insurance Corp. or the Securities Investors Protection Corp. — are designed to benefit consumers rather than corporations, because corporations are generally regarded as sophisticated, professional parties, capable of assessing risk for themselves and of exercising prudence in their transactions.

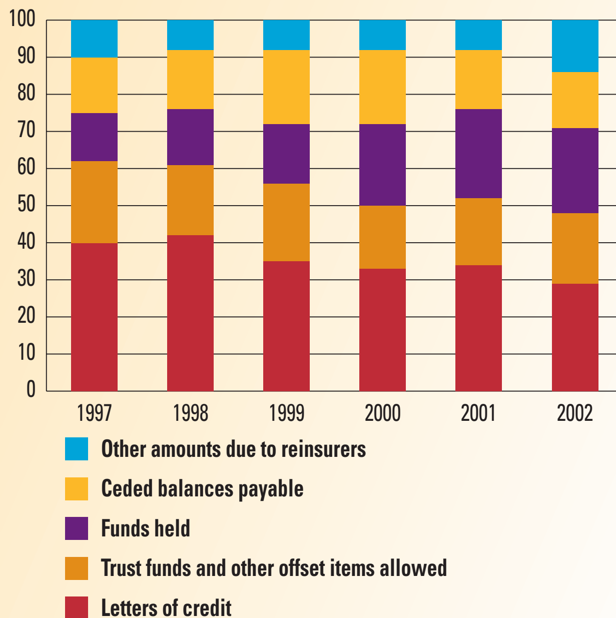
U.S. reinsurers, on the other hand, argue there is an equality of disadvantage. They point to the stricter accounting and financial disclosures they must adhere to in the U.S., along with tighter reserving and investment rules. Another argument they make is that court judgments awarded on behalf of U.S. primary companies against overseas reinsurers may not otherwise be collectible.

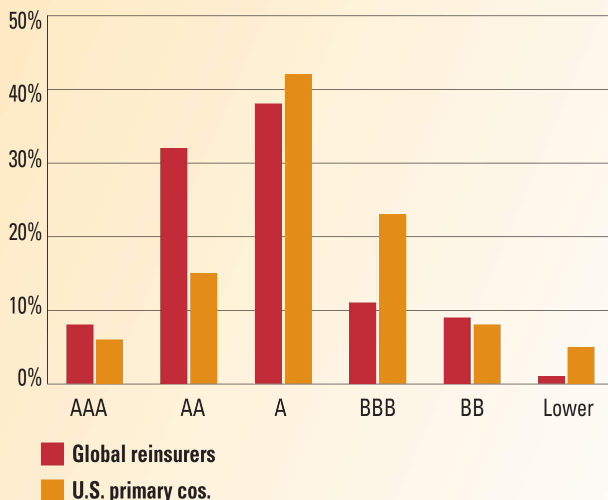
Using a hacksaw when a scalpel would do?...

Aside from the partisan contention, however, there are important issues of market efficiency to consider. In an open market that values financial strength, the least reliable reinsurers would be shunned by security-minded ceding companies and eventually driven out of business.

But when collateralization is applied indiscriminately, that mechanism of penalizing the laggards breaks down, because the underlying financial strength of a reinsurer makes no difference to the balance-sheet credit a primary company receives from it. Ceding companies therefore have no reason to select the stronger reinsurer. Indeed, because financial strength adds a premium to insurance pricing, they may even divert more business to weaker companies.

Market efficiency is also affected by the costs of collateralization. About half of the collateralization provided by reinsurers comes from letters of credit (LOC) issued by banks or through various kinds of trust arrangements (see Chart 2). Both mechanisms entail fees, and although reinsurers can reduce these fees by providing security, this means dedicating liquid assets more or less permanently to claims that may or may not materialize, while giving up income on those assets in the meantime. In recent years, banks have not only increased fees generally but reduced





LOC capacity as they reallocated capital to other purposes. Another major source of collateralization — even less palatable for reinsurers — occurs when insurers withhold premium payments.

...or wielding a double-edged sword?

Whatever the distortions caused by mandatory collateralization, the overseas contingent has not suffered in terms of market share, with premium volume growing at a compound annual rate of 15% in the past six years, compared with 12% for U.S. reinsurers.

This may in part reflect an unanticipated boon to non-U.S. players, because a primary company that takes up fully collateralized reinsurance is arguably getting a more secure credit risk than if it bought from even a highly-rated domestic reinsurer. By 2002, 39% of recoverables among U.S. insurers were secured by collateral, compared with 29% in 1997.

Banking on the banking system.

LOCs are popular with cedents because banks far outshine insurers in their reputation for timely payment. Further, the probability of both the reinsurer and the bank failing simultaneously is quite low, and Standard & Poor's knows of no instance where a properly structured reinsurance trust fund has failed.

Nevertheless, the wisdom of relying on banks to provide collateral remains subject to question. An LOC is only as good as the bank behind it, and many of the institutions providing them are rated lower than the reinsurers they are backing.

Another potential pitfall with LOCs is that they normally include provisions or "triggers" that require the reinsurer to fully fund the facility if its rating falls below a certain level. In other words, deteriorating financial performance prompts ratings to be lowered, which in turn causes the bank to require the reinsurer to come up with assets to the full sum of the LOC, which in turn puts further stress on the reinsurer. The bank can then either discontinue the facility at the earliest opportunity or raise its fees.

Seeds of compromise.

Following the terrorist attacks of Sept. 11, 2001, New York insurance regulators relaxed the collateralization rules for Lloyd's. Instead of funding 100% of gross liabilities within 45 days of the end of the quarter, the London-based reinsurer could provide just 60% until an extended deadline for full funding of March 31, 2002. This calls into question the true need for 100% collateralization.

The status quo may also be challenged if overseas regulators retaliate and impose similar restrictions on U.S. reinsurers wanting to do business there. Current collateralization rules will work as long as the U.S. remains the 500-pound gorilla in the world insurance market, but as the EU gains economic strength and formalizes its own regulatory structure, the balance of power is sure to shift. Canada and France are the only

other countries with requirements similar to those of the U.S., but in the latter case, the same rule is also applied to domestic companies.

A third way?

What if U.S. regulators were to placate critics by imposing the same collateralization rules on U.S. reinsurers? That would be the logical conclusion if they followed the reasoning of AIG, which in April 2003 announced it would require collateral from some U.S. reinsurers too, but the fact is financial markets could simply not absorb such widespread demand for security.

AIG is also a somewhat special case, because it carries the highest financial rating and, following a spate of downgrades among the most highly rated reinsurers, is in the unusual position of buying protection from companies that are nearly all weaker than itself (see Chart 3).

Conclusions

Reinsurance has become an ever-more important element on the balance sheets of primary companies, as likely to affect their financial health as underwriting prowess or investment strategies. In order to safeguard this asset, U.S. regulators have established a regime that penalizes reinsurers merely on the basis of geographical location.

Is this a better approach than simply letting insurers take care of themselves? Should regulators be in the business of protecting primary companies from their own mistakes in buying reinsurance? Or should insurers be responsible for making informed risk-management decisions, based on the specific creditworthiness of individual reinsurance companies, and for taking their own precautions?

What of the philosophical appeal of an efficient, frictionless, and truly global market? What if the reasoning behind current requirements were taken to its logical conclusion, so that U.S. reinsurers were treated the same as their European counterparts, or primary insurers also had to put up collateral for the exposure of all their clients? Either situation would be unworkable.

Or is there perhaps some middle ground, such as a sliding-scale approach, in which reinsurers with greater financial strength can post less collateral? The intended outcome would be to free up capital and drive the price of reinsurance down.

The debate rages on, but in these anxious days, U.S. regulators have little incentive to surrender their main defense against reinsurer failure in favor of some more omniscient perspective, and it would probably take a drastic reduction in reinsurance capacity, such as that which followed the terrorism of 2001, to bring about change.

Standard & Poor's takes no sides in this contention, but can offer a view on ratings implications. A relaxation of the current system would benefit overseas reinsurers to the extent it led to increased profits, but if reinsurers instead competed more aggressively on pricing, there would be an adverse effect on ratings.

Somewhat more certain would be a negative short-term ratings impact on U.S. insurers that use overseas reinsurance extensively. In the long term, however, the outcome could be better risk-based reinsurance placement, a stronger global reinsurance market, and reduced insolvency risk.

Steven J. Dreyer
New York
(1) 212-438-7187
steven_dreyer@standardandpoors.com

The Sun Continues to Shine on the Bermuda Market. . . For Now

Speedy incorporation, no corporate income tax, and a lighter regulatory framework compared with other, more established jurisdictions have all combined to make Bermuda an offshore financial center of choice for insurance and reinsurance companies.

Many reinsurers believe these factors confer a competitive edge in an increasingly global marketplace. Critics, however, have viewed Bermuda's less stringent regulations as a potential weak point that could be abused, and they have expressed concern about the level of oversight and the adequacy of companies' risk management policies.

Companies can obtain tax and regulatory advantages by registering as exempted entities. Because these companies transact business from Bermuda but not in the local Bermuda market, they are not required to have a minimum of 60% Bermudian ownership. Furthermore, Bermuda does not assess corporate income tax — including levies on capital gains, profits, or dividends — on these businesses. The no-tax guarantee extends to the year 2016, although it does not cover a 12.75% payroll tax, which all companies do pay.

Companies do not need to relocate their operations to Bermuda physically, but they do need to establish a presence on the island. A May 2002 report by the U.S. Treasury stated that by reorganizing to create an offshore parent corporation in a no-tax jurisdiction, a U.S.-based group can reduce its tax liability significantly without any real changes to its business operations and without negatively affecting its access to capital markets.

The Treasury report goes on to explain that the U.S. tax system places a disproportionate burden on U.S. companies in the treatment of foreign-sourced income compared with how the U.S.' major trading partners tax such income. According to the report, complex rules apply to limit the availability of foreign tax credits; in contrast, many of the U.S.' trading partners operate tax systems under which active income earned by foreign subsidiaries and profits earned by foreign branches are exempt from domestic taxation. The report recommends a comprehensive re-examination of the U.S. international tax rules.

Bermuda is thought of primarily as a reinsurance market, but a 2002 survey[1] indicates that 40% of market premium income consists of direct insurance business, with reinsurance constituting the remaining 60%. Of the surveyed new companies, virtually all are writing some insurance business, and two companies wrote 40% or more of their business on a direct basis in 2002, although the overall premium split is heavily skewed toward reinsurance in the first year. The exempt insurance industry in Bermuda derives about 52% of gross premium income from the U.S., with 16% from Continental Europe, 11% from the U.K., and 14% from the rest of the world. The rest of the world has grown from no more than 7% in the prior two years to 14% in 2002. The U.S. share continues to decline markedly to current levels from a higher 70%-75% in 1997 and 1998 and 65% in 2001. U.K. premium volume has declined to 11% in 2002 from 17% in 1999 and 2000.

Although processing an application for incorporation in Bermuda normally takes just two days, a review precedes it. The vetting that is done before a company is allowed to incorporate is designed to screen out unsavory candidates, almost akin to an admissions committee process at a private club. Both the officers of the applicant company and the source of funds receive scrutiny. A committee composed of public and private sector members reviews the proposed business plan.

Standard & Poor's has rated Bermuda's foreign currency debt 'AA' since 1995. Bermuda has good economic fundamentals, particularly a stable monetary stance, low general government debt, and an overall net external creditor position. Bermuda's ability to attract and retain foreign financial services companies supports its high per capita income and solid economic performance.

1 "Bermudian Insurance Market 2002: A Year of Differentiated Performance" by Karole Dill Barkley, Ninth Annual Bermudian Business Deloitte & Touche survey with analysis by Standard & Poor's, Bermudian Business magazine April/May 2003.

Legislation specifically focused on insurance companies in Bermuda (both domestic and offshore) dates back to the Insurance Act of 1978. It was followed by clarifying legislation later in 1978, as well as additional acts in 1980, 1981, 1983, 1995, and 1998.

Both the OECD and the accounting firm KPMG have endorsed Bermuda as a well-regulated offshore center. However, KPMG did single out a few areas that needed improvement in its 2000 white paper examining Bermuda's tax and regulatory structure for offshore financial centers. The regulatory framework could benefit from enhanced supervision of on-site inspections and off-site monitoring, as well as improved international co-operation, the report specified. It could also provide for better assistance to foreign regulators investigating Bermudian towns, citizens, and entities.

In response, Bermuda established the public office of Supervisor of Insurance in October 2001. This new office has complete responsibility for supervising the licensing and regulation of insurers as part of the larger Bermuda Monetary Authority (BMA), which oversees all financial institutions. By moving oversight of insurance to a division of the BMA from the Registrar of Companies, Bermuda has brought its regulatory process into line with international standards. The new office will also improve Bermuda's ability to assist foreign regulators as needed, and on-site inspections are being instituted.

The Bermuda/London market comparison might have been an appropriate parallel in years past, but the emphasis on London from the vantage of Bermuda is less significant. Bermuda now sees itself as a significant market in its own right. London remains a major insurance center and is respected as such, but the growth and development of Bermuda appears less dependent on the fortunes of the British (re)insurance market.

Bermudian tax advantages most benefit companies with non-U.S.-domiciled business. Although Bermuda-based companies constitute 15% of capital for Lloyd's 2003 year of account, U.K.-sourced premium income represents only 10% of Bermuda's gross premiums written. Even the U.S. market has declined in significance to Bermuda by one-third over the past five years, although it continues to constitute just over one-half of the total premium volume. Rather, Bermuda's (re)insurance industry competes on an international playing field, with different sectors competing in different geographic realms.

Bermuda competes with the largest global players with respect to excess-of-loss property business, most of which is in the U.S. and Continental Europe. The Class of 2002[2] — bringing new capacity, capabilities, and contacts — has contributed to growth in the range of business written in Bermuda, with reports of significant growth in property per risk, workers' compensation, and casualty business. The Bermudian captive industry remains robust and competes with the various offshore and onshore captive jurisdictions, including the Cayman Islands, the Caribbean, and Vermont; as at year-end 2002, Bermuda held 29.5% of the global captive market, which is more than double the Cayman Islands' share, although the rate of growth in captive formation was higher for the Cayman Islands than for Bermuda in 2002. Specialty lines, such as aviation and marine, continue to be dominated by London Market participants, and on this stage, Bermuda and London compete actively and support each other through retrocession. For other property and, increasingly, for excess-of-loss casualty lines, the domestic reinsurers both in the U.S. and in other home markets are key competitors. Furthermore, Bermuda market companies are increasingly multijurisdictional, with operations in the U.S., Europe, and, increasingly, Asia.

"Bermuda competes with the largest global players with respect to excess-of-loss property business, most of which is in the U.S. and Continental Europe."

Bermuda has its share of failures, with Commercial Risk Partners, Mutual Risk Management Ltd., Overseas Partners Ltd., Scandinavian Reinsurance Co. Ltd., and Trenwick Group members (including Lasalle Reinsurance Co.) included among the Bermuda-based companies placed into run-off in 2002 and 2003. One can only conjecture whether the competitive strength evident among Bermuda market participants (compared with weaker operating results among the U.S. and European (re)insurance industry) is sustainable. That said, most of the public companies based in Bermuda are trading at healthy premiums to book value, IPO and secondary offerings from Bermuda-based companies are keeping the capital markets active, and earnings remain strong on absolute and relative bases.

Bermuda remains very dynamic and will experience challenges and changes as it has in the past. When market conditions decline, Bermuda market companies are likely to develop new strategies and new business combinations. Some will fail through the next soft market cycle as with the last. It was once widely thought that the country's tourist industry was insulated from market demands and keen competition, but that industry has waned considerably over the past decade with the growth in international business, although the tourism and international business remain interdependent. At this stage, one might not bank on a strong and sustainable Bermuda, but neither should one bet against it.

Karole Dill Barkley,
New York
(1) 212-438-7167
karole_dill_barkley@standardandpoors.com

2 Bermudian Business op.cit. coined and defined the Class of 2002 to describe the late 2001/early 2002 Bermudian start-up companies, including Allied World Assurance Holdings Ltd., AXIS Capital Holdings Ltd., Endurance Specialty Holdings Ltd., GoshawK Reinsurance Ltd., Olympus Reinsurance Co. Ltd., and Montpelier Re Holdings Ltd. Arch Capital Group Ltd. and Glencoe Insurance Ltd. were included although formed earlier because they both recapitalized and shifted strategy in 2001 for their relaunch. Endurance Specialty Holdings Ltd. would have been included but did not participate in the 2002 survey.

International Accounting Standards: Threat or Opportunity?

The move to International Accounting Standards (IAS, or as recently renamed, International Financial Reporting Standards or IFRS) is likely to be one of the most controversial issues for insurers and reinsurers over the next few years.

Having been an accounting issue with little commercial relevance a few years ago, IFRS has created outrage in the insurance industry recently. Although a few companies see IFRS as an opportunity, most of the industry is united in its opposition. Criticism has rarely been constructive, however, arguing mostly for the preservation of the status quo, rather than proposing alternatives that meet IFRS objectives. As debate continues, IFRS enthusiasts, those that are merely resigned to it, and those that vigorously oppose it must all prepare for IFRS now.

The urgency arises from the recent publication of the draft IFRS for insurance contracts (Exposure Draft 5), and because the EU plans to require all listed EU companies (not just insurers) to report on an IFRS basis from 2005 onward (which means that comparative IFRS financial statements will also be required for 2004). At the time of publishing, there was one glimmer of hope for IFRS objectors, in that the EU had not formally adopted IFRS in the time frame originally envisaged. However, despite the strength of the insurance and other industry lobbies, its adoption is still expected. The pressure to adopt IFRS comes not just from the EU, but also from many other countries such as Canada and Australia. Furthermore, in the U.S., the SEC and the Financial Accounting Standards Board have announced that they are dissatisfied with current U.S. GAAP for insurance. Most new U.S. accounting standards take a 'fair value' approach, and the process of convergence of U.S. GAAP with IFRS is under way. Until recently (that is, the post-Enron era), the possibility of U.S. GAAP being replaced by — or even converged with — IFRS would have been thought laughable. Today, that is definitely not the case. Hence, the U.S. lobby against IFRS has echoed the objections coming most vocally out of Germany, France, and Japan.

Although many European insurers claim to report on an IFRS basis today, this is fairly meaningless since there is no IFRS for insurance yet, and in practice it means that companies are actually using a basis of accounting that is close to U.S. GAAP. The introduction of 'proper' IFRS is expected to hit the insurance industry harder than most other industries, part of the problem being that the insurance industry is different from most other industries in that it receives its principal revenues (that is, premiums) before it incurs its principal costs (that is, claims). Therefore, significant estimations need to be made in an insurer's financial statements, which sometimes prove to have been materially mis-stated with the passage of time.

Since the International Accounting Standards Board (IASB) has been slow to develop the insurance standard and insurers are substantially unprepared for the changes, the Board has decided to split the project into two phases, with phase one to be introduced to meet the 2005 deadline and phase two planned for 2007.

The industry had hoped that phase one might be quite cosmetic, but that does not seem to be the case. Phase one is significant, especially for reinsurers, and encompasses the following:

- Equalization reserves and catastrophe reserves will be prohibited. This will limit reinsurers' (and insurers') ability to smooth reported earnings from 2005 onward.
- Insurance contracts will be redefined, with a distinction made between insurance risk and financial risk. Applying the new definition will require splitting financial reinsurance into its finance and insurance components. The finance component will need to be treated as a deposit and not as a premium. Furthermore, the standard will not allow for a reinsurance transaction to immediately improve a company's results or equity. If the reduction in a ceding company's liabilities exceeds the reinsurance premium it pays, then any gain will have to be spread over the life of the period of the underlying policy. This will affect the nature of the financial reinsurance market significantly.

- The offsetting of insurance liabilities with related reinsurance assets will be prohibited. This means that balance sheets will need to be grossed up.
- For many life insurers, the impact will be even more dramatic, since life insurance contracts, such as single-premium unit-linked contracts with minimal death benefits, which are currently accounted for as premiums, will need to be accounted for as deposits. This is likely to reduce reported life insurance premium revenues in Europe by more than 50% in 2005! Furthermore, companies will need to identify 'embedded derivatives' (for example, guarantees contained in life policies) in their contracts and report them on a fair value basis in accordance with IAS39 and IAS32.
- Disclosure requirements will be onerous even at phase one. Some groups envisage the additional disclosures increasing the number of pages in their annual reports by up to 50%. Companies will be required to describe their business and the risks it faces in considerable detail. Disclosures will include accounting policies, significant assumptions made, the level of prudence included, the effects of changes in assumptions, sensitivity analysis of those assumptions, identification of risk concentrations (including insurance risks, interest rate risks, and credit risks), and, in the case of non-life insurers and reinsurers, a 10-year loss reserve development triangle.
- Insurance contract liabilities will be delinked from the financial assets held to match the liability. This will affect much life insurance business.

Phase two is more radical:

- In general, insurance assets and liabilities will be measured individually at their fair value (market value if it exists, or otherwise based on discounted expected future cash flows). Balance sheets will not need to be reported at fair value until 2007, but disclosures will be required by 2006. As a consequence, familiar features of an insurer's balance sheet will disappear. Unearned premiums, deferred acquisition costs, and fund accounting all go. In establishing the single figure for claim provisions that will replace them, companies will be required to estimate the mean value, but will have to add to that explicit provisions for the riskiness around that mean (known as market value margins or MVMs). For example, long-tail liability provisions will need large MVMs, whereas short-tail property claims will need much lower MVMs. This will be partly offset by the need to explicitly discount claim provisions. In order to calculate MVMs, companies will need to conduct levels of sophisticated stochastic analysis used by relatively few insurers today.

"The objectives of the IASB are laudable at least. Currently, many insurers' financial statements are inconsistent, opaque, and provide inadequate disclosures. Although the equity, capital, and insurance (especially reinsurance) markets are global, the methods of financial reporting are not."

- In life insurance, various common forms of accounting currently seen in financial statements around the world (such as statutory accounting, modified statutory accounting, embedded values, achieved profits, margin on services, Canadian GAAP) will disappear and be replaced by a fair value basis for policyholder liabilities (measures and methodologies yet to be fully developed and refined).

The objectives of the IASB are laudable at least. Currently, many insurers' financial statements are inconsistent, opaque, and provide inadequate disclosures. Although the equity, capital, and insurance (especially reinsurance) markets are global, the methods of financial reporting are not. Consistency is lacking, not just between countries, but also within countries, and even in some cases within groups! The application of IFRS will result in much greater consistency, enabling users to better compare profitability and balance sheet strength. In addition, transparency will be substantially enhanced, which is a commendable achievement in itself. The framework underpinning IFRS seems sound too: all companies will be required to value their assets and liabilities using a fair value approach (that is, a market value approach, at least where market prices are available). Under this framework, the profit for the year is the difference between the net assets in the opening and closing balance sheets (that is, the value added). So what is all the fuss about?

Insurers mainly cite earnings volatility, subjectivity, and cost. Insurers complain that IFRS will produce more volatile results, with a consequent decrease in their stock prices and increase in their cost of capital. Using the existing accounting frameworks, insurers often artificially shield their headline results by smoothing (using various tools available to them). However, the underlying volatility is real, so arguably this shield should not be tolerated. Conceivably, better communication of the risks to which a business is exposed would result in lower volatility in stock prices, whereas, in most recent times, insurers' stock prices reacted violently because of the uncertainty surrounding the impact of challenging market conditions. Insurers' balance sheets have been viewed with substantial mistrust in the recent past. The effects of reported IFRS headline earnings volatility would need to be offset by high-quality disclosure. Disclosure and transparency will be key.

"The resources required to implement IFRS will be considerable, especially at phase two. IFRS will require huge actuarial resources, which are already scarce. It will require investment in and migration to new systems. Accountants and auditors will need to be trained in a very short time frame. Costs will increase in an industry where margins are already under acute pressure (for example, in life insurance)."

Insurers also complain that this additional reported volatility will adversely affect the confidence of consumers (that is, policyholders) in the industry. But again, what is the justification for shielding consumers from the truth? Sophisticated consumers conduct their own assessment of the creditworthiness of their counterparties, and currently, financial statements do not give them the data for doing a thorough job. The less sophisticated tend to rely on regulators to look after their interests. Ultimately, the capital markets, consumers, and the more sophisticated financial statement users will reward insurers for their improved transparency rather than penalizing them for volatility.

Standard & Poor's fully accepts that volatility attributed to underlying movements in assets or liabilities that are not offset by similar movements on the other side of the balance sheet should be reflected in insurers' balance sheets. However, an independent accounting of assets and liabilities that does not reflect their symbiotic relationship would only produce obfuscation of underlying trends. Given that the longer term nature of insurance liabilities (compared with other financial services institutions) drives longer term investment strategies, Standard & Poor's looks for an accounting framework that would more accurately portray changes in economic balance sheet strength and realistically portray economic income. Accounting standards that promote volatility without reflecting the underlying economic fundamentals in the income statement and balance sheet would not be useful to Standard & Poor's, unless accompanied by scrupulous disclosure identifying this volatility and its mitigants.

Standard & Poor's concerns are focused on the more practical, rather than theoretical, aspects of applying IFRS. The resources required to implement IFRS will be considerable, especially at phase two. IFRS will require huge actuarial resources, which are already scarce. It will require investment in and migration to new systems. Accountants and auditors will need to be trained in a very short time frame. Costs will increase in an industry where margins are already under acute pressure (for example, in life insurance). Scale will become evermore important. In addition, insurers are nervous about the reaction of tax authorities to the absence of equalization and catastrophe provisions, and fear that if IFRS results in an acceleration of profitability, authorities will no doubt seek ways to tax it.

So what of the opportunities? Already mentioned has been the greater consistency and transparency of financial information. Many equity and fixed-income analysts have welcomed this. IFRS will also require a very sophisticated understanding of insurance businesses, the risks to which insurers are exposed, and their potential rewards. Companies' managements and boards will be better informed than they currently are when IFRS-imposed disciplines are introduced, and there should be a better alignment of product pricing and financial reporting. Regulatory benefits are also expected in the longer term, as IFRS-based financial statements will fulfill many regulatory objectives and may result in reducing regulatory filings and requirements. Perhaps insurance will be a better managed and thriving industry, and better understood by its investors.

Watch this space!

Rob Jones,
London
(44) 20-7847-7041
rob_jones@standardandpoors.com

The McGraw·Hill Companies

ClassicDirect®

Global Insurance Information

Log-on to ClassicDirect for immediate access to Standard & Poor's global insurance ratings and analysis.

ClassicDirect is the ideal source for monitoring the global insurance markets, providing access to over 11,000 company reports, including all Standard & Poor's insurer financial strength ratings and counterparty credit ratings.

For a free trial log-on to:
www.eclassicdirect.com

www.eclassicdirect.com

STANDARD & POOR'S

For more information please email: classicdirect@standardandpoors.com
or telephone +44 (0)20 7847 7023

Changes Within, and New Competition from Without

A recent rating review meeting with a life insurer came to the topic of reinsurance, and the conversation went as follows:
Life company representative: "When we placed our reinsurance program, we wanted diversification, so we assembled a panel of four reinsurers."
Credit analyst: "That makes sense. And who are the reinsurers?"
Life company representative: "Swiss Re."
Credit analyst: "And the others?"
Life company representative: "Swiss Re."

Though paraphrased, the base of this story is true and demonstrates how consolidation has become the dominant trend in life reinsurance in the past couple of years. Swiss Reinsurance Co. (Swiss Re), although the most active, has not been the only acquirer of companies. The effect on the remaining reinsurers and cedents is likely to be significant — particularly given the steady increase in the use of reinsurance by life companies globally in the past 10 years. Whether that trend continues will greatly depend on how the market responds to its increasingly consolidated nature.

Fewer Choices

In 1995, according to the Society of Actuaries annual study, 17 companies each had a 2% or greater share of the U.S. life reinsurance market — covering 90% of the market. By 2002, the market had more than tripled in size, and that same 90% was concentrated in the hands of 10 companies. Given other announced and rumored market exits in 2003, the market might be down to six to eight credible players by 2004. In Europe, the market is even more concentrated; in many countries two-thirds of the national market is concentrated in three or fewer companies, and the implications are significant.

Why are so many companies leaving the market? There seem to be few common threads. Recent reasons have included financial distress (Annuity & Life Reassurance Co. Ltd. and Gerling Globale Rückversicherungs AG), lack of scale (AXA Solutions Life Reinsurance Co.), desire to relieve capital strain (American United Life Insurance Co.), or the desire to focus on more strategic businesses (Lincoln National Corp., Cigna Corp., and CNA Financial Corp.). In many cases, these were significant players in the sector. As a result, formerly diversified pools are often no longer so, and it is increasingly difficult to form a diversified pool.

After the late 2001 acquisition of the reinsurance operations of Lincoln National Corp. (Lincoln), Swiss Re solidified its position at the top of the U.S. market, gaining a market share of significantly more than 20%. Swiss Re plus three others, ING Groep N.V., RGA Reinsurance Co., and AEGON N.V. unit Transamerica Life Insurance Co., control one-half of the market — and all four appear on virtually every significant treaty. The latter three companies are all parts of large diversified groups, and their commitment to the reinsurance marketplace may be questioned. If they are committed to the market, now might be the time to make an acquisition to improve scale and share; however, presently the status quo seems more likely for these three — or maybe even exit from the market for some.

The next tier has even tougher decisions to make. Although consolidation increases the scale of those in the top group, it makes huge opportunities for sec-

ond-tier players to gain a place at the table. Ceding companies generally seek to diversify their pools of reinsurers, and fewer players might cause them to seek out markets that they would have overlooked a few years ago. For companies relatively new to the market, such as Scottish Re (U.S.) Inc. and Canada Life Assurance Co., that dynamic creates growth opportunities much greater than would have otherwise existed. Others, such as Allianz AG, Assicurazioni Generali SpA, Hannover Rückversicherungs AG, and Employers Reinsurance Corp., need to decide whether they want to ride the wave of growth in this sector, or invest their capital elsewhere. If recent history is a guide, more will opt out than in.

Fewer competitors means reduced competition and higher rates. Years of aggressive competition and general improvement in mortality have pushed life reinsurance premium rates steadily downward, particularly in the U.S. and U.K. Rates have fallen not only as a reflection of the current decline in mortality, but because of more aggressive projections of future improvement, improved underwriting techniques, and finer parsing of preferred risks. But it seems that reduced capacity has halted or even reversed the downward rate trend. Some ceding companies are seeing increases of a few percent in their newly bid treaties. Will the trend persist? If the property/casualty (P/C) market cycle is any example, then the answer is probably no. At least for now, profit margins on mortality business are likely to rise.

The bigger question is how the market may change as a result. The trend has clearly been toward the exit of incumbents rather than the entry of new players. With access to capital constrained in the current market, it is hard to imagine any new entrants on the horizon. If margins get fatter and stay there for a few years, then companies are bound to join the fray. Some candidates might include companies that have been predominantly non-life focused, including XL Re Ltd., ACE Ltd., and Max Re Ltd. P/C rates are riding high today, but when the cycle turns, you can bet that the relatively safer haven of life reinsurance will look like an attractive place to focus.

Easy Come, Easy Go — What Brought Down Annuity & Life Re?

One of the more flashy stories in the market in the past few years has been the rapid rise and fall of Annuity & Life Re (ALRe). After bursting onto the scene in 1998 the company quickly gained market credibility, attaining a No. 6 new business market share in the U.S. by 2001. After only five years in business, however, that rapid success is what, in large part, led to its rapid fall. In February 2003, the company ceased accepting new business, following 18 months of deteriorating financial performance. The pace of ALRe's rapid rise and fall is unique, but in its story are several broader lessons for the industry.

Lesson No. 1
Diversity is good.

Based on the company's statements, all of its business from inception to mid-2002 was profitable, other than three treaties. The only problem is that those were the three largest treaties, including one very large annuity retrocession from Transamerica Re. The reserves on that treaty peaked at about $1.6 billion, nearly four times ALRe's GAAP equity at that time. The treaty gave ALRe scale and credibility in its early months in the business, but the concentration turned out to be too great.

Dogged by excessive surrender rates and poor investment performance relative to the contractual guarantees, the problems began within a year after the contract was written and only snowballed thereafter. Over five quarters in 2001 and 2002, the company wrote off deferred acquisition costs equaling more than 15% of its total equity, proving that whether or not the business was adequately priced in the first place, any block of business can go bad. A more diversified company would have survived such a problem relatively unscathed, but for ALRe, it started the avalanche.

Lesson No. 2
Quantity is as important as quality.

Low expenses, low overheads, and low costs to the client were key elements of ALRe's strategy. By offering capacity without the labor-intensive services offered by large competitors, ALRe kept staffing at a minimum (24 professionals) and expense ratios low. Even Swiss Re, with scale and expense efficiency that are among the best in the market, could not meet ALRe's ratio of expenses to premiums — significantly less than 3% at the peak.

By 2002, the talented but lean staff was no longer adequate to deal with the deluge of problems that began to emerge. The three large treaties gone bad resulted in two arbitrations and one recapture. At the same time, negotiations with the SEC over a new accounting interpretation held up a capital issue and tied up management resources. In addition, letter-of-credit providers demanded collateral, rating agencies required more time and attention, and relations with current and potential investors became tense. Cost advantage had quickly become a manpower disadvantage.

Lesson No.3
Gather ye capital while ye may.

By early 2002, it became clear that ALRe needed additional capital to support its growth and to replace the capital lost on the Transamerica and other business. A retail bond issue never got off the ground due to an SEC accounting inquiry. The SEC hold-up, which could not have been predicted, kept the company out of the public capital markets but did not prevent a private transaction. The company's

"After bursting onto the scene in 1998 Annuity & Life Re (ALRe) quickly gained market credibility, attaining a No. 6 new business market share in the U.S. by 2001. After only five years in business, however, that rapid success is what, in large part, led to its rapid fall."

Gross Life Reinsurance Premiums Written (Mil. $)

Ranking	Company	Country	2002	2001	Change (%)
1	Swiss Re Group	Switzerland	8,875.0	5,771.6	53.8
2	Munich Re Group	Germany	5,530.9	4,224.5	30.9
3	Hannover Re Group	Germany	2,590.4	2,100.3	23.3
4	Employers Re Group	U.S.	2,574.0	2,417.0	6.5
5	Reinsurance Group of America Inc.	U.S.	2,330.4	1,850.6	25.9
6	London Re Group	Canada	1,902.5	1,508.4	26.1
7	Berkshire Hathaway Re Group[1]	U.S.	1,899.0	2,005.0	-5.3
8	Gerling Global Re Group	Germany	1,480.1	1,252.2	18.2
9	SCOR Group	France	1,054.4	958.5	10.6
10	ING Re	Netherlands	980.0	1,281.8	-23.5

1. Premium figures relate to net premiums written.

"Intense competition has driven term life rates to where it is economically unfeasible to hold the statutory reserve and make a reasonable return. Because of this, all major primary players in this market rely heavily on reinsurance, often up to 90% of the business written."

private efforts came too little too late. Where fast action might have comforted clients and creditors, the company remained concerned about dilution of existing shareholder interests. Once losses mounted, the company's attention turned more intensely to capital raising, but ALRe simply could not raise capital on favorable terms once its ability to survive as a going concern was in question.

Lesson No. 4

Beware of over-reliance on other people's money.

When your business model relies on monies raised from other people, you have to anticipate that they might take it back — especially when your creditworthiness deteriorates. In ALRe's case, that problem essentially put the nail in the coffin.

All offshore companies that reinsure the business of U.S. companies need to post collateral for their cedents to receive credit against their U.S. statutory reserve requirements. In the case of term life insurance, that is the reinsurer's primary raison d'être. ALRe's collateral consisted of a combination of secured and unsecured letters of credit (LOCs), as well as assets in trust under a facility known as Viva Re, with a large part of the assets provided by outside investors. As its financial condition deteriorated, the unsecured LOC providers requested security. Then a ratings downgrade set off a trigger in the Viva Re facility, leading to its wind-up, the repayment of investors, and additional collateral needs. The company was unable to access additional funds to support collateral needs, leading to a $172 million shortfall by March 2003, despite the cancellation of a number of treaties. This was the final straw leading the company to cease accepting new business in early 2003.

Conclusions

Several factors led to ALRe's downfall: some interrelated and others not, some under management's control and others not. But there are clear lessons that can be applied not just to other start-up reinsurers, but to all companies in this business. ALRe found the shortcut to the big time, but as it learned, the shortest path might be a thorny one.

Collateral — Here Today, Gone Tomorrow?

ALRe's problems around the issue of collateral are not unique. In looking forward, this may be one of the greatest concerns for the life insurance and life reinsurance sectors, as third-party collateral arrangements have become the primary funding vehicle for statutory reserving requirements for term insurance sold in the U.S.

U.S. statutory reserves for life insurance are based on prescribed methods using very conservative prescribed mortality and interest rates. Competition for term life insurance has led companies to slice risks into more and more classes, to offer the lowest possible rates to the best lives. The result is that the required statutory mortality can be five to six times the expected mortality for the best risks — making it too costly to hold the statutory reserve. Enter reinsurance.

Intense competition has driven term life rates to where it is economically unfeasible to hold the statutory reserve and make a reasonable return. Because of this, all major primary players in this market rely heavily on reinsurance, often up to 90% of the business written. In the end, most of these reserves end up offshore in either a non-U.S. reinsurer, an offshore reinsurance affiliate of an onshore reinsurer, or an offshore affiliate of the primary company. Regardless

of which is used, some form of collateral is required, and letters of credit are by far the dominant source due to their low cost and minimal use of capital. But as the ALRe's example illustrates, when a company hits financial trouble, letters of credit may no longer be available. Even for companies in good financial standing, LOC capacity is limited, and pricing is not guaranteed. The nature of life insurance reserves is that they grow significantly over several years, so even curtailing new business growth is not a solution to the collateral need. Further, competition with non-life reinsurers and others has the potential to significantly constrain access to unsecured LOCs in the future.

Although few transactions have been executed so far, many companies seem to be looking at capital markets as means to raise trust assets. In general, third-party investors contribute assets to a trust in return for interest-bearing notes. The trust assets are pledged to the cedents, but in all likelihood will never be drawn. The investors are paid interest on their notes from the investment income on the trust with any excess covered by the reinsurer, and the notes are repaid when the assets are no longer required. This method assures that the assets are in hand and the costs guaranteed. More such structures are likely in the next few years, and could become the dominant funding source in the future.

Will such vehicles lead to additional forms of securitization of life insurance risks? Life securitization has gotten off to a slow start, perhaps because of the early black eye from viatical settlements. Activity seems to be slowly on the rise, with various forms of embedded value securitizations of life and annuity closed blocks gaining interest, and greater interest in pure mortality-related securitization seems to be developing. As with early P/C catastrophe bonds, the early transactions are complex and the funding is rarely cheap relative to the reinsurance market. Contraction in the reinsurance and collateral markets will continue to induce companies to seek funding alternatives, meaning that life insurance securitization is likely to develop further in the coming years.

Conclusions

Market conditions have created a great number of changes in the life reinsurance sector in recent years. Both in the U.S. and Europe, many primary life companies have become accustomed to ceding more than 70% of their new business to reinsurers. Meanwhile, financial stress in Japan and Korea is leading those two very large markets to consider reinsurance where they never had before, and large developing markets, such as China, India, Mexico, and Brazil, have little to offer today, but offer a potentially lucrative future for life reinsurers. This leaves the market with much potential but fewer hands to take part in the spoils.

If there is money to be made, rest assured someone will come in to get a piece of it. The big European players that have dominated this market in the past decade do not have the investment capital that they once did, but it will come from somewhere. Ceding companies' appetite for reinsurance will not disappear and much of it will be satisfied by start-ups, traditionally primary or P/C companies, or from investment banks and outside capital. The market, in three to five years, will be vibrant, but it most certainly will look different than it does today.

Let the race begin.

Rodney Clark,
New York
(1) 212-438-7245
rodney_clark@standardandpoors.com

"Ceding companies' appetite for reinsurance will not disappear and much of it will be satisfied by start-ups, traditionally primary or P/C companies, or from investment banks and outside capital."

Multiline Reinsurers Grow Up With the Pain of Credit Enhancement Business

A number of significant events occurred in 2002 that supported the decision made by Standard & Poor's in 2000 to launch its financial enhancement rating. This provides investors with a specific opinion regarding insurance companies' willingness to pay financial guaranty claims on a timely basis.

Two public examples were J.P. Morgan Chase & Co. (JPM) on Enron-related surety contracts (publicly referenced as 'Mahonia'), and Municipal Bond Insurance Assn. on student loan guaranties. Both transactions displayed a clear disconnect of timeliness of payment. The insurers involved with the JPM transaction settled in December 2002 (at 60 cents on the dollar), eight months after being notified of a loss. In the second instance, Municipal Bond Insurance Assn. filed a claim with Royal & Sun Alliance Insurance PLC (R&SAIP), believing that it had a financial guaranty reinsurance policy with R&SAIP and having already paid its insured. To its chagrin, however, it discovered that the reinsurer held a very different view and disputed the claim. In July 2003, the long-running dispute between Hollywood Funding No. 4, Hollywood Funding No. 5, and Hollywood Funding No. 6 with American International Group Inc. was settled out of court for an undisclosed sum. At the time of publishing, the dispute between R&SAIP and Municipal Bond Insurance Assn. is still unresolved.

With all of these events, the burning question is: what exactly does a multiline insurer intend when it contracts to 'wrap' a transaction in return for a payment of premiums?

Evidence would suggest that few multilines who enter the financial guaranty sector really intend to make full payment on others' credit portfolios without first exhausting every legal recourse available to them in law. The recent levels of uncertainty and out-of-court settlements suggest that multilines do not really end up covering the full risk, but this leaves even more uncertainty, exacerbating the disappointment initially felt by third-party investors.

Conversely, for the traditional monolines (as these insurers have met their policy obligations in a timely fashion), the business risks in financial guaranty have increased, partially because of the poorer-than-expected performance from synthetic CDOs. Whereas there might be concerns about the future profitability of the monoline reinsurance sector, its commitment thus far is not in question. As such, Standard & Poor's believes that all players in this sector, whether multiline or monoline, must be held to the same high standards for the capital markets to function effectively.

Standard & Poor's recognized the potential for dispute as the financial markets began to converge (and multilines entered the domain formerly the preserve of bond insurers), and therefore introduced its financial enhancement rating (FER) in June 2000. The FER is Standard & Poor's current opinion of the creditworthiness of a policy provider with respect to insurance policies that are used as credit enhancement and/or financial guaranties. The FER applies to credit-enhanced transactions rated by Standard & Poor's. Without question, Standard & Poor's expects insurers and reinsurers with FERs to pay without contest and pursue legal recourse only after payment, so that the timeliness of the payment of debt service on the underlying transaction is maintained.

Within this sector, the potential remains for confusion when insurers describe their role in providing credit enhancement as that of 'risk financing'. Standard & Poor's considers the practice of risk financing to be acceptable, although this should be clearly encapsulated within the deal structure and must be designed to ensure that investors' principal and interest due are both unambiguously protected. Standard & Poor's would view an insurer or reinsurer to have fulfilled its obligation under an FER if investors were repaid early. If in reality, however, this still

results in a loss, an FER insurer must 'pay first and sue later' as pledged.

Some structured finance lawyers would argue that the problem does not lie in the structure of the transaction, but in the tendency of insurers and reinsurers not to perform their due diligence at the time of inception but rather only once a claim has been made. They would argue further that this is culturally consistent with settlement on traditional insurance and reinsurance policies. Standard & Poor's views this to only be part of the problem, as both the collapse of Enron — triggering the Mahonia cash flows to become restricted — and the failure of the Hollywood film financing transactions to meet target revenue streams could simply not have been addressed by the fullest form of due diligence, not even by using the most up-to-date market standards. Indeed, Standard & Poor's has noted that other noninsurance capital market players have also from time to time disputed payment on International Swaps and Derivatives Association contracts and pursued a legal settlement, when it was in their material interest to do so. The jury is still out as to whether the solution is one of better transaction structuring, better and earlier due diligence, or a fuller understanding of the commitment provided by the insurer or reinsurer.

Monolines have high ratings, not only because of their financial/risk position, but also because of their expressed willingness to pay policy claims. Policies written by monoline bond insurers are unconditional obligations of the insurer, in effect for the life of the issue. By contrast, multiline insurers' and reinsurers' policies — when such insurers and reinsurers have ventured into financial guaranty business — have occasionally exploited legal and contractual ambiguities to avoid or delay honoring policy claims. Investors, therefore, could be in something of a quandary as they are forced to look beyond the policy terms to divine the insurer's or reinsurer's intent. An FER from Standard & Poor's helps establish such intent.

Standard & Poor's procedures for determining an insurer's commitment to timely payment are set out in its FER criteria, and result from its perceptions of what the capital markets expect from providers of credit enhancement. Noting many of the above concerns, Standard & Poor's has continually re-examined its criteria for FERs, bond insurance, and structured finance. The efforts have streamlined the credit enhancement process and allow for improved interaction and usage of the methodologies within the various departments involved.

Some of the changes recently implemented are:

- Determining which insurers and reinsurers will be permitted to act as reinsurers under Standard & Poor's bond insurance criteria.
- Simplifying the FER liquidity test.
- Establishing a process for obtaining a structured segmented rating for multilines with expressed willingness to pay policy claims.
- Defining what criteria a multiline insurer or reinsurer must satisfy to participate in credit enhancement business.

Because Standard & Poor's has raised the bar and increased the standards required for true providers of financial guaranty/credit enhancement, it has witnessed the exiting of some multilines from this business. This is partly due to the volatility seen in claims and partly due to opportunities created by the hardening of the traditional non-life insurance and reinsurance markets, resulting in the reallocation of an insurer's capital to support growth during favorable conditions.

In light of past market practice, coupled with the low uptake of FERs by multilines, Standard & Poor's clarified its FER criteria in April 2002. As a result, insurers' and reinsurers' senior management teams now commit to Standard & Poor's their intention to 'pay first and sue later' on financial guaranty and credit enhancement contracts. Failure to pay in a timely manner according to the terms of the contract would result in an insurance or reinsurance group's insurer financial strength rating coming under review for immediate downgrade and the FER being withdrawn. During the long cultural transition phase in the market, Standard & Poor's has made provisions for financial enhancement representation letters to be signed by insurers and reinsurers for one-off transactions, rather than having a full interactive FER assigned. It is important that these letters are signed or countersigned at the highest levels of the multiline insurance or reinsurance group, not just by the company offering the guaranty. To further the FER criteria clarification, since January 2003 Standard & Poor's only gives monoline bond insurers capital credit for reinsurance provided by multiline reinsurers to the extent that the terms of the reinsurance contract are governed by an FER or are backed by acceptable collateral; for example, in the form of cash or unconditional letters of credit.

Looking back, uncertainty over insurers' and reinsurers' willingness to pay on a timely basis is not the only concern that some investors had to cope with in 2002. In addition to this, the downgrades of many multiline insurers and reinsurers over 2002-2003 have further reduced capital market investors' appetite for multiline wrapped deals. However, the FERs currently assigned to insurers and reinsurers remain very strong, as illustrated in the table below.

This brings us back to the central question of vested interests and, indeed, what is really intended when insurers and 'issuers' negotiate and agree the terms of a financial guaranty provided for the benefit of investors. Are the risks insured (and the rewards) equally shared by all parties to the transaction? One cynical possibility is that intermediaries sell the benefits to both sides and play down the potential drawbacks (as might be inferred by the broker slip that appeared as evidence on the Hollywood Funding transactions).

Another, more likely possibility is that the facts and uncertainties, although fairly represented by intermediaries, are viewed differently by insurers'

Companies With Financial Enhancement Ratings as at Aug. 1, 2003

Company	Financial Enhancement Rating
ACA Financial Guaranty Corp.	A
ACE Capital Re International Ltd.	AA
ACE Capital Re Overseas Ltd.	AA
ACE Guaranty Corp.	AAA
Allianz Risk Transfer	AA-
Ambac Assurance Corp.	AAA
Ambac Assurance U.K. Ltd.	AAA
CDC IXIS Financial Guaranty	AAA
CDC IXIS Financial Guaranty Europe	AAA
Centre Insurance International Co.	A+
Centre Solutions (Asia) Ltd.	A+
Centre Solutions (Bermuda) Ltd.	A+
Centre Solutions (U.S.) Ltd.	A+
Financial Guaranty Insurance Co.	AAA
Financial Security Assurance (U.K.) Ltd.	AAA
Financial Security Assurance Inc.	AAA
Financial Security Assurance Intl Ltd.	AAA
FSA Insurance Co.	AAA
MBIA Assurance S.A.	AAA
MBIA Insurance Corp.	AAA
Radian Asset Assurance Inc.	AA
Radian Reinsurance Inc.	AA
RAM Reinsurance Co. Ltd.	AAA
Sompo Japan Financial Guarantee Insurance Co. Ltd.	AA
XL Capital Assurance (U.K.) Ltd.	AAA
XL Capital Assurance Inc.	AAA
XL Financial Assurance Ltd.	AAA
ZC Specialty Insurance Co.	A+

lawyers, who recognize the opportunities to legally extricate themselves from a financial guaranty contract using traditional insurance law defenses (such as nondisclosure of material information). At the same time, issuers might believe that by receiving a financial guaranty from a multiline they become economically and contractually off risk as soon as the deal is fully funded. The optimism of both sides outweighs the fundamental question of what happens if a risk does crystallize. Basically, risk ends up in the hands of those who are least capable of analyzing it and least constrained by their regulators to price it correctly. The concern of Standard & Poor's is that neither side is unambiguously motivated to negotiate to protect the interests of the investor. On rated transactions, the FER becomes an unbiased voice of reason.

When involved in a structured transaction, various factors affect the possibility of a multiline insurer experiencing default. Such factors could include a poorly structured and/or poorly underwritten transaction, obligor bankruptcy, cash flow underperformance, and covered risk volatility. To understand a multiline insurer's or reinsurer's commitment to the timely payment of a default, investors and intermediaries should ask themselves:

- Is a non-FER insurer or reinsurer likely to dispute financial guaranty payment in future? If not, then is the (re)insurer willing to sign a financial enhancement representation letter?
- Does the entity understand this business, or is the underwriting delegated to or managed by an intermediary? (One important indicator of future problems has been when the insurer relies too much on the intermediary for the necessary underwriting.)
- Has the entity confirmed in writing its role in and understanding of the transaction's cosmetics and policyholder/investor expectations?
- Has the entity stated that it understands how the claims management process works and the necessity for promptness of payment?

It is important to note that while an insurer or reinsurer may have an FER, the structure of the transaction will still require Standard & Poor's rating analysis. As witnessed by those who follow this market, an unsatisfactory answer to any of the questions above might suggest a risk that is not adequately priced into the transaction and leaves a potential area of dispute. The evidence to date is that a legal settlement could result in all parties being somewhat disappointed. Standard & Poor's is committed to helping all parties playing in the converging markets to understand the shortsightedness of depending on a multiline insurer's or reinsurer's financial strength rating as a measure of its willingness and commitment to pay under a financial guaranty/surety contract, and recommends that intermediaries and investors request an FER commitment letter before accepting a multiline insurer's or reinsurer's credit enhancement as part of a transaction.

Earl Lancaster,
London
(44) 20-7847-7047
earl_lancaster@standardandpoors.com

Fred Loeloff,
New York
(1) 212-438-7215
frederick_loeloff@standardandpoors.com

The McGraw·Hill Companies

A NEW WAY OF LOOKING AT LLOYD'S

LLOYD'S SYNDICATE ASSESSMENTS

Providing insight into the evolution of Lloyd's syndicates

Standard & Poor's Lloyd's Syndicate Assessments (LSA) is an analytical service to accompany its Lloyd's Market Rating. An LSA is an in-depth analysis of each syndicate that identifies its dependence on Lloyd's. Incorporating historical and prospective evaluation, Standard & Poor's believes this new service adds significantly to the understanding of the changing Lloyd's market.

STANDARD & POOR'S

For further information e-mail: open_door@standardandpoors.com
www.standardandpoors.com

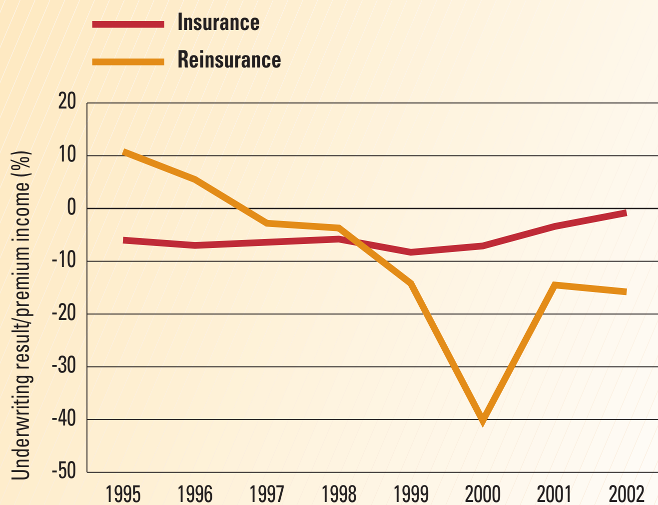
Asia-Pacific Reinsurance Sees Light at the End of a Long Tunnel

Australia and New Zealand

Standard & Poor's expects the profitability of the Australasian non-life reinsurance market to substantially improve as premium rates are increased significantly to appropriately reflect the underlying risk. Combined with heightened underwriting standards, higher retentions by direct insurers, and an increased focus on providing efficient returns on equity, profitability should improve in the absence of any major catastrophic event.

The upturn in the non-life insurance cycle in Australia and New Zealand follows the historically soft non-life market, when reinsurers suffered very weak underwriting results (see Chart 1). These losses were due to competition-led inadequate pricing and significant payouts for natural disasters, including bush fires, hailstorms, heavy rains, and droughts.

In contrast, the outlook on the Australasian direct life insurance market remains negative, indicating that downgrades are expected to exceed upgrades. This reflects turbulent equity market conditions, poor investment returns, and flat sales volumes. The life reinsurance market is somewhat less affected by the factors facing direct insurers, however, given that reinsurers' business mix is skewed toward risk- as opposed to investment-type businesses, and that their exposure to the equity markets is relatively lower.



Global players reassess risk and usage of reinsurance.

Poor underwriting results and the dire need for global reinsurers to address their diminishing balance sheet strength have forced domestic reinsurance premium rates to harden and certain classes of business to be scaled back (for example, directors' and officers' cover, earthquake cover in New Zealand). In 2003, Gerling Global Reinsurance Co. of Australia Pty Ltd. withdrew from the market altogether, having written significant gross premiums of A$395 million ($261 million) in Australia during the year ended June 2002. These toughening market dynamics have prompted direct insurers to reassess their reinsurance programs as they question their own appetite for risk and level of risk retention, be it within the company or through captives or other related entities. Captives provide some larger and more diverse groups — such as QBE Insurance Group Ltd. and Insurance Australia Group Ltd. — with the ability to purchase more cost-effective reinsurance offshore through their related entities. The ongoing consolidation at the top end of the market has also acted as a catalyst, forcing direct insurers to reassess the need to cede risk given their now augmented balance sheet. From 1999 through to 2002, direct insurers opportunistically chose to reinsure a larger amount of risk, as such cover was relatively inexpensive (see Chart 2).

Are Australia and New Zealand too remote?

Given that the financial stress felt by many global reinsurers has led to diminished reinsurance capacity, will reinsurers scale back from Australia and New Zealand altogether? The answer is no.

Although the Australian and New Zealand markets represent only a small proportion of the world's reinsurance industry (less than 5% of total net reinsurance premiums written), they are still viable places for insurance businesses. Being geographically remote and relatively uncorrelated with the rest of the world, the Australian

and New Zealand markets can add desired diversity to any global reinsurer's portfolio. Already, strong evidence exists that Australian and New Zealand insurance risk is written out of London and Bermuda, as the premium rates make this business more attractive to reinsurers. Total Australian non-life reinsurance premiums written at June 2002 were A$5.9 billion, out of direct premiums written of A$27.7 billion. Driven by the reinsurers' need to technically price contracts and the sheer appetite for direct insurers to cover their catastrophe exposures, Standard & Poor's expects the level of reinsurance to grow in line with the underlying non-life and life markets, but the type of reinsurance to shift toward nonproportional or facultative cover at the expense of proportional reinsurance (see Chart 3).

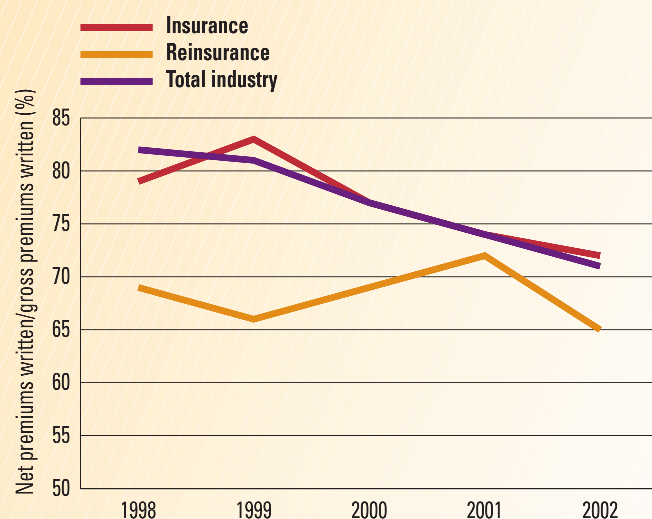
The flight to quality.

Since July 2002, Australian direct insurers have been required by regulation to hold capital based on the level of risk they undertake. In particular, direct insurers now have to take into account the creditworthiness or financial strength of all reinsuring parties that they use, holding more capital wherever necessary to reflect the likelihood of their reinsuring counterparties defaulting on their obligations. Stirred by the need to reduce capital requirements, Standard & Poor's expects direct insurers to move toward higher quality reinsurers. However, this flight to quality will have to be balanced against the notion of passing on risk to too few reinsurers. As a result, more and more reinsurance may be sought outside the Australian and New Zealand domestic markets.

Japan

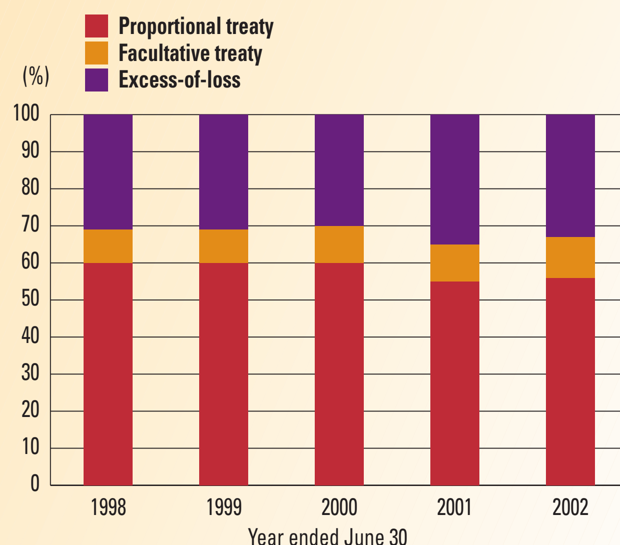
Although premium rates elsewhere are now peaking on the back of a hardening trend after Sept. 11, 2001, the reinsurance market in Japan is continuing to benefit from sustained rate increases, especially for certain catastrophe risks, in line with decreased reinsurance capacity due to overseas natural disasters and a slump in global capital markets. On the other hand, based on their increased capacity after the recent consolidation among large domestic players and the relatively few catastrophic events (such as typhoons and earthquakes) in the past two years, domestic direct insurers have tended to slightly increase their retention, thereby

Chart 2: Australian Insurance: Reinsurance Utilization



Source: Australian Prudential Regulation Authority — Selected Statistics.

Chart 3: Australian Insurance: Split of Reinsurance Cover by Product Type



Source: Australian Prudential Regulation Authority — Selected Statistics.

"Global players have tightened their underwriting in Southeast Asia, especially in long-tail liability and property/ casualty classes."

improving profitability. Standard & Poor's expects the Japanese reinsurance market to remain profitable in the short term, in the absence of unforeseen catastrophes. As the only Japan-based reinsurer, Toa Reinsurance Co. (Toa Re) is expected to be the preferred reinsurance provider, backed by its strong and established ties with most domestic direct insurers, while other major foreign players will also play important roles in reinsurance transactions with Japanese nonlife insurers.

The market and demands for life reinsurance in Japan continue to grow, despite the overall market of in-force business decreasing for six consecutive years. This growth is supported by deregulation, co-operative markets, and the weakened financial profiles of domestic life insurers. However, the market is still small, since local major players are dominant and can handle their underwriting risks with conservative pricing principles.

Southeast Asia

There are a number of reinsurers in the region, including Taiwan-based Central Reinsurance Corp. (Central Re), China International Reinsurance Co. Ltd. (CIRe), Singapore Reinsurance Corporation Ltd., Thai Reinsurance Public Co. Ltd., and Malaysia National Insurance Sdn. Bhd. Unlike the global players, most of these companies have only domestic or regional business portfolios and are relatively small in size. Although global reinsurers' underwriting results have been affected by catastrophe losses in the past two years, most of the domestic reinsurers in the region have managed to achieve a combined ratio of less than 100%. Amid the hardening of the reinsurance market, domestic reinsurers enjoyed improved underwriting performance due to increased premium rates and a better selection of risks underwritten.

Domestic companies generally have a good knowledge of the market, due to their good local network with ceding companies. In some markets in the region, agreements exist for companies to cede a fixed amount of business to the domestic reinsurer. In terms of underwriting, however, domestic reinsurers appear to be less advanced or technically sound than global players, due to the limited resources available.

The reinsurance markets in the region deal predominantly with proportional products, although the demand for nonproportional products has increased in recent years. Global players have tightened their underwriting in the region, especially in long-tail liability and property/casualty classes.

Singapore.

Singapore has positioned itself as a regional reinsurance center for Asia. As at June 2003, there were 37 professional reinsurers in Singapore, of which 26 write non-life reinsurance business, one writes life reinsurance, and 10 write both life and non-life reinsurance.

Of the 36 companies writing non-life reinsurance business, only one is an indigenous company, and two are locally incorporated subsidiaries of foreign groups. For the most part, the remainder are branches of foreign insurers. The life reinsurers are all foreign owned.

Amid the trend of hardening reinsurance rates in 2002, reinsurance premiums written in the Singapore Insurance Fund (SIF), which represents the primary domestic sector, grew by 19% in 2002. This represented a slower rate of growth than the 24% recorded in the direct insurance SIF market. Reinsurance premiums written in the Offshore Insurance Fund (OIF), which represents nondomestic business, grew 10% in 2002. The retention ratio for business written in the SIF fell further to 62.7% in 2002 from 70.6% in 1998. The retention ratio for offshore direct business also declined, to 52.7% from 66.8% a year ago. Underwriting and technical skills are generally good, benefiting from the high degree of foreign representation in the market.

Hong Kong.

Hong Kong's domestic reinsurance sector generated total premiums of Hong Kong dollar (HK$) 5.1 billion ($653.9 million) in 2002, up 28.4% year on year. This significant growth was mainly driven by an increase in reinsurance premium rates, rather than by new business. As a result of favorable, industrywide price increases and a relative lack of catastrophic events such as typhoons, underwriting profit on onward non-life reinsurance improved substantially to HK$489.7 million in 2002 from HK$93.4 million a year earlier. The sector's average combined ratio, moreover, fell to 63.5% in 2002 from 71.7% in 2001, reflecting improved loss and expense ratios.

In addition to Lloyd's, 27 professional reinsurance providers hold licenses to operate in Hong Kong. However, only one-half of these reinsurers are active. Most of the professional reinsurers in the territory are international reinsurers. The leading five companies in terms of gross premiums written are Swiss Reinsurance Co. (Swiss Re, which accounted for 20.0% of inward reinsurance premiums in Hong Kong in 2002), Munich Reinsurance Co. (Munich Re; 17.0%), CIRe (17.0%), Toa Re (15.1%), and Lloyd's (9.0%).

Because Hong Kong's non-life insurance sector relies on the capacity of global reinsurers for its long-tail liability and property/casualty insurance classes, reinsurance renewal was difficult in 2003 as a result of tougher conditions in the global reinsurance market. In contrast, the direct insurance market has reported improved underwriting results in recent years as a result of rising premium rates. Its combined ratio in 2002 was 93%, a significant improvement on the 104% recorded in 2001. Reinsurance market conditions are likely to remain tough for the Hong Kong non-life insurance sector in the short term. However, because Hong Kong is a free market, any new reinsurance capacity for the non-life insurance sector may drive premium rates down.

Taiwan.

Reinsurance capacity remains tight for Taiwan's non-life insurance sector, which has historically had a high reliance on domestic reinsurance capacity. Nevertheless, reinsurance renewal has been smoother than expected in 2003 and most domestic companies have been able to maintain their treaty reinsurance support. Facultative reinsurance capacity for Taiwanese risks has been reduced, however, and this may create difficulties for companies with large and unusual risks.

In 2002, reinsurance premiums ceded by Taiwan's non-life sector increased by 13.2% to Taiwan dollar (NT$) 59.0 billion ($1.7 billion), while total premiums written rose by 11.1% year on year to NT$109.5 billion. The retention ratio for the sector rose to 54.4% in 2002 from 46.6% in 2001. Over the past year, insurance companies have shown an increasing tendency to retain their premiums to offset increased reinsurance costs. They have managed this by changing their reinsurance protection to nonproportional from proportional treaties and increasing the amount retained under existing treaties. To offset the increased risk retention, insurance companies have implemented more selective risk management through tighter underwriting controls.

Central Re is the only domestic reinsurance company in Taiwan. In addition, seven overseas reinsurers have representative offices on the island. In the past two years, about two-thirds of reinsurance premiums have been ceded to overseas markets. Earlier this year, the regulator, the Insurance Department of the Ministry of Finance, relaxed reserving requirements to encourage overseas reinsurers to enter the market.

To respond to reduced reinsurance capacity, domestic insurance companies have considered alternative risk transfer solutions, such as financial reinsurance and catastrophe bonds. Notably, the non-life insurance industry, led by Central Re and encouraged by the regulator, is likely to issue the island's first catastrophe bonds as an alternative to catastrophe reinsurance, because international catastrophe reinsurance capacity has fallen in recent years.

China.

In 2002, total premiums written in the Chinese insurance market grew by a strong 44.7% to Chinese renminbi (RMB) 305.3 billion ($36.9 billion). The sharp growth of the past few years is mainly due to strong growth in the life insurance market. The non-life market grew by 13.6% in 2002 year on year, with reported total premiums written of RMB77.8 billion, compared with year-on-year growth of 14.5% in 2001.

In contrast to its counterparts, the non-life market in China remains very soft and has not been significantly affected by the hardening of the global reinsurance market. Market competition is fierce, although the growth potential is favorable.

State-owned China Reinsurance Corp. (China Re) remains the sole operating professional reinsurer in the Chinese market, and wrote about RMB18 billion of total premiums in 2002. Also in 2002, Swiss Re and Munich Re gained approval from the China Insurance Regulatory Commission to open branches in China, and they are likely to be issued with operating licenses in the near future. Historically, the compulsory cession from insurance companies to China Re was 20% for all insurance classes. Starting from 2003, the compulsory cession will be reduced by 5% each year, until it reaches zero in 2006. This will present a growing challenge to the state-owned company.

Carolyn Rajaratnam,
Melbourne
(61) 3-9631-2082
carolyn_rajaratnam@standardandpoors.com

Michael Vine,
Melbourne
(61) 3-9631-2102
mike_vine@standardandpoors.com

Kate Thomson,
Melbourne
(61) 3-9631-2104
kate_thomson@standardandpoors.com

Connie Wong,
Hong Kong
(852) 2533-3553
connie_wong@standardandpoors.com

Adrian Chee,
Singapore
(65) 6239-6306
adrian_chee@standardandpoors.com

Nancy Koh,
Singapore
(65) 6239-6392
nancy_koh@standardandpoors.com

Runa Ichihari,
Tokyo
(81) 3-3593-8587
runa_ichihari@standardandpoors.com

Kai Nakajima,
Tokyo
(81) 3-3593-8578
kai_nakajima@standardandpoors.com

Insurer Financial Strength Ratings Definitions

A Standard & Poor's Insurer Financial Strength Rating is a current opinion of the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. Insurer Financial Strength Ratings are also assigned to HMOs and similar health plans with respect to their ability to pay under their policies and contracts in accordance with their terms.

This opinion is not specific to any particular policy or contract, nor does it address the suitability of a particular policy or contract for a specific purpose or purchaser. Furthermore, the opinion does not take into account deductibles, surrender or cancellation penalties, timeliness of payment, nor the likelihood of the use of a defense such as fraud to deny claims. For organizations with cross-border or multinational operations, including those conducted by subsidiaries or branch offices, the ratings do not take into account potential that may exist for foreign exchange restrictions to prevent financial obligations from being met.

Insurer Financial Strength Ratings are based on information furnished by rated organizations or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may on occasion rely on unaudited financial information. Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of such information or based on other circumstances.

Insurer Financial Strength Ratings do not refer to an organization's ability to meet nonpolicy (i.e. debt) obligations. Assignment of ratings to debt issued by insurers or to debt issues that are fully or partially supported by insurance policies, contracts, or guaranties is a separate process from the determination of Insurer Financial Strength Ratings, and follows procedures consistent with issue credit rating definitions and practices. Insurer Financial Strength Ratings are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold, or sell any security issued by an insurer. A rating is not a guaranty of an insurer's financial strength or security.

Insurer Financial Strength Ratings

An insurer rated 'BBB' or higher is regarded as having financial security characteristics that outweigh any vulnerabilities, and is highly likely to have the ability to meet financial commitments.

AAA

An insurer rated 'AAA' has EXTREMELY STRONG financial security characteristics. 'AAA' is the highest Insurer Financial Strength Rating assigned by Standard & Poor's.

AA

An insurer rated 'AA' has VERY STRONG financial security characteristics, differing only slightly from those rated higher.

A

An insurer rated 'A' has STRONG financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

BBB

An insurer rated 'BBB' has GOOD financial security characteristics, but is more likely to be affected by adverse business conditions than are higher rated insurers.

An insurer rated 'BB' or lower is regarded as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range; 'CC' the highest.

BB

An insurer rated 'BB' has MARGINAL financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.

B

An insurer rated 'B' has WEAK financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.

CCC

An insurer rated 'CCC' has VERY WEAK financial security characteristics, and is dependent on favorable business conditions to meet financial commitments.

CC

An insurer rated 'CC' has EXTREMELY WEAK financial security characteristics and is likely not to meet some of its financial commitments.

R

An insurer rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others. The rating does not apply to insurers subject only to nonfinancial actions such as market conduct violations.

NR

An insurer designated 'NR' is NOT RATED, which implies no opinion about the insurer's financial security.

Plus (+) or minus (-)

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CreditWatch highlights the potential direction of a rating, focusing on identifiable events and short-term trends that cause ratings to be placed under special surveillance by Standard & Poor's. The events may include mergers, recapitalizations, voter referenda, regulatory actions, or anticipated operating developments. Ratings appear on CreditWatch when such an event or a deviation from an expected trend occurs and additional information is needed to evaluate the rating. A listing, however, does not mean a rating change is inevitable, and whenever possible, a range of alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The "positive" designation means that a rating may be raised; "negative" means that a rating may be lowered; "developing" means that a rating may be raised, lowered or affirmed.

'pi' Ratings, denoted with a 'pi' subscript, are Insurer Financial Strength Ratings based on an analysis of an insurer's published financial information and additional information in the public domain. They do not reflect in-depth meetings with an insurer's management and are therefore based on less comprehensive information than ratings without a 'pi' subscript. 'pi' ratings are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event that may affect the insurer's financial security occurs. Ratings with a 'pi' subscript are not subject to potential CreditWatch listings.

Ratings with a 'pi' subscript generally are not modified with '+' or '-' designations. However, such designations may be assigned when the insurer's financial strength rating is constrained by sovereign risk or the credit quality of a parent company or affiliated group.

Insurer Financial Enhancement Ratings

A Standard & Poor's Insurer Financial Enhancement Rating is a current opinion of the creditworthiness of an insurer with respect to insurance policies or other financial obligations that are predominantly used as credit enhancement and/or financial guaranties. When assigning an Insurer Financial Enhancement Rating, Standard & Poor's analysis focuses on capital, liquidity and company commitment necessary to support a credit enhancement or financial guaranty business. The Insurer Financial Enhancement Rating is not a recommendation to purchase, sell, or hold a financial obligation, inasmuch as it does not comment as to market price or suitability for a particular investor.

Insurer Financial Enhancement Ratings are based on information furnished by the insurers or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any credit rating and may, on occasion, rely on unaudited financial information. Insurer Financial Enhancement Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information or based on other circumstances. Insurer Financial Enhancement Ratings are based, in varying degrees, on all of the following considerations:

- Likelihood of payment-capacity and willingness of the insurer to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligations; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

The McGraw·Hill Companies

Inside View

Giving insight to insurance ratings

STANDARD & POOR'S

Issue one

INSIDE VIEW

Understanding Insurance Ratings

The rating scale

Assigning a rating

Outlooks

With global insurance markets still depressed and widespread pressure on market participants, the relative financial strength characteristics of insurers has come to the fore. Inside View aims to bring clarity to financial strength ratings, and therefore information to insurers regarding their chosen insurance carrier.

The guide is free to subscribers and is published fortnightly by E-mail. Each issue looks at a new subject, steering policyholders and other rating users through the processes and methodology that lie behind insurer financial strength ratings, helping insurance buyers have a clearer understanding of insurers' financial characteristics.

STANDARD & POOR'S

For more information please email Cathy Heawood: open_door@standardandpoors.com or telephone +44 (0)20 7847 7021

STANDARD
&POOR'S

Standard & Poor's (London)
9 Appold Street
London EC2A 2AP
(44) 20-7847-7000

Standard & Poor's (Melbourne)
Level 37, 120 Collins Street
Melbourne 3000
(61) 3-9631-2000

Standard & Poor's (Mexico City)
Torre Chapultepec
Ruben Dario 281 Piso 16
Col. Bosque del Chapultepec
11580 Mexico, D.F
(52) 55-5279-2000

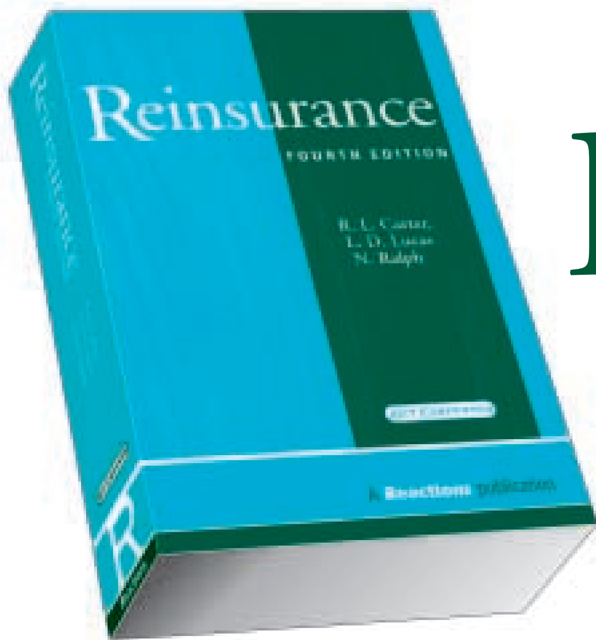
Standard & Poor's (New York)
55 Water Street
New York, NY 10041
(1) 212-438-2000

Standard & Poor's (Singapore)
Prudential Tower, #17-01/08
30 Cecil Street
Singapore 049712
(65) 438-2881

Standard & Poor's (Tokyo)
Yamato Seimei Building, 19th Floor
1-1-7 Uchisaiwaicho, Chiyoda-ku
Tokyo, 100
(81) 3-3593-8700

Reactions Publishing Group
Nestor House
Playhouse Yard
London EC2V 5EX
(44) 20-7779-8184

Reinsurance Fourth edition — the best-selling book from Reactions Publishing Group



Reinsurance
FOURTH EDITION

*Since 1979 Reinsurance Fourth Edition has sold across the world and is to be found on the desks of all insurance and reinsurance professionals. It has established itself as **the** source of reliable information and continues to keep right up to date with this latest version, providing expert guidance and advice for future trends.*

"…over the next 10 years, it is likely that the reinsurance industry will experience just as much change as it has done in the past decade. It has already become one of the most interesting and energetic industries in the financial services sector…"

Simon Challis, former Editor, Reactions Magazine

As an essential resource for your company, this industry-standard reference book provides an in-depth guide to the changing insurance and reinsurance industries. Ensure that your company understands the trends and complies with all the necessary legal obligations.

"…the fourth edition of a book that has already become an insurance classic…it forms a good textbook for careful study…"

Jim Bannister Report, Rating ****

ORDER ONLINE www.insurancebooks.com

PRIORITY ORDER FORM

☐ **Yes**, I would like to order ☐ copies of Reinsurance 4th Edition, at £150/US$270 per copy (p&p extra)

Name:

Job Function:

Areas of responsibility:

Company:

Address:

Zip/Postcode: Country:

Tel: Fax:

Email:

VAT No. (if ordering from an EC country):

☐ Please debit my credit card ☐ Amex ☐ Mastercard ☐ Visa

Card No.

Signature:

Expiry date:

☐ I enclose a cheque made payable to REACTIONS PUBLISHING GROUP

☐ Please invoice my company. Purchase order no.

The information you provide will be safeguarded by the Euromoney Institutional Investor PLC group, whose subsidiaries may use it to keep you informed of relevant products and services. We occasionally allow reputable companies outside Euromoney II to mail details of products that may be of interest to you. As an international group, we may transfer your data on a global basis for the purposes indicated above. If you object to receiving up-to-date information on our latest products please tick this box ☐. Please tick the box if you object to contact by telephone ☐ , fax ☐ or email ☐. If you do not want us to share your information with other reputable companies please tick this box ☐.

FAX BACK ON: +44 (0)20 7779 8300

Phone the Hotline on:
+44 (0)20 7779 8999

Visit our **Website** and order online:
www.insurancebooks.com

Fax: +44 (0)20 7779 8300

Email: hotline@euromoneyplc.com

Or **post:**
Reactions Publishing Group
Nestor House, Playhouse Yard, London, EC4V 5EX, UK

WHEN ORDERING, PLEASE QUOTE REF: 203HCZAD1AAA

Roseg Glacier, Engadine, Switzerland

Thomas Streiff, Sustainability Expert, Swiss Re

Thomas Streiff and his team identify environmental and man-made risks and develop sustainable strategies to cope with them. For example, Swiss Re was among the first to recognise the potential impact of climate change on the financial services industry and to study effective ways of managing associated risks. Offering a combination of expertise and financial strength, Swiss Re is ideally positioned to provide your company with tailored solutions to mitigate your exposure and protect your balance sheet – ensuring, in a climate of uncertainty, that you feel secure. www.swissre.com

Expertise you can build on. **Swiss Re**