STANDARD & POOR'S

Global Reinsurance Highlights
2004 Edition

A Reactions publication

STANDARD
&POOR'S

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2004 Edition

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Communication Is the Key

On the face of it, the majority of reinsurance executives should be feeling fairly comfortable with their prospects for the next 12 months. With an estimated 2003 average ROE of 9.5% for the approximate 250 companies captured in this year's edition of *Global Reinsurance Highlights*, industry performance is perhaps at last providing a respectable risk/return relationship. However, scraping away the thin veneer of strong cyclical earnings reveals the continuing challenges faced by reinsurance executives. These challenges appear as a series of apparently conflicting demands, with the three most obvious being: balancing financial strength with returns on capital; reconciling the short- and long-term perspectives of the various stakeholders; and nurturing strong relationships with clients while maintaining underwriting flexibility. At the heart of reconciling these demands lies clear communication, both at company and industry level.

The need to balance the demand for financial strength from the cedent with the demand for return on capital from the shareholder is hardly new. However, the debate has been given extra frisson over the past few years by three factors. First, there has been a renewed emphasis on operating performance and, importantly, its impact on financial flexibility. Consequently, capital should not be considered the only part of the financial strength equation. Second, proprietary enterprise risk management models are emerging, which aim to shed light on how much capital is required for the risks being assumed. Finally, there is increasing regulatory scrutiny of the reinsurance sector, particularly in Europe. Within the framework of these recent developments lies a real opportunity for the industry. By clearly communicating to their clients, regulators, and rating agencies the robustness of their capital optimization methodology, reinsurers can potentially align the needs of clients and shareholders more closely. This will not be an easy task given the complexity of the issues involved, but nevertheless, Standard & Poor's Ratings Services intends to be at the forefront of the debate.

A second major area of apparently conflicting demands is the short-term perspective of the capital markets versus the long-term strategy of reinsurers' management. Management by necessity has to take a long-term view, and strategies laid down can take years to come to fruition. In addition, earnings are cyclical and can be highly volatile, and therefore also necessitate a long-term perspective. However, driven partly by quarterly reporting, many shareholders seem to take at best a medium-term view. This has been underlined by a number of recent cases, where reinsurers have seen heavy selling of their shares following announcements that premium growth has fallen. To be fair, to draw the simple conclusion that shareholders do not understand the importance of cycle management due an apparent fixation with top-line growth is perhaps harsh: there may be other reasons for the sell-off, and certainly there is a hard core of insurance analysts in the market who have a very good understanding of reinsurance and the premium pricing cycle. Also, the situation has been exacerbated by the growing involvement of hedge funds in the market, which potentially add to short-term share price volatility. Nevertheless, the case here for improved communication is clear—investors need to better understand the vagaries of the cycle and reinsurers need to communicate more clearly their long-term strategy and profitability expectations.

The nature of the reinsurer/cedent relationship is another area where reinsurers have to maintain a careful balance—in this case between the requirements of the cedent and the need to maintain underwriting flexibility. There has been much debate over the past couple of years as to the most effective reinsurer business model: a relationship-based, direct market approach (with often a preponderance of proportional business) or a broker market emphasis allowing the reinsurer to move more quickly between cedents and in and out of specific business lines. By more clearly communicating its requirements to cedents and its pricing methodology, the reinsurer can potentially maintain strong long-term relationships, as well as retaining underwriting flexibility.

Communication of these issues takes many forms and has many forums. Standard & Poor's seeks, through *Global Reinsurance Highlights* and its many other publications, to provide clarity and constructive opinion to these and other issues facing the industry. Many of the issues touched on above are dealt with in more detail in the following pages. We hope that you will find this year's *Global Reinsurance Highlights* both informative and stimulating.

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Global Reinsurance: Credit Ratings Stability Returns, for Now

Standard & Poor's Ratings Services recently revised its outlook for the global reinsurance industry to stable. Although the potential for downgrades remains, the stable outlook indicates that these will be isolated relative to previous years. Similarly, the potential for upgrades is limited over the next few years. Improved accident-year profitability in 2003 and good earnings prospects in 2004 and 2005 are underpinning most ratings at their current levels. This is due to an industrywide resolve to keep prices at economic levels, supported by a more widespread use of modeling technology in the underwriting process.

However, there are a number of factors that will limit any rebound in ratings over the next few years. Perhaps most importantly, the potential for the reporting of continued prior-year reserve development during the remainder of 2004 will continue to weigh on the ratings of the longer established reinsurers. On the other hand, the mettle of the more recently formed entities will only be truly demonstrated by the resilience of their balance sheets to large losses, particularly given the large exposures they are running. Other negative factors include diverging fortunes among companies in the industry; the impact of the flight to quality, and the associated problem for weaker reinsurers of rating-related triggers; and the renewed focus on parental support issues. To give some historical perspective, Chart 1 shows the distribution of ratings in 2003 and 2004.

The 2003 financial year will be remembered as the year when the industry returned, for the first time since 1996, an aggregate underwriting profit, reporting a combined ratio of 95.5%. On top of this, due to relative calm in the capital markets, more stable—albeit low—investment returns meant that the underwriting improvement flowed through to the bottom line. ROR (operating performance before realized gains as a percentage of total revenue), which Standard & Poor's uses as one of the metrics for overall profitability, hit 11% in 2003, up from negative 1.2% in 2002.

The longer term trends in profitability are shown in Chart 2. When stripping out the effect of Sept. 11, 2001, on that year's results, profitability has been on an upward trend since 2000, when rates are generally considered to have hit rock bottom. Measured in terms of the combined ratio, this represents a 16% improvement over the three-year period. Nevertheless, this amelioration falls short of the underlying improvement in rates, deductibles, and other terms and conditions. According to some of the published premium rating indices[1], pricing has on average doubled during the same period. Results achieved should also be viewed against the backdrop of a low level of insured losses arising from natural catastrophes in 2002 and 2003, relative to the long-term trend[2], and a low burden from man-made losses.

Part of the apparent disparity between improved terms and conditions and reported performance is easily explained. The premium accounting process for (re)insurance results defers profit recognition for at least six months. Consequently, the 2004 financial year results will in part reflect the strong premium prices in

1. Including the Guy Carpenter Catastrophe Index and CBS rating indices.
2. According to Swiss Re's sigma study No.1/2004, both years were below the inflation-adjusted long-term average.

2003. In addition, the application of actuarial techniques tends to result in a delay in the recognition of new trends. Management is also inclined to be cautious in allowing large swings in reported profitability.

U.S. Casualty Losses

The more significant reason for the apparent slowness of profits to pick up in response to the improving terms and conditions is the continued emergence of losses from U.S. casualty business written during 1997-2001. Previous publications[3] have addressed the issue of why policies written in prior years should continue to affect the financial performance of reinsurers. Recent examples are the announcement in March 2004 that American Re-Insurance Co., the U.S. subsidiary of Munich Reinsurance Co., had added a further $386 million to its reserves (as reported on a GAAP basis), and the Converium group's disclosure in July that it could be adding upward of $400 million to its reserves.

Although Standard & Poor's does not expect the headline-grabbing announcements of large reserve developments that occurred in 2002 and 2003, the problem remains. The industry view is that the 1997 and 1998 years are now relatively fully developed, and therefore any further adverse development will be concentrated on the 'green' years of 1999 and 2000. Given that premium rates were lower in these later years, it is inevitable that adverse development will continue to be recorded, although releases from short-tail business lines such as aviation, hull, and property are being used to cushion the impact on the bottom line. The extent to which such development can be hidden depends on the regulatory and reporting regimes. There is an accepted wisdom in the reinsurance business that good underwriting years get better and bad ones get worse. Standard & Poor's considers that the bad years have not fully run their course.

Reserving for Asbestos

Some reinsurers, given the currently strong accident-year profitability, will look to top up their asbestos- and environment-related (A&E) provisions. The past few years have seen an acceleration in asbestos-related claims, which have resulted in some significant additions to reserves by the U.S. primary industry. The most notable recent examples are Hartford Financial Services Group Inc. ($3.9 billion in the first quarter of 2003); CNA Financial Corp. ($642 million in the year ended Dec. 31, 2003); Chubb Corp. ($250 million in the fourth quarter of 2003); and Equitas Ltd. ($540 million in the year ended March 31, 2004). In contrast, the asbestos-related loss reserves of the major reinsurers have been fairly stable in recent years. The question, therefore, is whether reinsurers are better reserved for asbestos and, if not, when will they follow the primary industry's lead? This may be sooner rather than later in some cases, given the industry's habit of using benchmarking for A&E reserves (which are notoriously difficult to set due to the inherent uncertainty of claims). For instance, in February 2004, Swiss Reinsurance Co. announced a $410 million addition to the A&E reserves of its North American subsidiary, Swiss Reinsurance America Corp. (albeit that this had only a minor impact of $65 million on group results).

Chart 1: Change in Distribution of Ratings for Top 150 Reinsurers Globally

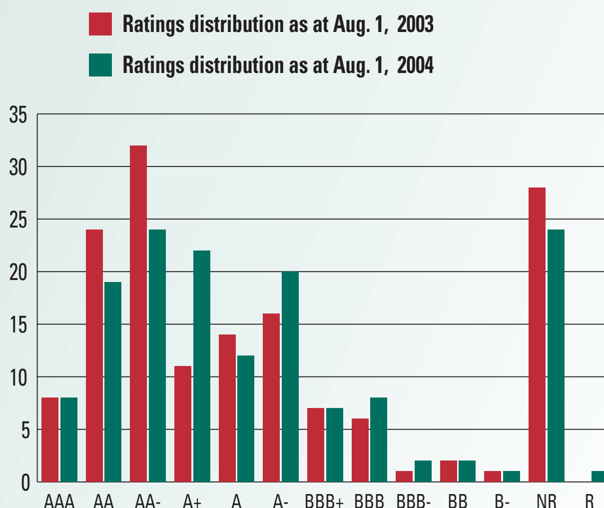
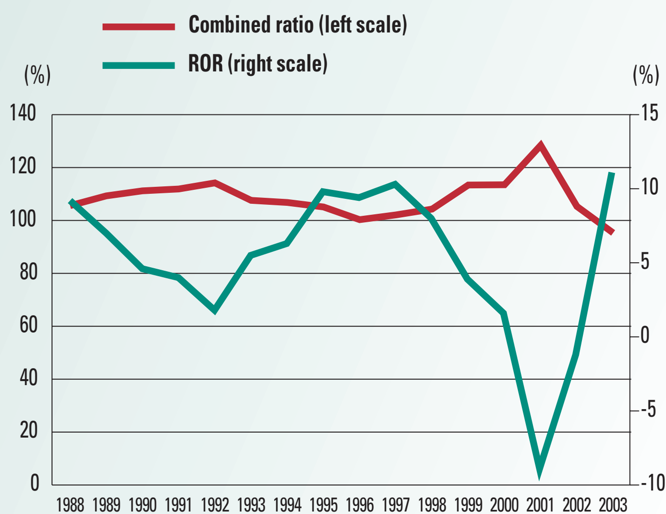


Chart 2: Aggregate Combined Ratio and ROR for Reinsurers



3. See "Global Reinsurance: Calmer Waters Ahead?", published on Sept. 8, 2003, on RatingsDirect, Standard & Poor's Web-based credit analysis system, and in the 2003 edition of *Global Reinsurance Highlights*.

"It appears that so far, some of the more gloomy predictions of severe widespread price collapses have not transpired and, on the whole, pricing discipline remains. Perhaps of greater concern at this stage are reports, although currently isolated, that terms and conditions and retentions have been relaxed."

Other reinsurers, however, may choose to adopt a wait-and-see approach, particularly where there is uncertainty relating to the attachment or aggregation of losses under excess-of-loss reinsurance. For instance, there is a view that 'nonproduct' claims, as distinct from claims under product liability insurance, do not aggregate under excess-of-loss reinsurance. This view reflects the fact that a claim under a policy not specifically covering liability in respect of asbestos or asbestos-related products is deemed to be a separate 'occurrence'. Consequently, nonproduct losses incurred by a primary insurer may not attach under an excess-of-loss reinsurance protection because the limit only applies to individual claims, and not to multiple claims. Such nonproduct claims make up an increasing proportion of the claims total. Consequently, the U.S. legal profession is seeking to extend the claims landscape beyond manufacturers and users of asbestos (the so-called "traditional industries").

It is hoped that asbestos legislation will be brought back before the Senate in the near future. With all eyes on the U.S. election, however, and uncertainties remaining over aspects of the proposed $115 million trust fund agreement, it appears that the chances of passing such new legislation in the near term are limited.

Rating-Related Triggers

Rating triggers have been prevalent in the market for some time now, but there is growing pressure on the reinsurance community to more widely accept these, in addition to a growing debate as to the benefits that they ultimately bring to cedents. AIG took this a step further when it made it a requirement for all of its reinsurers to collateralize their shares of ceded claims reserves, regardless of their ratings, from 2004 onward. In the widest sense, rating-related triggers include both implicit triggers resulting from the 'hurdle' rating levels set by broker security committees, and explicit triggers built into the contracts. Another variation on rating triggers is the pricing grid that appears in bank loan documentation, whereby the credit spread on the loan rises as the rating declines.

Brokers have long used ratings as one of the filters to be applied when selecting reinsurers for their clients. For short-tail business, the minimum hurdle can often be as high as 'A-', rising to 'AA-' for long-tail business. Standard & Poor's has repeatedly argued that this is not an effective use of ratings as it creates arbitrary rating cliffs, whereby the reinsurer can find business drying up when it would still be considered creditworthy in the absence of the hurdle. The existence of triggers in contracts can be yet more damaging. These can result in the requirement to collateralize claims reserves, or even force contract rescission and return of premiums if the rating on the reinsurer falls below a certain level. Consequently, the reinsurer can suffer a sudden and potentially fatal liquidity crunch.

In Standard & Poor's view, rating triggers are not helpful for either the reinsurer or, in the longer term, the cedent, when applied indiscriminately. They exacerbate the original weakness. In particular, although an apparently comforting arrangement for the cedent, the widespread requirement for collateral—if imposed—will ultimately lead to higher overall reinsurance premiums across the market, as reinsurers will have to hold more capital in order to raise the cash necessary to provide separate pools of collateral. More importantly perhaps, triggers may not work for cedents when they are most needed—that is, after a large industry loss. Consequently, they create a false sense of security and are no substitute for in-depth analysis of reinsurer credit risk. Rating triggers are nevertheless being applied increasingly and will be used by cedents most vigorously where a reinsurer is perceived to be weak. Therefore, in the longer term, they will contribute to reducing the competitiveness of those reinsurers.

Diminishing Parental Support

A contributing factor for a number of rating actions over recent years has been the actual or perceived withdrawal of support by a parent of a reinsurance subsidiary. An example of this was the downgrade of Employers Reinsurance Corp. and affiliates (collectively ERC) following reconsideration of the entities' core status due to concerns over ERC's operating performance and the view of the group's ultimate parent, General Electric Co. (GE), that the risk and volatility inherent in the reinsurance business may not fit into GE's long-term strategy.

Increased sophistication in the measurement of returns on risk-based capital, and its application as a tool for measuring the relative performance of lines of business and/or subsidiaries, gives management less of an excuse to persevere with underperforming units than in the past. In addition, the few remaining composite groups may see the next few years—when the reported profits from reinsurance will benefit from the cyclical peak—as an ideal time to dispose of their reinsurance subsidiaries in order to maximize proceeds. Consequently, Standard & Poor's expects that there will be further rating actions related to reduced parental support.

Outlook for Profitability in 2004

On the whole, the January 2004 renewal season was satisfactory for the majority of the reinsurers renewing their treaty books, although, as expected, rates have continued to soften gradually as the year has progressed. Nevertheless, it appears that so far, some of the more gloomy predictions of severe widespread price collapses have not transpired and, on the whole, pricing discipline remains. Perhaps of greater concern at this stage are reports, although currently isolated, that terms and conditions and retentions have been relaxed.

While it is expected that premium rates will, on balance, continue to fall over the remainder of 2004 and at the January 2005 renewals, the benefit of the price increases implemented during the 2003 and 2004

renewals is expected to be felt in reinsurers' accident-year results until at least the end of 2005. Consequently, barring a major catastrophe, short-tail writers are expected to record a combined ratio in 2004 similar to that of 2003, in the range of 35%-85% (starting at 35% for pure property-catastrophe writers such as IPCRe Ltd., rising to 85% for those writing a less volatile short-tail property book). Those with a heavy long-tail mix of business should be able to improve their combined ratios from the 2003 range of 95%-100% to the low- to mid-90% range. This is borne out by the reported results for the first half of 2004, although, with the main storm seasons still to come, first-half results are not necessarily a good indication of the full-year outcome. For reinsurers with diversified books of business that have already reported, combined ratios clustered mainly around 90%-95% for the first half of 2004, depending on the business mix. Unsurprisingly, shorter tailed writers with relatively more volatile property business reported combined ratios lower than this. 2004 is expected to be the peak of the pricing cycle for short-tail business. However, the performance improvement of those reinsurers with relatively more longer tailed casualty business is expected to be more enduring, with pricing improvements expected to last into 2005.

Not all reinsurers, however, have been able to fully benefit from the continued overall improvement in rates, and financial strength remains an important determinant of cedent choice. As a result, weaker reinsurers have been gradually losing market share of the more attractively priced business, and have less influence on rates generally in the shorter tailed business lines due to the flight to quality. Relative underwriting performance will remain a key metric for the industry over the next few years.

Managing the Cycle

Standard & Poor's is encouraged by the fact that some reinsurers are already looking to reduce exposure to those lines of business that are showing signs of softening, in particular global property-catastrophe and big-ticket U.S. property risks. Consequent reductions in exposure carried out as part of sensible risk management policies, combined with the impact of falling prices, are likely to result in material, and not unwelcome, reductions in premium volumes. Exposure reductions may also result in excess capital. The return of excess capital to shareholders will not generally be considered as negative for ratings when seen in the context of sensible risk management, however. As premiums shrink, expense management becomes a more important part of the performance equation. Consequently, Standard & Poor's will also be monitoring reinsurers' ability to trim overheads, and a flexible business model therefore remains a considerable advantage.

The ability of reinsurers to rebalance their portfolios of business will depend on the sophistication and accuracy of price-monitoring tools. Just as important will be the willingness of management to reduce exposure and premiums, in the face of pressure from clients, brokers, and shareholders, to maintain volume. This is critical to avoiding a repeat of the severe damage done to financial strength in the last soft cycle.

In Conclusion

The stable outlook for the reinsurance industry is predicated on the expectation that the severe premium price volatility that has characterized the industry will, although not be removed, nevertheless be reduced. This should manifest itself in a rather more gentle decline in prices over the next few years than that which occurred after the last cyclical peak in the early 1990s. If by 2006 it becomes clear that rate reductions are accelerating and the old familiar boom and bust cycle is to be repeated, a further reassessment of rating levels in the industry will be required.

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Top 40 Global Reinsurance Groups

Top 40 Reinsurance Groups Ranked by Net Reinsurance Premiums Written

	Group	Country	Net Reinsurance Premiums Written (Mil. $) 2003	2002
1	Munich Re	Germany	29,197.9	24,924.3
2	Swiss Re	Switzerland	24,776.6	21,600.0
3	Berkshire Hathaway Re	U.S.	11,946.0	13,083.0
4	Employers Re	U.S.	9,729.0	7,892.0
5	Hannover Re	Germany	8,700.3	7,445.9
6	Lloyd's	U.K.	7,818.3	6,808.6
7	Allianz Re	Germany	5,226.1	4,584.7
8	SCOR	France	4,260.1	4,693.4
9	Converium	Switzerland	3,827.0	3,322.2
10	PartnerRe	Bermuda	3,589.6	2,655.4
11	XL Re	Bermuda	3,483.1	3,544.2
12	Everest Re	Barbados	3,392.2	1,932.3
13	Transatlantic Holdings Inc.	U.S.	3,341.1	2,500.2
14	Millea[1]	Japan	3,246.8	2,455.3
15	London Re	Canada	2,728.3	2,487.2
16	Reinsurance Group of America	U.S.	2,643.2	1,980.7
17	Arch Re Ltd. (Bermuda)	Bermuda	2,289.5	1,068.2
18	Odyssey Re	U.S.	2,153.6	1,631.2
19	Sompo Japan Insurance Group Ltd.	Japan	2,051.4	1,524.8
20	Mitsui Sumitomo Insurance Co. Ltd.	Japan	1,859.8	1,398.6
21	AXA Re	France	1,609.7	2,514.3
22	Aioi Insurance Co. Ltd.	Japan	1,470.3	1,218.8
23	Transamerica Re (Aegon)[2]	U.S.	1,451.0	1,455.0
24	White Mountains Re Group[3]	Bermuda	1,435.4	N.A.
25	Caisse Centrale de Réassurance S.A.	France	1,403.1	1,030.3
26	Korean Re	South Korea	1,350.8	1,160.7
27	QBE Insurance Group Ltd.	Australia	1,326.4	862.2
28	Toa Re Co. Ltd.	Japan	1,326.4	1,161.0
29	Revios Re	Germany	1,257.0	1,193.4
30	ACE Tempest Re	Bermuda	1,224.5	777.5
31	Endurance Specialty Holdings Ltd.	Bermuda	1,222.5	580.5
32	Platinum Underwriters Holdings Ltd.[4]	Bermuda	1,172.1	298.1
33	RenaissanceRe Holdings Ltd.	Bermuda	1,152.5	923.7
34	General Insurance Corp. of India	India	946.7	806.9
35	Aspen Insurance Holdings Ltd.	Bermuda	821.0	233.9
36	Montpelier Re Holdings Ltd.	Bermuda	778.0	565.9
37	Mapfre Re Cia de Reaseguros S.A.	Spain	727.5	498.6
38	Alea Group Holdings (Bermuda) Ltd.	Bermuda	706.3	593.0
39	Axis Capital Holdings[5]	Bermuda	654.4	314.2
40	Royal Bank of Canada Insurance Ltd.	Barbados	577.3	477.4

1. In April 2001, the Millea group was formed by the merger of Tokio Marine & Fire Insurance Co. Ltd. and Nichido Fire & Marine Insurance Co. Ltd. Net premiums written are the combined result of these two companies.
2. Premium figures relate to gross premiums written, as no split of the non-life reinsurance into net premiums written is available. Life net premiums written for 2003 were $1,032 million ($908 million in 2002).
3. White Mountains Re Group is the new holding company of White Mountains Insurance Group and was formed shortly after the acquisition of the Sirius insurance group in April 2004. White Mountains Re Group comprises Folksamerica Re Co., White Mountains Underwriting Ltd., and Sirius International Insurance Corp.'s reinsurance operations, which also include Fund American Re Co. The data presented in the table is on a pro forma basis.
4. The fiscal year ended 2002 only reflects business from Nov. 1, 2002, to Dec. 31, 2002.

Pretax Operating Income (Mil. $)		Expense Ratio (%)		Loss Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)		ROR (%)	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
1,922.2	-4,000.8	30.5	29.5	70.1	89.7	24,328.1	14,801.9	6.0	-15.8
1,577.7	397.1	31.9	27.0	78.0	77.0	17,686.5	15,244.7	5.4	1.6
N.A.	N.A.	24.8	24.9	65.8	82.2	40,818.0	30,942.0	N.A.	N.A.
331.0	-2,907.0	21.0	24.0	79.1	119.2	7,943.0	6,664.0	2.9	-32.2
673.5	335.4	16.3	16.9	81.8	77.9	3,274.3	1,946.9	5.8	3.7
3,417.1	1,980.8	33.2	32.6	57.2	62.3	20,611.2	13,186.8	13.2	7.0
3,596.9	-626.8	26.9	28.2	72.1	79.0	56,066.2	35,274.8	42.2	-15.9
-440.6	-350.1	27.0	26.9	92.7	91.4	777.0	1,121.5	-8.7	-7.1
206.0	67.7	27.2	26.5	72.7	78.7	2,083.3	1,738.0	5.3	2.0
383.1	199.7	29.0	30.3	67.5	70.7	2,594.4	2,477.2	9.9	7.5
N.A.	N.A.	18.4	13.9	72.3	61.9	N.A.	N.A.	N.A.	N.A.
529.2	312.1	25.6	27.3	69.6	71.7	3,164.9	2,368.6	12.8	12.0
376.7	194.3	26.2	26.6	70.4	75.8	2,376.6	2,030.8	10.9	7.4
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
25.5	1.3	N.M.	N.M.	N.M.	N.M.	482.0	453.4	0.8	0.0
266.3	208.6	15.7	19.8	72.1	77.7	1,947.7	1,222.5	8.4	8.7
244.7	98.3	28.0	25.4	61.6	62.2	1,807.4	1,317.3	13.0	17.0
196.1	136.7	29.4	30.2	67.5	68.9	1,390.2	1,056.1	8.5	8.1
707.0	315.4	31.9	33.9	56.8	55.0	14,460.7	9,102.2	24.5	14.8
1,555.4	397.8	32.0	33.4	55.0	54.2	17,321.8	12,157.0	9.1	2.7
143.5	-161.1	33.1	27.8	71.1	92.9	1,850.9	1,451.0	5.6	-6.0
217.4	-134.0	33.5	35.3	60.8	60.1	6,007.4	4,126.4	51.4	-79.0
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
148.8	N.A.	30.7	N.A.	73.7	N.A.	1,910.8	N.A.	8.7	N.A.
123.7	118.1	9.0	10.1	113.0	67.2	1,931.0	1,679.5	8.3	10.5
76.5	66.0	25.5	29.8	69.6	65.2	495.1	400.1	5.7	5.7
490.6	260.9	32.8	30.1	63.3	67.6	2,481.4	1,667.9	8.7	6.5
38.9	-8.0	N.A.	N.A.	65.4	59.3	2,121.2	1,488.7	2.5	-0.6
76.4	43.9	N.M.	N.M.	N.M.	N.M.	621.0	502.2	5.2	3.4
358.4	291.6	24.8	24.1	50.9	44.9	N.A.	N.A.	30.2	38.5
252.5	94.5	29.9	31.9	54.5	53.5	1,644.8	1,217.6	26.2	28.7
190.9	6.4	32.2	39.0	60.4	56.4	1,067.2	921.2	16.9	5.7
656.7	465.9	23.4	19.0	33.0	38.1	2,084.6	1,492.0	51.1	51.8
290.4	72.2	26.6	24.5	73.6	88.5	1,885.7	910.2	25.5	7.8
153.1	65.0	27.8	24.8	50.8	63.9	1,298.7	878.1	24.7	45.8
399.5	178.0	19.9	19.1	23.3	40.4	1,657.7	1,252.5	52.9	48.2
52.2	31.7	35.1	38.5	63.5	63.5	408.7	279.8	7.7	6.7
75.3	21.1	33.3	39.4	61.6	62.1	725.4	460.5	8.2	3.7
N.A.	N.A.	18.5	21.2	47.1	41.1	2,817.1	1,961.0	N.A.	N.A.
305.0	166.3	12.4	12.0	38.4	59.9	648.4	515.6	50.2	31.7

5. Adjusted shareholders' funds relate to Axis Capital Holdings; all other figures relate to the reinsurance division only.
Pretax operating income = underwriting profit (or loss) + net investment income + other income. Net realized gains/losses are excluded from this item.
Expense ratio = net underwriting expenses/net premiums earned.
Loss ratio = net losses incurred/net premiums earned.
Total adjusted shareholders' funds = capital + shareholders' reserves (including claims equalization reserve and any excess or deficiency of market value of investments over the balance sheet value).
ROR = pretax operating income/total revenue. Total revenue is the sum of net premiums earned, net investment income, and other income.
N.A.—Not available.
N.M.—Not meaningful.

Global Industry, Local Markets

Introduction

Reinsurance is a global industry, with most of the top 40 groups writing risks across a range of geographies. This is unsurprising given that a fundamental principle of reinsurer risk management is to maintain a diverse portfolio of risks. Despite being a global business, however, the performance of reinsurers in the various regions varies significantly.

Consequently, Standard & Poor's Ratings Services continues to focus on analyzing local markets to understand how local risk characteristics may affect the smaller regional players. In addition, the past few years have seen a number of global reinsurers withdraw from regions where they no longer believe that the benefits of additional diversity outweigh the costs of operating in the area. The analysis of local conditions therefore continues to play an important part in considering whether a subsidiary is a strategic part of a global operation. The following provides a brief overview of those areas where rated reinsurers operate.

Europe (excluding London Market)

Europe is the world's second-largest market for reinsurers, with primary insurers ceding approximately $350 billion in 2003. The largest markets are Germany, the U.K., and France.

With the exception of the flood-related losses of 2002, the underwriting profitability of European reinsurers[1] has been relatively stable over the past few years. To a large extent, this is because relatively little of the loss related to Sept. 11, 2001, was picked up by Europe-based reinsurers, with the U.S. primary industry and U.S. reinsurers (including subsidiaries of European groups) taking the brunt of the $30-billion-plus loss. However, Europe is also characterized by a concentration of insured values due to the high density of a relatively wealthy population. Fortunately, the area has a low incidence of large natural catastrophes. European windstorms Lothar, Martin, and Anatol (which together resulted in estimated insured losses of $11 billion) were a wake-up call to the industry. The modeling techniques that were common in other natural catastrophe-prone areas of the world had not previously been applied with the same degree of precision for European storms (partly due to lack of data). This has now changed materially, but, as the unexpected severity of losses related to the Central European floods of 2002 (which resulted in estimated insured losses of $2.5 billion) illustrated, the shift in weather patterns still remains a challenge to those underwriting these risks. Some commentators have suggested that European storm business is somewhat underpriced relative to other catastrophe lines for this reason.

The satisfactory underwriting performance has, however, been more than offset by the huge investment losses suffered by Europe-domiciled reinsurers, especially during 2002. For instance, Munich Re and Swiss Re reported global realized and unrealized losses totaling €15.5 billion ($19.1 billion) and Swiss franc 3.7 billion ($3.0 billion), respectively, in that year. However, since the low point of the markets in the first quarter of 2003, the situation has improved somewhat, and exposures to equities have been managed down.

Another characteristic of the European market is the relatively high level of proportional business written, particularly in France and Germany (although this has been falling over the past few years). Allied to this is the fact that broker penetration is lower in Europe than in other parts of the world. Consequently, it can be difficult for foreign reinsurers to obtain material market share, because of the strength of existing reinsurer/cedent relationships in Europe—which underpin the direct business model—and the importance of being seen to be 'on the ground'. For instance, the newer Bermudian reinsurers have not developed a material share of the European market. Reinsurers looking to come into Europe have therefore tended to acquire existing operations and then manage them so as not to disturb existing relationships. An example of this was the phased purchase by XL Capital Ltd. of the former Le Mans Ré (now XL Re Europe), which was completed last year. Earlier examples include General Re's acquisition of Cologne Re, and Employers Re's acquisition of Frankona Re.

A big issue facing European reinsurers over the next few years will be the increased volume of regulation with which they will have to comply. (This is dealt with in a separate article on page 54.) Other trends will include an acceleration in the growth of the European life reinsurance market (assuming that the current EU solvency proposals are reconsidered) and a pause in the shift from proportional to non-proportional business.

Underlying rate movements at the important Jan. 1 European renewals showed that premiums were still

1. Reinsurers domiciled in Europe (notwithstanding ultimate ownership) and excluding the non-European subsidiaries of Europe-based groups.

rising across many lines of business, even in some of the shorter tailed segments (albeit that the increases were slowing). Consequently, Europe is expected to lag the pattern of slowing or falling rates seen in the U.S. Barring a major European storm, profitability on business written in Europe is expected to hold up for at least another year.

London Market

The London Market (the term given to the associated collection of insurance organizations including Lloyd's, members of the International Underwriting Association of London, and the protection and indemnity clubs) has estimated net resources of about $30 billion. This compares with $40 billion for Bermuda, its primary competitor. For so long the preeminent center for international insurance and reinsurance, London had up until 2001 seen a decade-long, steady decline in its share of the world market. Back in 1990, it accounted for an estimated 3.1% of global (re)insurance premiums written, but this had fallen to approximately 2.3% by 2000. While there has been some recovery since 2001, particularly due to a significant rebound in the confidence of brokers and buyers in Lloyd's since the period following Sept. 11, concerns have been expressed as to the effect that this loss of market share will have on the London Market in the longer term.

Nevertheless, a fixation with market share of premiums and with the quantum of capital deployed does not fully recognize the complex interrelationships that exist in today's international (re)insurance market, and underestimates the competitive strengths of the London Market, which include the existence of a subscription market, its willingness and ability to absorb risk, and the depth and breadth of expertise present.

Business typically introduced by brokers to London (with the possible exception of motor and life business) entails large monetary levels of exposure accompanied by high-severity, low-frequency risk profiles. Such business encourages and supports the maintenance of a subscription market—that is, one where a number of companies and syndicates participate on a (re)insurance policy, thereby sharing the associated premiums, but also the risks. The need for subscription markets is expected to endure, as insurable values are continuing to increase such that all but the largest groups want to, or even are able to, accept very large proportions of such risk on their balance sheets. Furthermore, such risks can be complex, and many insureds value the more impartial advice they receive from brokers than they would from a direct relationship—brokers have a keen interest in a healthy subscription market—as well as the 'peer review' of other underwriters participating on the same risks.

The U.S. remains the London Market's most important source of international (that is, outside the U.K.) business, primarily the excess-of-loss and surplus-lines business and unregulated markets (for example, marine and aviation). London has long served as the safety valve for U.S. insurance risks that U.S. domestically licensed insurers have been unable or unwilling to write. This picture is also repeated to an extent in the U.K. Lloyd's, for example, often fills the void where U.K. domestic insurers are unwilling or unable to accept risk.

London remains an immensely attractive insurance center, due to the simple fact that within a very small geographical area there lies the biggest concentration of insurance expertise anywhere in the world (underwriters, brokers, loss adjusters, lawyers, and support services). So long as London retains a critical mass of insurance expertise and insurance remains a globalized industry, the London Market will retain a role as a major center for international (re)insurance, and will continue to provide a unique window on the world for its many resident insurance groups.

Given the preponderance of insurance industry-backed capital in London, a key driver for the Market's future success will be the prospective return on capital invested in London, particularly when compared with the global (re)insurance industry. Recent operating performance at Lloyd's has been strong, with a combined ratio and ROR of 90.4% and 13.2%, respectively, in 2003 (94.9% and 7.0%, respectively, in 2002), on a pro forma annual accounting basis. The comparable 2003 combined ratio figure for the global reinsurance industry is estimated at 97.0%. London (and particularly Lloyd's) appears to have outperformed its peers in 2003, and Standard & Poor's expects this to be repeated in 2004. A relative improvement in the profitability of the London Market over the past few years, if sustained beyond the current hard phase of the cycle and the greater reporting transparency, should serve to increase investor interest.

Bermuda

The Bermuda market has been characterized by several waves of development, with new companies typically setting up there following a large industry loss. The latest wave of incorporation occurred shortly after Sept. 11, when nearly $7 billion in new capital raised in the fourth quarter of 2001 alone led to the establishment of a new group of start-ups ready to write business from January 2002. Since then, Bermuda has been characterized by a phase of nearly explosive growth. Relative to year-end 2000 figures, 2003 net premiums written reported by Bermuda-based groups represented a threefold increase to $38 billion, while total capital and surplus nearly doubled to $41 billion. Bermuda's role within the global reinsurance marketplace has also increased substantially, with reinsurance premiums written by Bermuda-based companies representing an estimated 8.5% market share of global net reinsurance premium income in 2003, compared with a much smaller 4.8% share in 1997.

"London has long served as the safety valve for U.S. insurance risks that U.S. domestically licensed insurers have been unable or unwilling to write. This picture is also repeated to an extent in the U.K. Lloyd's, for example, often fills the void where U.K. domestic insurers are unwilling or unable to accept risk."

"From an operating performance perspective, Bermuda continued to outperform other markets such as the U.S. and Europe in 2003, with a very strong estimated combined ratio of 88% (compared with about 90% in 2002)."

While earlier Bermudian start-ups typically consisted of specialist companies focusing on specific lines of business—such as property-catastrophe or excess liability—the Class of 2002[2] start-ups have mostly been noted for their very large capital bases (typically above $1 billion) and their multijurisdictional and multiline business strategies. Premium growth reported by these companies over the past two years has substantially exceeded Standard & Poor's initial expectations, and shows that these companies have found market acceptance. At year-end 2003, five out of the top 10 largest Bermuda-based companies (ranked by the size of their capital bases) belonged to the Class of 2002: Arch Capital Group Ltd., Axis Capital Holdings Ltd., Endurance Specialty Holdings Ltd., Montpelier Re Holdings Ltd., and Allied World Assurance Holdings Ltd.

Perhaps the success of the Class of 2002 is not so surprising, considering the weakened position of many global reinsurance players in recent years. Particularly in the U.S., where significant losses have led to the exit of many players and major restructuring efforts by some of the larger existing players, the new Bermudian capacity has been able to fill some of the void. Still, these companies have mostly been able to expand into shorter tail lines. The jury is still out as to whether they will succeed in building significant franchises in longer tail classes of business.

A favorable regulatory environment, the relative ease of conducting business in Bermuda, and the proximity of Bermuda to the U.S. market have been among the main reasons leading to the incorporation of so many companies in this region over the past three decades. While approximately one-half of the business written by Bermuda-based companies currently originates from North America, this represents a decline from an average of 60% just five years earlier, and points to continued geographical expansion into other regions around the globe. Premium writings in Bermuda have typically been split between insurance and reinsurance, with reinsurance currently representing 60% of premium income in the market, and insurance accounting for the remaining 40%. However, the profile differs significantly by company. ACE Ltd. and XL Capital, the market's largest players, have placed greater emphasis on writing primary insurance in recent years, with approximately three-quarters of ACE's writings and a little more than one-half of XL Capital's book representing insurance business in 2003. However, the majority of the other players continue to write primarily reinsurance business.

From an operating performance perspective, Bermuda continued to outperform other markets such as the U.S. and Europe in 2003, with a very strong estimated combined ratio of 88% (compared with about 90% in 2002). The region's strong performance is partially explained by the heavier proportion of property and other short-tail lines in the business mix of Bermuda-based companies. In addition, due to the relatively short history of many of these players, this market is less exposed to loss-reserve development on the 1997-2001 U.S. casualty underwriting years and asbestos- and environment-related claims. Companies with longer histories and a track record of acquisitions, such as ACE and XL Capital, have had more mixed operating performance over the past three years. Nevertheless, Bermuda has had its share of (re)insurance failures and exits in recent years, including names such as Overseas Partners Ltd., Mutual Risk (consisting of Mutual Indemnity (Bermuda) Ltd. and affiliates), Scandinavian Reinsurance Co. Ltd., Annuity & Life Re (Holdings) Ltd., LaSalle Re Holdings Ltd., and Commercial Risk Partners. Still, the region has demonstrated a strong ability to rebound, as shown in the magnitude of new capital that flowed into new and existing Bermudian players after Sept. 11. Assuming normal catastrophe losses, Bermuda is expected to report another year of very strong operating performance in 2004.

Looking to the future, the key issue for the Bermuda market is how these companies will behave, and whether Bermudian capacity will remain disciplined as market conditions soften. Furthermore, how will management teams balance their need to grow while maintaining underwriting discipline? These are questions the market will need to deal with soon, as property rates have already peaked and some casualty lines are starting to show premium rate declines. Standard & Poor's expects that mergers among some Bermuda market players are likely as companies look for a more efficient use of their capital bases. In addition, some companies have already signaled to the market that they may return some capital to their shareholders if and when competitive conditions translate into lower priced business and less desirable ROEs. How well management teams are actually able to implement these strategies in coming years will ultimately be a key determinant in those companies' long-term success.

U.S.

While most regions around the world have experienced significant improvements in premium rates and terms and conditions over the past three to four years, not all companies have been able to fully reap the benefits. In the U.S. in particular, operating performance improvements among reinsurance players have continued to lag expectations despite the improved pricing environment, primarily due to continued reserve additions for the 1997-2001 underwriting years, as well as for asbestos litigation.

U.S. reinsurers have failed to produce adequate rates of return over the past underwriting cycle, with the industry reporting a poor 2.5% average ROR over the past 10 years and a 4.0% average ROR over the past 14 years. Following significant underwriting losses in 2001 and 2002, operating performance improved in 2003, with

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.

the industry reporting a consolidated combined ratio of 106% and ROR of 6.5% (excluding results for National Indemnity Co., which significantly distort figures). However, these results fall short of the returns that would be expected within the context of current market conditions, given the continued low interest rate environment and the fact that premium rates have peaked in property and are beginning to peak in casualty lines of business. The main hindrance behind U.S. reinsurers' subpar performance continues to be the significant level of reserve additions for prior years, with these companies adding nearly $5 billion to reserves in 2003.

Reinsurers' inability to produce adequate returns in the U.S. has led to numerous exits from the sector in recent years. During the past 10 years alone, the U.S. reinsurance market has experienced significant consolidation, with the number of companies reporting to the Reinsurance Association of America having more than halved, from 60 in 1993 to 28 at March 31, 2004. During the late 1990s, most of this consolidation took place through acquisitions, as many management teams, unable to produce organic growth due to chronic soft market conditions, chose to grow market share by acquiring competitors. This trend led to a string of ill-fated acquisitions, as most of the purchased entities suffered from significant underpricing and under-reserving challenges.

More recently, U.S. reinsurers' substantial underwriting losses and continued reserve additions have decreased the appetite for the more traditional 'balance sheet-type' acquisitions. Instead, management teams over the past three years have typically chosen to purchase the renewal rights for selected books of business or to simply grow organically, given improved pricing conditions. As a result, many of the weaker players in the marketplace have had no other choice than to go into run-off. Among some of the better known names exiting the market in recent years, either through run-offs or via the sale of renewal rights, include Gerling Global Re Corp. of America, Trenwick America Reinsurance Corp., PMA Capital Insurance Co. (PMACIC), AXA Corporate Solutions Reinsurance Co., CNA Reinsurance Co. Ltd., and Hartford Re Co.

Consolidation has also contributed to significant market share concentration among the largest players, with the top 10 U.S. reinsurers accounting for 80% of net premiums written in 2003, compared with 61% in 1988. During the same 15-year period, the market share of the next 10 largest reinsurers fell to 15% of net premiums written, from 19%. In Standard & Poor's opinion, this points to the significant difficulties experienced by midsize reinsurers operating in the U.S., particularly if lacking a specific competitive advantage or the financial backing of a strong parent company. In fact, with the 2003 failure of PMACIC, the last independently owned U.S.-based reinsurer, the U.S. reinsurance sector today is composed of subsidiaries of large global reinsurers or other conglomerates, most of which have parent companies based in Europe or Bermuda.

Another distinct trend in the U.S. reinsurance market is the increased blurring of the line between direct and broker distribution channels. With the exception of General Reinsurance Corp., which continues to operate solely as a direct reinsurer, other direct reinsurance writers have expanded their operations to include brokerage operations. This apparent favoring or increased use of the broker distribution channel may be explained by the fact that in the past market cycle, the few U.S. reinsurers able to show better operating performance were those operating through brokers and using more opportunistic business strategies, entering and exiting lines of business according to where there were better market conditions. By using the broker as a 'buffer', these reinsurers were able to temporarily withdraw from less desirable contracts without damaging their relationships with their cedents.

A number of U.S. reinsurers have also more recently begun underwriting business on a primary basis (typically through intermediary managing agents), as a means of reducing their dependence on reinsurance business. Reinsurers adopting this strategy include groups such as Odyssey Re, Everest Re, and QBE Re. Although this strategy may provide a valuable means of diversification, its ultimate success is still unproven, given these groups' relatively short track record in writing primary business.

Outside of a major catastrophe loss, Standard & Poor's expects U.S. reinsurers' accident-year operating performance to be very strong for the year ending Dec. 31, 2004. Accident-year results are also expected to be strong in 2005, although to a lesser degree. Results for 2006 are more uncertain. These expectations reflect a weaker July 1 renewal season in the U.S. this year, in which some evidence of premium rate decline in casualty lines is beginning to emerge. While property rates continue to fall as expected, the speed of pricing declines and renewed pressure on terms and conditions in specific pockets within casualty lines seem to have surprised some market participants. This weakening is to some degree linked to increased competition and declining premium rates on the primary side, in lines of business such as directors' and officers' insurance and California workers' compensation.

Following a string of ratings downgrades on U.S. reinsurers in recent years, Standard & Poor's current rating structure is based on the expectation that the next soft market cycle will not be as pronounced as the previous one, as new management teams are expected to exert stronger pricing discipline compared with past years. Continued reserve additions are expected to remain a problem for U.S. players over the medium term, but are expected to be offset to a large degree by strong accident-year operating results in more recent years. If pricing begins a dangerous downward slide in coming years, however, it is possible that we may see further downgrades of U.S. players.

"U.S. reinsurers have failed to produce adequate rates of return over the past underwriting cycle, with the industry reporting a poor 2.5% average ROR over the past 10 years and a 4.0% average ROR over the past 14 years."

Middle East

The Middle East's share of the world insurance market was just 0.42% in 2003 in terms of gross premiums

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written, with Israel accounting for one-half of premium income. Although the market is small, there is considerable change afoot and growing interest in the financial strength of both insurers and reinsurers.

Arig Reinsurance Co. B.S.C.—part of Arab Insurance Group (B.S.C.) (ARIG)—is the clear leader among reinsurers headquartered in the Middle East, and is estimated to have a 2% market share, being the third-largest participant after Munich Re and Swiss Re. Among international reinsurers, Allianz, Converium, and SCOR are also active in the region. Large energy risks tend to be placed in the London Market and led by international reinsurers.

Insurers in the Middle East rely more heavily on reinsurance protection than those in other regions of the world, and reinsurers are therefore very much strategic partners. The average cession rate for the Middle East in 2002 was 41% in total and 59% in Gulf Cooperation Council (GCC) member states.

There has been a withdrawal of capacity by some international groups. Allied to a cyclical upturn in rates and terms and conditions after Sept. 11, this loss of capacity has improved the underwriting environment for reinsurers continuing to operate in the Middle East. This applies particularly to the locally based reinsurance companies, which include ARIG (Bahrain), Arab Reinsurance Co. (Lebanon), Kuwait Reinsurance Co. K.S.C. (Kuwait), Trust International Insurance Co. E.C. (Bahrain), International General Insurance Co. Ltd. (Jordan), and Alliance International Reinsurance Co. Ltd. (Cyprus).

A three-speed insurance sector looks set to emerge in the Arab world as growth prospects diverge between markets despite a growing demand for capacity across the region. Demand for insurance capacity in the Middle East has risen exponentially, due to the introduction of some compulsory lines—such as motor third-party liability and medical protection—and the expected rapid growth in infrastructure development in the GCC member states over the next five to 10 years.

Those domiciles that prove attractive to international capacity will experience the fastest rate of growth. In this context, the financial centers of Dubai and Bahrain look set to dominate the international wholesale insurance market in the Middle East, while Saudi Arabia, due to its size and despite its high capital requirements, continues to promise the best growth possibilities to both domestic and international insurers focused on the retail market.

A more moderate rate of growth is expected in Qatar, Abu Dhabi, Kuwait, Oman, and Egypt. Despite experiencing levels of demand for new capacity similar to those in Dubai, Bahrain, and Saudi Arabia, the rate of insurance growth is expected to be slower due to a lack of progress in the liberalization of their regulatory and legal environments. Slower still will be the level of growth in Jordan, Lebanon, Iran, Iraq, and Yemen, which constitute the third speed in Standard & Poor's assessment of the rate of insurance growth in the Arab world. These countries lack either the natural advantages of the GCC countries' oil and gas infrastructure, or an economic environment able to support strong insurance growth.

Africa

Africa's share of the world insurance market was just 1.05% in 2003 in terms of gross premiums written, with South African risks constituting more than 90% of the region's business. Hannover Reinsurance Africa Ltd., previously the largest player in South Africa, changed strategic direction in 2002. The company's focus moved away from proportional to excess-of-loss reinsurance, while it maintained its significant focus on primary program business. Munich Re and Swiss Re continue to underwrite significant volumes of proportional business.

African Reinsurance Corp. (Africa Re) is the largest reinsurer headquartered in the region and writes a diverse portfolio across Africa. Africa Re created a subsidiary company in South Africa in 2004, and is set to shift its focus to writing more South African business.

The African insurance market divides into two quite distinct regions. The countries on the northern Mediterranean coast—largely French influenced—and South Africa reflect relatively well-developed insurance markets and operations, with high degrees of risk awareness and penetration. In the very broad region between these two geographical extremes, insurance awareness and penetration are very low. However, for the continent as a whole, total insured values and supporting invested assets are small. African insurance companies tend to be very small in terms of both the volume of premiums written and the size of their asset bases compared with the rest of the world.

The African continent has a distinctive business dynamic for its primary and reinsurance risks, and this is inevitably driven by its 'less developed' status, in that the insurance market structures are locally independent and often heavily influenced by state involvement, either directly through ownership of the underwriting vehicles, or via the operation of compulsory cessions to local reinsurers—themselves state-owned—or regional specialists such as Africa Re, CICA Re (French West Africa), and PTA Re (COMESA region).

In the North African (Mahgreb) region, reinsurance is dominated by local state- and industry-owned companies, such as Société Tunisienne de Réassurance (Tunisia), Société Centrale de Réassurance (Morocco), Egyptian Reinsurance Co. (Egypt), and Compagnie Centrale de Réassurance (Algeria). All of these companies benefit to some extent from compulsory cessions and then cede risks to the international markets.

Few African countries are completely open with respect to (re)insurance. This reflects the perceived need by those governments to control the outflow of cash—usually foreign currency—from the country, and also the fact that the underlying risks are invariably profitable to both the primary and secondary markets.

Despite the attractive earnings record of the business, international reinsurance companies have tended to withdraw widescale support of the African regional markets in recent years because unit risk sizes are relatively low and there is therefore a lack of economies of scale. Thus, opportunities have arisen across the continent for the

local players to increase their regional underwriting volumes and exposures, giving them the benefit of higher volumes from a more geographically diverse risk flow in a region nominally remote from insured catastrophe losses.

The benefits to the local primary companies of using local reinsurers are in the quality of service and the closer relationship with the local/regional reinsurers. Nevertheless, internationally rated reinsurers are involved at the retrocession level, and are particularly important for the growing energy risks across the continent. The local (re)insurers are just too small in capacity terms to play a meaningful role in these risks, other than acting as compulsory fronting insurers—rather reminiscent of the 'national insurer' status of many companies in the Arab Gulf states.

Japan

The Japanese non-life (re)insurance market has high natural catastrophe risk exposure due to the likelihood of earthquakes and typhoons. Toa Reinsurance Co., as the only Japan-based reinsurer, is expected to remain the preferred reinsurance provider, backed by its strongly established ties with most domestic direct insurers, while global reinsurers also play important roles in catastrophe risk diversification with Japanese direct non-life insurers.

As a result of recent consolidation, large domestic players, which control more than 80% of the market in terms of net premiums written, have tended to slightly increase their retentions, backed by their improving underwriting performance (mainly due to relatively few catastrophe events in the past couple of years) and by their solid capitalization (helped by a stock market recovery in 2004 after the slump in previous years). Standard & Poor's therefore expects non-life reinsurance business in Japan to come under pressure in the short/medium term, mainly due to zero growth in the domestic non-life market and softening premium rates, especially in property business, after peaking out a hardening trend after Sept. 11.

Despite the Japanese life market being one of the largest worldwide next to the U.S., the overall market in terms of in-force primary business has decreased for seven consecutive years. Major local players are dominant, and can manage their underwriting risks with conservative pricing principles. However, the market and demands for life reinsurance are expected to grow gradually as deregulation proceeds, supported by (1) intensifying competition in direct life business, (2) expanding business in the medical and nursing care market—the so-called "third sector"—and (3) the increasing market presence of foreign-owned insurers operating in Japan, who generally cede a greater proportion of life business than Japanese insurers.

Korea

In Korea, non-life reinsurance rates and terms have generally remained hard, despite a softening trend in a few individual lines after two relatively large typhoons—Rusa in 2002 and Maemi in 2003—hit the peninsula for two consecutive years. At the same time, reinsurance capacity has slightly increased, because of the enlarged surplus of Korean Reinsurance Co. (Korean Re) and also due to the increase of risk inherent in primary insurers' premiums written. Primary insurers' overall cession ratios are not likely to change noticeably in 2004, although these insurers have newly purchased excess-of-loss reinsurance protection to cover against water damage to insured cars caused by natural disasters. Foreign reinsurers have tried to expand their operations in Korea, but Korean Re continues to defend its dominant position by leveraging its relationship with primary insurers and penetrating the life reinsurance segment.

Australia/New Zealand

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 still constitute viable insurance markets. Being geographically remote and relatively uncorrelated with the rest of the world, the Australasian markets can add desired diversity to any global reinsurer's portfolio.

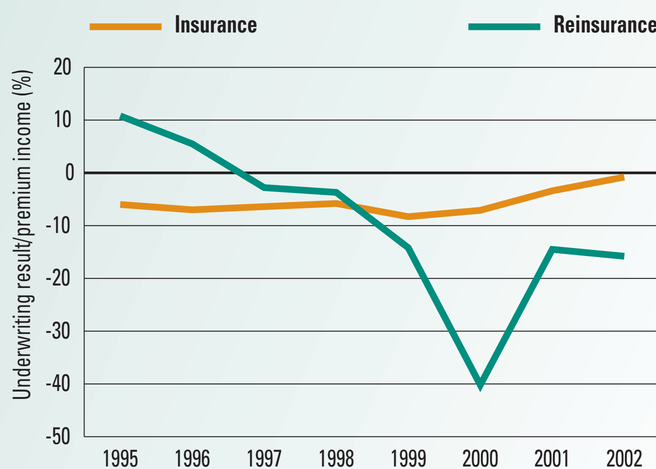
Most of the players writing reinsurance business in Australia and New Zealand are subsidiaries of the global reinsurance players. The two largest reinsurance groups, Munich Re and Swiss Re, account for about 50% of net reinsurance premiums written in Australia. More than 30 Australian general insurers write inward reinsurance, including the captive reinsurers supporting the diverse insurance groups that are domiciled in this region. Other major market players are U.K.-based Lloyd's and several Bermudian reinsurers. Few of the Australian-owned reinsurers that emerged in the 1990s still remain.

The balance sheets of the local rated reinsurance subsidiaries remain satisfactory, taking advantage of their parents' financial flexibility and retrocession capacity. Most of the local reinsurers, which are subsidiaries of the global reinsurance players, benefit from extensive capital support through intragroup retrocession, and share the same brand, franchise, and management support.

The upturn in the non-life insurance cycle in Australia and New Zealand over the past two years follows on from the historically soft market, where reinsurers suffered very weak underwriting results (see Chart 1) due to competition-led inadequate pricing and an accumulation of claims from natural disasters (including the Sydney hailstorm in 1999). Standard & Poor's expects to see some pricing pressure for the property and fire classes, although liability-class premium rates are expected to hold relatively firm.

With effect from July 1, 2002, the Australian regulator introduced prudential reforms including tiered additional capital requirements for direct insurers on the quality and amount of reinsurance used. If the direct insurer cedes risk to a strongly rated reinsurer then the capital required will be less than for protection from a lower rated reinsurer. This impact on direct insurers' solvency positions and capital requirements

"A three-speed insurance sector looks set to emerge in the Arab world as growth prospects diverge between markets despite a growing demand for capacity across the region."



"The African continent has a distinctive business dynamic for its primary and reinsurance risks, and this is inevitably driven by its 'less developed' status, in that the insurance market structures are locally independent and often heavily influenced by state involvement."

will generally lead to reinsurance being sought from the more strongly rated reinsurance parties.

The rapid consolidation of the direct insurance market is expected to continue and, as a result, the local appetite for reinsurance will reduce. Coupled with the aggressive strategies of Lloyd's and some of the Bermudian reinsurers in the Australian market, this is likely to lead to some difficulty for the local established reinsurers to drive significant growth at appropriate prices.

Standard & Poor's expects the profitability of the Australasian non-life reinsurance market to stabilize at acceptable levels, as non-life premium rates are now at a level that allows for technical pricing of risk along with an acceptable profit margin. Listed shareholders will also place pressure on reinsurers to maintain acceptable operating profitability. Coupled with improved underwriting standards, higher retentions by direct insurers, and more focus on providing efficient returns on equity, Standard & Poor's expects that a good level of profitability should be maintained in the absence of any major catastrophe event.

Latin America

With approximately $37.3 billion in direct premiums written in 2003, Latin American insurance markets contributed less than 2% of global premium volume. Thus, the potential of local reinsurance markets remains underdeveloped when compared with more mature markets such as the U.S. and Europe. As a result of reinsurance market dynamics, global players have redefined their strategies for the region, and local primary insurers have had to deal with a different environment since early 2003.

Some international reinsurers are focusing their strategies on other regions, and have either exited the Latin American market completely or downsized certain business lines. For example, XL Re Ltd. has significantly decreased its life operations, focusing instead on its property/casualty business. During the second quarter of 2004, Swiss Reinsurance Co. announced its decision to stop writing business locally and convert its local reinsurance subsidiary, Swiss Re Mexico S.A., into a brokerage operation that will, however, continue to provide capacity to the Mexican market. In contrast, the interest in the region of companies such as Aachener und Münchener Versicherung AG, General Reinsurance Corp., and Lloyd's is increasing, representing strong competition to the decreasing number of local reinsurers.

Although reinsurance utilization is low in the region, with aggregate utilization ratios of approximately 34% for non-life and 11% for life business, the $8.6 billion in premiums written for 2003 is still an attractive option to international reinsurers, which control more than 80% of ceded premiums in Latin America. In the catastrophe markets of Mexico, Central America, Peru, Chile, and Colombia, where reinsurance utilization rates are high (above 65% for fire and earthquake lines), local primary insurers are highly dependent on international reinsurance capacity.

In recent years, local reinsurance capacity has decreased dramatically as a result of acquisitions and run-offs, leaving only two locally owned regional operations: Reaseguradora Patria S.A., based in Mexico; and QBE del Istmo, Cía de Reaseguros, S.A., based in Panama, which also has an operation in Mexico, QBE del Istmo Mexico, Cía de Reaseguros, S.A. de C.V. The key to the survival of these companies lies in their competitive advantages based on high expertise in their regional markets, strong personal relationships, the targeting of specific market niches, and the maintenance of small shares on contracts due to limited capacity.

As Latin American reinsurance markets remain in transition, prospects for reinsurers are closely linked to market dynamics. Automatic capacity for the region has decreased in the past two years, and nonproportional schemes are favored over proportional treaties. Similarly, reinsurance commissions have reduced, and it is expected that proportional capacity will remain limited for the local markets. Should no major catastrophes occur in the region, prices are expected to remain at current levels.

Rest of Asia

Standard & Poor's expects that the underwriting results of the Asian reinsurance market (excluding Japan, Korea, New Zealand, and Australia) will weaken in coming years based on softening underwriting cycles reported in markets such as Taiwan, Hong Kong, and Singapore. This downward trend is attributable to softening pricing and terms in the primary markets and the availability of cheaper reinsurance capacity in the region, and follows on from the past few profitable years, when primary markets' premium rates rose and catastrophe losses reduced significantly.

Nevertheless, excluding the international reinsurance companies active in the region (whose results are

consolidated with those of their parent groups), the underwriting results of local reinsurance companies in Asia are likely to remain relatively satisfactory in the year ahead, with an expected average combined ratio of 97%-100%. A few domestic reinsurance companies have market shares of 15%-20% in their local reinsurance markets, while the rest of the regional reinsurance markets are dominated by international players.

The Asian reinsurance market remains relationship-based; insurance companies prefer a long-term relationship with reinsurance providers. It is still common to see insurance companies choosing reinsurance capacity from local or regional unrated insurance and reinsurance companies on the basis of previous relationships. This also reflects the local companies' less stringent risk management control systems.

However, relationship-based transactions are diminishing gradually, due in part to ceding companies' increasing requirements with regard to reinsurance companies' creditworthiness. This is a result of more stringent risk management control, partly due to recent failures of reinsurance companies in the global reinsurance marketplace.

Markets within Asia vary in their dependence on the international reinsurance market, based on factors such as differing retention levels, market sophistication in reinsurance usage, the availability of market pooling, and the degree of exposure to natural catastrophe risk. Furthermore, markets with high catastrophe risk exposures, such as Taiwan, are more dependent on the global reinsurance marketplace than those with lower risk exposures. In Hong Kong and Singapore, the property and statutory liabilities classes require significant international reinsurance support. These markets are more prone to the change in the international reinsurance marketplace.

There are still some markets less affected by changes in the reinsurance market, such as China, Thailand, and Malaysia. China has a large volume of direct premiums written and high retention levels, which give the market a higher bargaining power with reinsurers. Reinsurance companies are eager to penetrate the Chinese reinsurance market, partly due to this growth potential.

The markets of Malaysia and Thailand have relatively low exposure to natural catastrophes, hence they rely less on international reinsurance capacity. Indonesia and the Philippines are less developed than other regional markets, so their economic risk exposure is relatively low. Although they have a relatively high exposure to natural catastrophe risk, reinsurance capacity remains accessible.

The reinsurance arrangements of insurance companies in Asia are mainly in proportional treaties, although the use of nonproportional treaties has increased in certain markets to meet the increased cost of reinsurance in the past two years. While most markets remain relatively traditional in their reinsurance arrangements, the first catastrophe bonds, for residential earthquake risks, were issued in Taiwan in 2003.

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"Foreign reinsurers have tried to expand their operations in Korea, but Korean Re continues to defend its dominant position by leveraging its relationship with primary insurers and penetrating the life reinsurance segment."

Global Reinsurance List by Country

To bring you the 2004 edition of *Global Reinsurance Highlights*, Standard & Poor's Ratings Services collected data on approximately 250 reinsurance organizations, from 50 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, Standard & Poor's requested the underlying data behind each group's or entity's combined ratio in order to calculate the ratios in a comparable manner. The combined ratios presented in *Global Reinsurance Highlights* have been calculated as (net losses incurred + net underwriting expenses)/net premiums

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
ALGERIA				
NR	Compagnie Centrale de Réassurance	25.8	17.9	44.3
	Total	**25.8**	**17.9**	**44.3**
ARGENTINA				
NR	General & Cologne Re Cia de Reaseguros S.A.[1]	41.5	36.2	14.7
	Total	**41.5**	**36.2**	**14.7**
AUSTRALIA				
AA	Swiss Re Australia Ltd.	333.5	231.4	44.1
A+	Munich Re Co. of Australasia Ltd.	165.0	139.1	18.6
AA	Swiss Re Life & Health Australia Ltd.	158.3	107.3	47.5
NR	Hannover Life Re of Australasia	142.2	74.6	90.7
AAA	General Re Australia Ltd.	80.3	63.1	27.2
AAA	General Re Life Australia Ltd.	61.8	36.2	70.6
NR	Gerling Global Life Re Co. of Australia Pty Ltd.[2]	N.A.	60.3	N.A.
NR	Gerling Global Re Co. of Australia Pty Ltd.[2]	N.A.	93.5	N.A.
	Total	**941.1**	**805.5**	**16.8**
AUSTRIA				
NR	Generali Holding Vienna AG	650.4	552.1	17.8
A	UNIQA Versicherungen AG	554.3	453.2	22.3
NR	Generali Rück AG	86.2	68.3	26.2
AAA	GeneralCologne Re Rück AG, Wien	24.7	33.0	-25.3
	Total	**1,315.5**	**1,106.6**	**18.9**

earned. The combined ratio of any entity that writes purely life reinsurance has been marked as "N.M." (not meaningful), as Standard & Poor's does not consider this to be an accurate measure of a life reinsurer's profitability.

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 generally speaking all the premium data relates to a company's reinsurance premiums written, in some cases the other ratios and data items will also include primary business.

The main group and country listing for each entity surveyed is representative of that group's or company's total reinsurance business written, whether life, non-life, or a combination of both. A separate listing of the top 10 groups based on gross life reinsurance premiums written can be found on page 47.

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 2004 have also been included. The status of these companies and groups is provided in the footnotes.

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Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
10.1	7.6	49.3	83.8	56.3	47.1	19.6	27.8	26.5
10.1	**7.6**	**49.3**	**83.8**	**56.3**	**47.1**	**19.6**	**27.8**	**26.5**
N.A.	0.0	N.A.	N.A.	N.A.	29.4	N.A.	N.A.	N.A.
N.A.	**0.0**	**N.A.**	**N.A.**	**N.A.**	**29.4**	**N.A.**	**N.A.**	**N.A.**
67.1	41.7	91.3	84.1	338.1	221.2	52.8	20.7	19.6
23.0	13.7	99.1	98.9	238.1	168.1	41.7	10.7	9.4
23.5	8.9	N.M.	N.M.	91.0	40.6	124.3	12.2	6.6
18.6	4.4	N.M.	N.M.	125.2	92.2	35.9	11.6	4.7
30.8	-9.7	91.2	147.6	146.1	89.7	62.9	30.7	-12.1
1.8	3.2	N.M.	N.M.	25.3	20.5	23.2	2.8	8.1
N.A.	-6.2	N.A.	119.8	N.A.	12.6	N.A.	N.A.	-9.3
N.A.	9.2	N.A.	98.6	N.A.	39.6	N.A.	N.A.	8.3
164.8	**65.3**	**93.5**	**100.4**	**963.9**	**684.5**	**40.8**	**15.8**	**8.3**
36.0	-122.6	102.2	112.8	2,204.3	1,269.3	73.7	4.4	-23.5
25.9	-18.3	103.4	106.3	2,200.9	1,789.0	23.0	4.0	-3.3
4.8	6.3	100.9	110.4	171.7	139.8	22.8	4.9	8.0
22.6	-2.6	41.1	121.3	58.3	31.1	87.4	64.2	-5.8
89.2	**-137.2**	**101.5**	**110.2**	**4,635.1**	**3,229.2**	**43.5**	**5.4**	**-12.7**

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
BAHRAIN				
BBB	Arab Insurance Group (B.S.C.)	102.7	71.0	44.6
NR	Trust International Insurance Co.	7.6	6.4	18.6
	Total	**110.3**	**77.5**	**42.4**
BARBADOS				
AA-	Royal Bank of Canada Insurance Co. Ltd.	577.3	477.4	20.9
NR	London Life and Casualty Re Corp.	357.9	502.8	-28.8
NR	Revios Re Barbados[3]	89.1	81.5	9.3
NR	European International Re Co. Ltd.	27.6	45.3	-39.1
NR	Revios Re International Barbados Ltd.[3]	0.0	110.4	-100.0
NR	Gerling Global International Re Barbados Ltd.[2]	N.A.	355.8	N.A.
	Total	**1,051.9**	**1,573.2**	**-33.1**
BELGIUM				
A-	Secura N.V.	352.2	212.0	66.2
	Total	**352.2**	**212.0**	**66.2**
BERMUDA				
NR	Arch Re Ltd. (Bermuda)	2,289.5	1,068.2	114.3
AA-	Partner Re Co. Ltd.	1,797.8	1,319.8	36.2
AA-	XL Re Ltd.	1,566.7	1,857.9	-15.7
AA-	Everest Re (Bermuda) Ltd.	1,196.8	534.2	124.0
A+	ACE Tempest Re Ltd.	921.4	1,307.3	-29.5
A-	Montpelier Re Ltd.	778.0	565.9	37.5
NR	Max Re Ltd.[4]	749.0	592.7	26.4
AA-	Renaissance Re Ltd.	603.6	498.3	21.1
NR	Olympus Re	523.2	298.5	75.3
A-	Endurance Specialty Insurance Ltd.	485.4	580.5	-16.4
A	Axis Specialty Ltd.	452.3	314.2	44.0
A+	IPCRe Ltd.	308.9	254.3	21.5
A-	Alea (Bermuda) Ltd.	269.3	228.6	17.8
A-	Scottish Annuity & Life Insurance Co. (Cayman) Ltd.	266.1	129.0	106.3
NR	Catlin Group Ltd.	260.4	117.3	122.1
A	Aspen Insurance Ltd.	198.4	0.7	N.M.
A	PXRE Re Ltd.	197.1	80.9	143.7
AA-	Hannover Re Bermuda Ltd.	186.9	92.7	101.6
A	DaVinci Re Ltd.	184.0	185.5	-0.8
NR	Rosemont Re[5]	175.6	191.8	-8.5
AA-	Tokio Millennium Re Ltd.	100.0	34.4	190.5

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
0.2	-20.2	99.7	117.3	128.4	116.7	10.1	0.1	-19.5
5.3	3.3	51.6	100.2	109.8	78.9	39.1	52.8	31.2
5.4	**-16.9**	**96.4**	**115.9**	**238.2**	**195.6**	**21.8**	**3.7**	**-15.3**
305.0	166.3	50.8	71.9	648.4	515.6	25.8	50.2	31.7
9.6	-25.5	N.M.	N.M.	318.2	279.2	14.0	1.6	-3.9
4.8	2.9	N.M.	N.M.	12.0	9.7	23.7	5.3	3.5
20.8	43.7	183.7	116.9	386.9	394.2	-1.8	28.2	48.4
0.1	2.9	N.M.	N.M.	5.5	16.7	-67.0	76.8	2.6
N.A.	-125.8	N.A.	176.7	N.A.	90.7	N.A.	N.A.	-23.9
340.3	**64.5**	**56.8**	**116.7**	**1,371.0**	**1,306.0**	**5.0**	**29.3**	**4.7**
1.7	-72.0	105.7	120.6	159.9	109.6	45.8	0.5	-39.9
1.7	**-72.0**	**105.7**	**120.6**	**159.9**	**109.6**	**45.8**	**0.5**	**-39.9**
244.7	98.3	89.7	87.6	1,807.4	1,317.3	37.2	13.0	17.0
453.4	276.3	83.1	88.5	1,998.7	1,619.9	23.4	22.9	21.2
N.A.	N.A.	85.0	94.8	N.A.	N.A.	N.A.	N.A.	N.A.
145.1	66.5	96.7	103.2	1,222.3	895.4	36.5	13.6	13.9
329.3	397.9	71.0	78.1	2,575.8	1,922.3	34.0	35.5	29.4
399.6	144.4	50.3	67.4	1,657.7	1,252.5	32.3	51.8	38.1
-12.4	-44.6	107.5	128.4	805.2	594.2	35.5	-1.6	-9.7
471.6	320.2	47.6	56.8	1,300.0	1,100.0	18.2	62.0	53.0
197.6	102.6	61.1	62.0	715.7	622.7	14.9	41.6	42.4
274.2	98.5	76.4	85.4	1,624.0	1,406.4	15.5	47.1	30.1
N.A.	N.A.	59.1	62.3	1,823.6	1,448.7	25.9	N.A.	N.A.
245.1	201.3	28.5	28.0	1,567.1	1,292.4	21.3	68.1	87.2
15.2	-0.6	114.7	106.9	409.9	437.2	-6.2	6.7	-0.3
9.9	8.8	N.M.	N.M.	770.8	464.0	66.1	2.4	3.8
145.2	-27.2	86.8	113.8	638.6	509.0	25.5	16.5	-6.7
28.9	-0.8	81.4	44.0	377.0	199.2	89.2	26.7	N.M.
93.6	28.3	51.6	66.9	425.8	70.6	503.1	48.9	32.7
177.6	65.6	23.0	51.1	821.8	593.8	38.4	84.0	72.4
88.8	72.7	64.2	65.4	594.1	584.2	1.7	41.8	42.1
36.0	25.5	94.5	85.0	260.1	216.6	20.0	13.9	20.3
52.4	13.8	61.3	109.5	582.7	550.6	5.8	60.5	32.1

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
BERMUDA (CONTINUED)				
A	Inter-Ocean Re Co. Ltd.	90.3	658.7	-86.3
NR	Grand Central Re Ltd.	71.9	52.6	36.6
AA	Security Life of Denver International Ltd.	53.9	73.7	-26.9
NR	ESG Re Bermuda Ltd.	53.5	112.1	-52.2
AA	Top Layer Re Ltd.	42.3	50.1	-15.6
AA-	MS Frontier Re Ltd.	8.2	1.9	331.6
	Total	**13,830.3**	**11,202.0**	**23.5**
BOSNIA				
NR	Bosna Re	5.3	5.5	-3.6
	Total	**5.3**	**5.5**	**-3.6**
BRAZIL				
BBpi	IRB-Brasil Resseguros S.A.	433.9	307.7	41.0
	Total	**433.9**	**307.7**	**41.0**
CANADA				
A+	Munich Re Co. of Canada	140.4	67.4	108.1
AA	Swiss Re Life & Health Canada	139.6	95.4	46.4
AA	Swiss Re Co. Canada	109.3	83.9	30.3
BBB+	SCOR Canada Re Co.	104.1	120.7	-13.8
NR	Revios Re Canada Ltd.[3]	37.2	2.6	N.M.
NR	Gerling Global Re Co. of Canada[2]	N.A.	71.0	N.A.
	Total	**530.5**	**440.9**	**20.3**
CROATIA				
NR	Croatia Lloyd	16.8	15.7	7.0
	Total	**16.8**	**15.7**	**7.0**
CYPRUS				
BBB	Alliance International Re Co. Ltd.	33.1	28.4	16.5
	Total	**33.1**	**28.4**	**16.5**
DENMARK				
A+	GE Frankona Re A/S	258.5	364.3	-29.0
NR	Tryg-Baltica International Insurance Co. Ltd.	111.4	89.8	24.1

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
1.6	5.3	204.0	108.8	71.3	67.6	5.4	0.9	0.7
3.0	7.9	77.9	101.1	209.7	205.9	1.9	3.4	13.0
24.7	-29.8	N.M.	N.M.	387.1	50.0	673.9	26.3	-21.3
-15.7	-49.2	110.5	143.4	33.1	46.7	-29.2	-22.5	-34.1
41.8	43.9	19.4	17.5	69.8	72.3	-3.4	89.2	85.5
5.0	1.0	66.7	161.9	106.3	101.3	4.9	71.4	20.0
3,456.4	**1,826.8**	**79.3**	**86.9**	**22,855.7**	**17,640.8**	**29.6**	**27.1**	**23.1**
0.9	0.9	N.A.	N.A.	5.8	5.0	16.0	16.6	16.2
0.9	**0.9**	**N.A.**	**N.A.**	**5.8**	**5.0**	**16.0**	**16.6**	**16.2**
126.2	126.4	62.0	109.0	416.6	309.1	34.8	36.3	58.8
126.2	**126.4**	**62.0**	**109.0**	**416.6**	**309.1**	**34.8**	**36.3**	**58.8**
10.4	1.0	99.7	110.1	249.4	85.2	192.7	9.5	1.3
-11.7	36.2	N.M.	N.M.	165.8	186.7	-11.2	-4.4	20.5
41.4	11.3	81.6	101.7	142.9	80.9	76.6	33.9	12.6
N.A.	6.2	100.0	102.4	N.A.	73.9	N.A.	N.A.	4.8
2.6	-0.4	N.M.	N.M.	59.3	15.8	276.4	6.3	-10.0
N.A.	-0.7	N.A.	107.5	N.A.	37.7	N.A.	N.A.	-1.1
42.7	**53.5**	**94.2**	**104.8**	**617.4**	**480.2**	**28.6**	**10.9**	**8.1**
1.6	6.0	96.2	100.5	35.3	32.7	8.0	8.3	33.4
1.6	**6.0**	**96.2**	**100.5**	**35.3**	**32.7**	**8.0**	**8.3**	**33.4**
2.6	1.3	100.6	105.0	53.5	44.7	19.7	8.0	4.5
2.6	**1.3**	**100.6**	**105.0**	**53.5**	**44.7**	**19.7**	**8.0**	**4.5**
83.6	45.2	75.7	93.6	314.5	238.5	31.9	23.1	10.4
-43.3	-35.2	105.7	119.5	77.2	102.3	-24.5	-58.7	-46.8

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
DENMARK (CONTINUED)				
NR	Copenhagen Re Co. Ltd.[6]	17.0	5.0	243.5
NR	KaB International	4.9	7.0	-30.1
	Total	**391.8**	**466.0**	**-15.9**
EGYPT				
BBB-pi	Egyptian Re Co.	38.2	46.0	-17.0
	Total	**38.2**	**46.0**	**-17.0**
FRANCE				
BBB+	SCOR	1,420.9	2,273.3	-37.5
AAA	Caisse Centrale de Réassurance	1,403.1	1,030.3	36.2
AA-	AXA Re	1,337.5	1,159.9	15.3
AA-	PartnerRe S.A.	861.4	642.4	34.1
A+	XL Re Europe	315.9	292.8	7.9
NR	Mutuelle Centrale de Réassurance	264.7	198.9	33.1
NR	SPS Réassurance S.A.[7]	189.3	169.5	11.7
NR	CORIFRANCE	30.6	22.9	33.9
	Total	**5,823.4**	**5,790.0**	**0.6**
GERMANY				
A+	Munich Re Co.	25,489.4	21,343.3	19.4
AA-	Hannover Rück AG	4,663.2	3,965.5	17.6
AA-	Allianz AG	4,661.9	4,046.4	15.2
A+	GE Frankona Rück AG	2,628.7	1,977.4	32.9
AA	Swiss Re Germany AG	2,222.6	1,645.6	35.1
AAA	Kölnische Rück Ges AG	1,987.3	1,839.6	8.0
AA-	E+S Rück AG	1,844.0	1,514.2	21.8
A	R+V Versicherung AG	788.5	652.9	20.8
A-	Converium Rück (Deutschland) AG	488.5	462.5	5.6
A-	Revios Rück AG	406.9	344.7	18.0
BBB	Gothaer Rück AG[8]	397.5	331.5	19.9
BBB	Wüstenrot & Württembergische AG	397.2	358.2	10.9
Api	Deutsche Rück AG	326.4	245.0	33.2
NR	Versicherungskammer Bayern Konzern-Rück	271.6	203.5	33.5
BBB+	SCOR Deutschland Rück AG	132.0	192.8	-31.5
NR	Hanseatica Rück AG	1.3	4.9	-74.4
NR	Europa Rück AG[9]	N.A.	202.8	N.A.
NR	Gerling-Konzern Globale Rück AG[2]	N.A.	2,247.7	N.A.
	Total	**46,707.1**	**41,578.3**	**12.3**

STANDARD & POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
1.1	-18.2	146.8	151.7	17.4	14.7	18.6	3.7	-19.8
0.9	-5.1	183.2	173.6	12.6	20.4	-38.2	9.7	-95.7
42.3	**-13.4**	**88.7**	**100.4**	**421.7**	**375.8**	**12.2**	**-1.2**	**-2.5**
15.6	13.0	152.7	140.2	123.8	165.2	-25.0	21.0	12.3
15.6	**13.0**	**152.7**	**140.2**	**123.8**	**165.2**	**-25.0**	**21.0**	**12.3**
-971.5	-787.1	133.6	131.9	173.2	844.8	-79.5	-68.4	-39.7
123.7	118.1	122.1	77.3	1,931.0	1,679.5	15.0	8.3	10.5
50.0	-254.6	112.0	132.3	1,396.0	1,065.4	31.0	3.0	-17.2
33.0	-4.4	100.1	108.5	609.1	507.0	20.1	3.5	-0.7
25.9	13.8	97.5	107.3	369.1	311.5	18.5	7.6	4.4
17.1	0.9	N.A.	108.6	234.3	179.3	30.6	5.8	0.4
39.0	16.3	67.0	87.8	229.8	180.8	27.1	18.4	10.4
3.7	0.3	86.9	102.8	48.7	38.5	26.4	11.7	1.4
-679.1	**-896.7**	**115.7**	**116.2**	**4,991.2**	**4,806.8**	**3.8**	**-12.2**	**-16.7**
2,871.4	4,473.4	98.1	107.2	31,366.9	19,965.1	57.1	11.2	20.0
50.5	14.9	94.8	100.3	3,834.2	2,255.1	70.0	0.9	0.3
3,445.3	-634.2	101.5	105.9	55,146.5	34,628.2	59.3	42.6	-18.8
141.3	-324.5	87.7	107.0	1,456.6	894.0	62.9	4.9	-14.4
353.7	39.1	94.3	109.8	1,811.9	1,408.5	28.6	14.2	2.0
125.1	-54.5	105.7	115.6	1,231.2	969.8	27.0	5.5	-2.4
53.6	-4.0	87.0	100.7	1,406.3	883.0	59.3	2.6	-0.2
89.0	226.7	105.0	117.2	4,053.8	2,698.0	50.3	9.5	33.2
-12.7	-35.4	103.0	110.6	197.5	123.7	59.6	-2.4	-7.3
54.5	30.0	N.M.	N.M.	626.1	479.6	30.5	10.6	6.7
22.0	12.6	101.7	105.5	283.6	169.2	67.6	5.1	3.5
40.9	-152.2	106.3	111.3	4,078.7	3,423.2	19.1	7.6	-30.5
45.3	-3.9	85.0	100.0	305.9	215.5	41.9	14.1	-1.6
55.4	6.4	80.9	83.3	143.9	97.7	47.3	19.0	2.9
N.A.	-22.3	88.0	119.4	N.A.	262.0	N.A.	N.A.	-10.7
-0.1	-0.9	152.5	143.2	13.9	12.9	7.2	-3.1	-11.3
N.A.	-15.1	N.A.	115.7	N.A.	37.3	N.A.	N.A.	-6.7
N.A.	-715.3	N.A.	106.6	N.A.	589.9	N.A.	N.A.	-25.2
7,335.0	**2,840.6**	**97.2**	**106.8**	**105,957.1**	**69,112.9**	**53.3**	**12.3**	**6.5**

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
HONG KONG				
A-	China International Re Co. Ltd.	125.3	122.8	2.0
	Total	**125.3**	**122.8**	**2.0**
INDIA				
BBpi	General Insurance Corp. of India	946.7	806.9	17.3
	Total	**946.7**	**806.9**	**17.3**
IRELAND				
AA-	Hannover Re (Ireland) Ltd.	705.0	627.0	12.4
AA	Swiss Re Ireland	685.5	463.5	47.9
NR	London Life & General Re Co.	556.6	431.5	29.0
NR	Hannover Life Reassurance Ireland	475.2	290.9	63.4
AA-	Hannover Re Dublin Ltd.[10]	340.6	297.9	14.3
AAA	Cologne Re Co. (Dublin) Ltd.	234.9	165.1	42.2
NR	Scottish Re (Dublin) Ltd.[11]	191.8	82.8	131.5
NR	Inter-Ocean Re Ireland	169.1	N.A.	N.A.
AA-	E+S Re (Ireland) Ltd.	160.5	130.5	23.0
A+	GE ERC Strategic Re Ltd.[12]	157.1	213.4	-26.4
AA-	Tokio Marine Global Re Ltd.	92.1	87.9	4.7
A+	QBE Re (Europe) Ltd.	89.7	87.4	2.5
AA-	Mitsui Sumitomo Re Ltd.	47.7	31.4	51.7
NR	ESG Re (Ireland) Ltd.	36.2	75.9	-52.3
NR	Revios Re Ireland Ltd.[3]	-7.9	27.3	-128.9
	Total	**3,934.1**	**3,012.7**	**30.6**
ITALY				
A+	Münchener Rück Italia SpA[13]	530.9	441.7	20.2
BBB+	SCOR Italia Riassicurazioni	192.2	136.9	40.4
NR	Swiss Re Italia SpA[14]	N.A.	434.5	N.A.
	Total	**723.2**	**1,013.1**	**-28.6**
JAPAN				
AA-	Tokio Marine & Fire Insurance Co. Ltd.[4,15]	2,579.7	1,941.7	32.9
AA-	Sompo Japan Insurance Inc.[4]	2,027.3	1,505.7	34.6
AA-	Mitsui Sumitomo Insurance Co. Ltd.[4]	1,859.8	1,398.6	33.0
A-	Aioi Insurance Co. Ltd.[4]	1,443.5	1,174.9	22.9
AA-	Toa Re Co. Ltd.	1,011.4	922.5	9.6
A+	NIPPONKOA Insurance Co. Ltd.[4]	959.2	729.8	31.4

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
18.0	31.4	96.1	84.6	161.3	133.9	20.5	12.5	23.3
18.0	**31.4**	**96.1**	**84.6**	**161.3**	**133.9**	**20.5**	**12.5**	**23.3**
290.4	72.2	100.2	113.0	1,885.7	910.2	107.2	25.5	7.8
290.4	**72.2**	**100.2**	**113.0**	**1,885.7**	**910.2**	**107.2**	**25.5**	**7.8**
61.2	39.1	138.4	133.0	622.7	206.4	201.7	6.3	4.1
40.0	33.6	104.0	105.3	336.2	280.3	19.9	5.5	6.5
8.2	31.5	N.M.	N.M.	110.8	141.0	-21.4	1.4	7.0
4.0	-3.4	N.M.	N.M.	125.8	103.5	21.5	0.8	-1.0
144.9	79.5	95.1	93.9	243.5	130.1	87.1	31.4	31.2
12.6	30.1	86.9	87.9	204.3	204.3	0.0	4.8	20.0
-7.7	9.3	N.M.	N.M.	2.5	14.0	-82.1	-2.8	6.5
0.2	N.A.	112.4	N.A.	1.6	N.A.	N.A.	0.1	N.A.
17.3	8.9	179.4	159.1	188.6	157.9	19.5	6.0	3.7
171.2	208.8	83.6	107.2	495.5	352.2	40.7	79.6	82.2
6.0	-16.9	85.2	107.7	77.0	62.7	22.8	5.9	-16.1
12.1	17.1	101.1	107.3	260.0	243.4	6.8	8.8	11.8
1.3	1.0	102.1	104.5	45.3	37.7	20.1	3.0	3.0
-3.4	-6.0	N.A.	117.1	42.1	44.7	-5.8	-6.0	-6.0
4.0	-2.2	N.M.	N.M.	79.5	64.3	23.7	-58.0	-7.2
472.0	**430.4**	**113.5**	**114.4**	**2,835.6**	**2,042.5**	**38.8**	**9.1**	**12.8**
N.A.	-7.3	N.A.	102.6	282.6	235.9	19.8	N.A.	-1.8
N.A.	2.0	115.0	108.5	N.A.	49.3	N.A.	N.A.	1.4
N.A.	30.1	N.A.	102.7	N.A.	210.0	N.A.	N.A.	5.6
N.A.	**24.8**	**115.0**	**103.4**	**282.6**	**495.3**	**-43.0**	**N.A.**	**1.8**
1,069.4	711.1	52.8	49.1	23,781.2	18,584.5	28.0	31.0	22.2
595.2	188.8	89.4	90.2	14,125.5	8,882.5	59.0	20.4	8.6
1,555.4	397.8	87.0	87.6	17,321.8	12,157.0	42.5	9.1	2.7
206.5	-129.1	N.A.	N.A.	5,904.1	4,017.1	47.0	51.5	-71.2
15.6	-48.0	100.6	94.5	2,045.1	1,417.9	44.2	1.3	-4.7
165.5	89.4	88.9	90.6	7,868.9	5,576.8	41.1	1.7	1.0

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
JAPAN (CONTINUED)				
AA-	Nichido Fire & Marine Insurance Co. Ltd.[4,15]	667.1	513.6	29.9
A+	Nissay Dowa Fire & Marine Insurance Co. Ltd.[4]	394.7	302.3	30.6
BBB	Fuji Fire & Marine Insurance Co.[4,15]	376.8	292.2	29.0
BBB	Kyoei Fire & Marine Insurance Co.[4]	236.0	180.4	30.8
BBB-	Nisshin Fire & Marine Insurance Co. Ltd.[4]	198.6	154.9	28.2
A-	ACE Insurance Co. Ltd.	26.6	27.0	-1.4
	Total	**11,780.8**	**9,143.6**	**28.8**
JORDAN				
NR	International General Insurance Co. Ltd.	15.7	6.6	137.9
	Total	**15.7**	**6.6**	**137.9**
KENYA				
NR	Kenya Re Corp. Ltd.	25.0	20.4	22.5
NR	PTA Re Co.	19.4	11.9	62.3
NR	East Africa Re Co. Ltd.	7.1	6.2	14.5
	Total	**51.5**	**38.5**	**33.5**
KUWAIT				
BBB	Kuwait Re Co. K.S.C.	18.3	10.3	76.9
	Total	**18.3**	**10.3**	**76.9**
LEBANON				
NR	Arab Re Co.[1]	13.7	12.0	14.5
	Total	**13.7**	**12.0**	**14.5**
LUXEMBOURG				
A	Atradius Re S.A.[16]	86.4	81.6	5.9
A+	Luxembourg European Re S.A.[17]	70.0	147.7	-52.6
	Total	**156.5**	**229.3**	**-31.8**
MALAYSIA				
BBBpi	Malaysian National Re Bhd.	146.4	116.4	25.7
	Total	**146.4**	**116.4**	**25.7**

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
210.9	162.0	58.7	55.5	5,988.7	4,781.7	25.2	20.8	26.1
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	62.8	63.5	N.A.	N.A.	N.A.	N.A.	N.A.
43.5	58.9	90.7	91.0	1,105.1	799.4	38.2	1.9	2.6
78.8	114.6	89.0	89.0	1,198.4	907.7	32.0	29.8	56.3
4.9	2.1	74.5	64.7	N.A.	N.A.	N.A.	17.4	9.0
3,945.8	**1,547.7**	**77.5**	**76.4**	**79,338.7**	**57,124.5**	**38.9**	**21.5**	**-0.5**
2.4	0.7	93.3	146.2	78.8	70.4	11.9	23.6	20.8
2.4	**0.7**	**93.3**	**146.2**	**78.8**	**70.4**	**11.9**	**23.6**	**20.8**
9.2	2.7	79.6	108.2	51.3	33.7	52.6	31.9	10.8
1.4	0.9	117.5	133.1	9.3	7.0	33.0	8.1	7.9
0.8	1.0	107.4	104.5	8.8	8.2	7.3	9.6	14.7
11.3	**4.6**	**97.7**	**115.3**	**69.4**	**48.8**	**42.2**	**19.9**	**10.5**
1.5	1.4	102.5	120.3	89.6	79.5	12.7	6.5	10.6
1.5	**1.4**	**102.5**	**120.3**	**89.6**	**79.5**	**12.7**	**6.5**	**10.6**
N.A.	3.8	N.A.	109.1	N.A.	32.5	N.A.	N.A.	22.7
N.A.	**3.8**	**N.A.**	**109.1**	**N.A.**	**32.5**	**N.A.**	**N.A.**	**22.7**
3.3	-2.5	120.1	83.2	29.3	36.5	-19.7	3.7	-3.8
10.3	-1.9	125.4	182.4	156.3	130.5	19.8	13.8	-1.2
13.7	**-4.4**	**122.5**	**147.1**	**185.6**	**167.0**	**11.1**	**8.2**	**-2.1**
23.7	14.2	90.0	96.7	149.0	133.2	11.9	16.4	11.8
23.7	**14.2**	**90.0**	**96.7**	**149.0**	**133.2**	**11.9**	**16.4**	**11.8**

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
MEXICO				
NR	Reaseguradora Patria S.A.	59.6	52.0	14.6
NR	QBE del Istmo Mexico, Cía. de Reaseguros, S.A. de C.V.	5.9	0.9	533.7
	Total	**65.5**	**52.9**	**23.7**
MOROCCO				
BBBpi	Société Centrale de Réassurance	177.1	154.0	15.0
	Total	**177.1**	**154.0**	**15.0**
NETHERLANDS				
AA	Swiss Re Life & Health Nederland N.V.	257.3	261.0	-1.4
	Total	**257.3**	**261.0**	**-1.4**
NIGERIA				
BBB+	African Re Corp.	164.2	104.3	57.5
	Total	**164.2**	**104.3**	**57.5**
PANAMA				
NR	QBE del Istmo, Cía. de Reaseguros, S.A.	35.5	25.3	40.3
	Total	**35.5**	**25.3**	**40.3**
PHILIPPINES				
NR	National Re Corp. of Philippines[1]	10.1	8.8	14.8
Bpi	Universal Malayan Re Corp.[1, 18]	6.5	5.7	14.6
	Total	**16.6**	**14.5**	**14.7**
POLAND				
BBB-	Polish Re Co.	47.2	38.4	23.0
	Total	**47.2**	**38.4**	**23.0**
RUSSIA				
BB	Ingosstrakh Insurance Co.[4]	43.7	32.8	33.2
NR	Moscow Re	18.6	12.1	53.7
NR	Russian Re Co. Ltd.	11.8	10.3	14.9
	Total	**74.1**	**55.2**	**34.3**

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
11.0	11.1	93.4	92.1	85.5	73.9	15.7	15.9	18.0
0.2	0.1	94.6	128.3	2.9	3.1	-6.5	4.6	16.5
11.2	**11.2**	**93.5**	**92.7**	**88.4**	**77.0**	**14.8**	**14.9**	**18.0**
33.5	25.7	116.1	106.4	79.4	64.7	22.7	17.1	17.3
33.5	**25.7**	**116.1**	**106.4**	**79.4**	**64.7**	**22.7**	**17.1**	**17.3**
25.1	25.2	N.M.	N.M.	224.7	166.6	34.8	6.2	6.6
25.1	**25.2**	**N.M.**	**N.M.**	**224.7**	**166.6**	**34.8**	**6.2**	**6.6**
6.7	5.7	90.3	93.1	94.1	62.8	49.7	4.5	6.1
6.7	**5.7**	**90.3**	**93.1**	**94.1**	**62.8**	**49.7**	**4.5**	**6.1**
2.5	1.7	94.3	94.6	20.7	15.9	30.2	5.9	7.6
2.5	**1.7**	**94.3**	**94.6**	**20.7**	**15.9**	**30.2**	**5.9**	**7.6**
N.A.	2.0	N.A.	100.1	N.A.	16.7	N.A.	N.A.	18.9
N.A.	1.6	N.A.	106.6	N.A.	15.3	N.A.	N.A.	22.8
N.A.	**3.6**	**N.A.**	**102.7**	**N.A.**	**32.0**	**N.A.**	**N.A.**	**20.4**
1.5	1.7	101.3	95.1	32.7	30.6	7.0	3.3	4.1
1.5	**1.7**	**101.3**	**95.1**	**32.7**	**30.6**	**7.0**	**3.3**	**4.1**
N.A.	N.A.	110.2	118.8	133.5	131.5	1.5	N.A.	N.A.
1.1	0.3	80.7	80.2	4.8	2.8	71.4	5.6	3.2
0.7	2.0	92.7	84.8	3.4	2.7	25.6	5.2	20.3
1.8	**2.3**	**100.0**	**104.0**	**141.7**	**137.0**	**3.4**	**5.4**	**11.0**

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
SINGAPORE				
BBB+	SCOR Re Asia-Pacific	131.7	162.5	-19.0
NR	Singapore Re Corp. Ltd.	35.0	31.2	12.3
	Total	**166.7**	**193.7**	**-13.9**
SLOVENIA				
NR	Sava Re Co. Ltd.	75.6	59.8	26.4
	Total	**75.6**	**59.8**	**26.4**
SOUTH AFRICA				
BBBpi	Munich Re Co. of Africa Ltd.	203.5	140.3	45.0
NR	Swiss Re Africa Ltd.	153.5	92.2	66.5
BBB-	Hannover Re Africa Ltd.	113.3	81.1	39.7
NR	Swiss Re Life & Health Africa Ltd.	109.6	70.8	54.8
NR	Hannover Life Reassurance Africa Ltd.	52.2	46.9	11.3
AAA	GeneralCologne Re Africa Ltd.	42.3	22.0	92.2
NR	Gerling Global Re Co. of South Africa Ltd.[2]	N.A.	24.0	N.A.
	Total	**674.5**	**477.3**	**41.3**
SOUTH KOREA				
BBB	Korean Re Co.	1,350.8	1,160.7	16.4
	Total	**1,350.8**	**1,160.7**	**16.4**
SPAIN				
AA-	Mapfre Re Compania de Reaseguros S.A.	662.7	456.3	45.2
A	Nacional de Reaseguros S.A.	234.0	168.5	38.9
	Total	**896.8**	**624.9**	**43.5**
SWEDEN				
A-	Sirius International Insurance Corp.	435.2	380.1	14.5
A-	Revios Sweden Re Co. Ltd.	100.3	56.2	78.3
	Total	**535.5**	**436.4**	**22.7**
SWITZERLAND				
AA	Swiss Re Co.	14,003.9	11,352.1	23.4
A-	Converium AG	2,492.4	1,829.6	36.2
AA	European Re Co. of Zurich	2,130.7	2,779.0	-23.3

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
N.A.	N.A.	69.0	84.0	N.A.	N.A.	N.A.	N.A.	N.A.
5.8	5.9	107.0	106.7	83.4	80.1	4.0	12.7	14.4
5.8	**5.9**	**77.0**	**87.7**	**83.4**	**80.1**	**4.0**	**12.7**	**14.4**
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.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
38.8	1.9	93.3	101.1	114.6	88.5	29.6	17.8	1.2
12.2	-9.9	100.8	125.2	45.1	27.8	62.1	8.0	-12.7
9.7	-6.9	101.1	98.4	43.4	34.1	27.1	6.8	-7.6
16.0	11.4	N.M.	N.M.	147.3	90.5	62.7	11.2	8.2
-1.3	0.5	N.M.	N.M.	5.0	4.1	22.0	-2.3	1.1
8.1	13.4	108.1	94.6	34.8	25.9	34.5	14.0	31.3
N.A.	-0.8	N.A.	112.7	N.A.	11.6	N.A.	N.A.	-3.1
83.5	**9.5**	**98.5**	**107.0**	**390.2**	**282.5**	**38.1**	**10.8**	**-0.8**
76.5	66.0	95.1	95.0	495.1	400.1	23.7	5.7	5.7
76.5	**66.0**	**95.1**	**95.0**	**495.1**	**400.1**	**23.7**	**5.7**	**5.7**
35.6	22.7	98.2	100.5	351.1	225.9	55.4	6.0	5.4
10.7	7.6	99.1	97.5	105.9	72.4	46.3	4.5	4.6
46.4	**30.3**	**98.4**	**99.7**	**457.0**	**298.3**	**53.2**	**5.6**	**5.2**
28.2	58.9	90.5	90.7	843.4	755.0	11.7	5.9	13.0
5.5	0.7	N.M.	N.M.	27.4	18.2	50.3	5.2	1.1
33.7	**59.6**	**90.5**	**90.7**	**870.8**	**773.2**	**12.6**	**5.7**	**11.4**
1,028.7	-604.7	100.1	116.0	9,154.8	7,711.0	18.7	6.5	-4.5
270.8	153.7	89.5	90.6	2,058.6	1,803.7	14.1	10.7	8.8
299.8	-230.8	85.0	62.5	740.9	210.5	252.1	12.0	-8.3

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
SWITZERLAND (CONTINUED)				
A+	New Re Co.	491.4	674.7	-27.2
A-	Alea Europe Ltd.	351.4	242.7	44.8
AA	Trans Re Zurich	277.1	198.0	39.9
NR	Deutsche Rück Schweiz AG	236.2	115.5	104.5
A-	Revios Rück Schweiz AG	186.9	137.1	36.3
NR	A.G. Re Cie de Reas Generales S.A.	35.2	28.4	23.9
NR	Gerling Globale Rück AG[2]	N.A.	259.3	N.A.
AA-	XL Re Latin America Ltd.	N.A.	150.1	14.6
	Total	**20,205.1**	**17,766.5**	**14.7**
TAIWAN				
BBB+	Central Re Corp.	339.5	307.1	10.5
	Total	**339.5**	**307.1**	**10.5**
THAILAND				
BBB	Thai Re Public Co. Ltd.	51.7	50.5	2.5
	Total	**51.7**	**50.5**	**2.5**
TUNISIA				
BBB-	B.E.S.T. Re Co.	56.5	46.5	21.5
NR	Société Tunisienne de Réassurance[1]	21.2	18.5	14.8
	Total	**77.7**	**65.0**	**19.6**
TURKEY				
B-pi	Milli Reasurans T.A.S.	293.8	161.7	81.6
	Total	**293.8**	**161.7**	**81.6**
U.K.				
A	Lloyd's[4]	7,818.3	6,808.6	14.8
A+	GE Frankona Reassurance Ltd.	1,332.3	747.9	78.1
A+	GE Frankona Re Ltd.	719.6	452.7	59.0
A	Aspen Insurance U.K. Ltd.	674.5	246.8	173.3
AA	Swiss Re Life & Health Ltd.	616.9	587.0	5.1
AA	Swiss Re Co. (U.K.) Ltd.	329.3	320.0	2.9
A-	Alea London Ltd.	315.9	193.2	63.4
NR	BRIT Insurance Ltd.[4]	236.4	154.5	53.1
A-	Revios Re U.K. Ltd.	182.1	29.9	509.7

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
46.5	-132.3	105.5	128.1	253.6	187.5	35.3	7.5	-18.4
45.0	6.3	80.9	101.0	153.1	98.6	55.3	13.4	2.8
10.8	11.7	105.1	108.2	70.4	60.2	16.9	3.8	5.1
16.0	-0.4	102.8	103.6	40.1	37.0	8.3	6.2	-0.3
6.9	4.0	N.M.	N.M.	36.6	27.1	34.9	2.7	4.3
5.9	5.4	93.7	94.2	78.6	62.5	25.8	15.1	17.1
N.A.	10.8	N.A.	111.7	N.A.	97.0	N.A.	N.A.	3.1
N.A.	N.A.	N.A.	98.2	N.A.	N.A.	N.A.	N.A.	N.A.
1,730.4	**-776.1**	**97.0**	**104.8**	**12,586.7**	**10,295.0**	**22.3**	**7.7**	**-3.8**
11.1	11.3	98.2	98.7	131.7	107.1	23.0	3.2	3.6
11.1	**11.3**	**98.2**	**98.7**	**131.7**	**107.1**	**23.0**	**3.2**	**3.6**
9.1	8.5	96.4	90.1	62.0	44.9	38.1	15.3	16.2
9.1	**8.5**	**96.4**	**90.1**	**62.0**	**44.9**	**38.1**	**15.3**	**16.2**
4.8	4.9	88.8	89.4	53.7	52.0	3.4	8.8	10.5
N.A.	2.5	N.A.	100.0	N.A.	23.1	N.A.	N.A.	12.3
4.8	**7.4**	**88.8**	**92.4**	**53.7**	**75.0**	**3.4**	**8.8**	**11.0**
35.4	32.4	107.8	97.6	133.8	85.4	56.7	11.7	17.7
35.4	**32.4**	**107.8**	**97.6**	**133.8**	**85.4**	**56.7**	**11.7**	**17.7**
3,417.1	1,980.8	90.4	94.9	20,611.2	13,186.8	56.3	13.2	7.0
N.A.	N.A.	N.M.	N.M.	1,009.4	783.6	28.8	N.A.	N.A.
-70.0	-114.8	105.2	133.1	911.2	780.7	16.7	-9.2	-22.6
122.2	21.1	78.8	87.8	797.4	649.5	22.8	24.3	18.9
46.2	325.6	N.M.	N.M.	1,189.4	1,047.3	13.6	5.7	43.8
-42.0	-28.4	126.2	128.0	496.9	427.4	16.3	-10.8	-8.6
51.7	16.4	83.2	90.9	195.0	142.2	37.2	19.3	11.3
83.6	33.6	84.3	73.1	581.4	270.2	115.2	20.9	33.3
-0.6	-0.5	N.M.	N.M.	74.6	48.9	52.6	-0.3	-1.5

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
U.K. (CONTINUED)				
A+	QBE International Insurance Ltd.[4]	169.8	177.2	-4.2
AAA	Faraday Re Co. Ltd.	139.1	178.1	-21.9
AAA	General Re U.K. Ltd.[19]	129.2	243.8	-47.0
NR	Hannover Life Reassurance (U.K.) Ltd.	93.5	69.9	33.8
BBB+	SCOR U.K. Co. Ltd.[4]	82.3	116.6	-29.4
NR	Markel International Insurance Co. Ltd.[4]	74.0	113.3	-34.7
A+	Great Lakes Re (U.K.) PLC	63.0	53.1	18.7
NR	Platinum Re (U.K.) Ltd.	49.4	N.A.	N.A.
A-	Scottish Re Ltd.	44.5	10.3	332.4
A	Liberty Mutual Insurance Co. (U.K.) Ltd. [4]	42.9	44.1	-2.7
A-	Endurance Worldwide Insurance Ltd.	29.4	0.1	N.M.
BBBpi	Kyoei Fire & Marine Insurance Co. (U.K.) Ltd.	1.5	1.3	18.9
A-	Alea Global Risk Ltd.	0.5	0.0	N.A.
A-	Alea Jersey Ltd.	0.1	0.1	-5.3
NR	Global General & Re Co. Ltd.[2]	N.A.	142.6	N.A.
	Total	**13,144.8**	**10,691.0**	**23.0**
U.S.				
AAA	General Re Corp.	3,073.3	3,617.4	-15.0
AA-	Everest Re Co.	2,964.5	2,119.2	39.9
AA	Transatlantic Re Co.	2,945.3	2,219.8	32.7
AA	Swiss Re Life & Health America Inc.	2,839.4	3,241.9	-12.4
AAA	National Indemnity Co.	2,523.4	2,526.4	-0.1
AA	Swiss Re America Corp.	1,988.5	1,283.0	55.0
A+	Employers Re Corp.	1,968.0	2,550.9	-22.9
A-	Odyssey America Re Co.	1,837.8	1,439.2	27.7
A	American Re Co.	1,584.1	1,198.1	32.2
A+	Berkley Insurance Co.	1,395.6	934.1	49.4
A+	Employers Reassurance Corp.	1,104.0	N.A.	N.A.
AA-	Partner Re Co. of the U.S.	1,039.4	754.0	37.9
A-	Folksamerica Re Co.	883.3	671.5	31.5
A-	Converium Re North America Inc.	833.9	1,051.7	-20.7
AA	Transamerica Occidental Life Insurance Co.	768.9	1,330.8	-42.2
A-	Endurance Re Corp. of America	707.6	N.A.	N.A.
NR	Platinum Underwriters Re Co.	667.5	298.1	123.9
A+	Munich American Reassurance Co.	663.2	588.4	12.7
A+	GE Re Corp.	630.0	735.9	-14.4
R	PMA Capital Insurance Co.	494.6	636.4	-22.3
Api	American Agricultural Insurance Co.	479.7	377.7	27.0
AA-	XL Re America Inc.	427.0	411.1	3.9
A+	QBE Re Corp.	389.7	330.2	18.0

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
95.5	23.4	91.8	102.8	855.5	507.0	68.7	9.9	3.9
31.9	30.5	99.0	99.5	136.4	89.3	52.8	15.8	13.7
36.7	57.0	107.0	96.0	313.5	268.0	17.0	16.2	18.2
1.7	0.5	N.M.	N.M.	56.6	44.3	27.7	1.6	0.5
42.7	37.4	77.8	87.4	98.4	89.4	10.0	31.4	20.4
-13.7	-12.6	115.4	115.5	192.7	76.7	151.3	-5.6	-5.1
40.0	9.5	74.6	87.4	289.0	158.8	82.0	44.7	12.8
1.0	N.A.	76.5	N.A.	168.2	N.A.	N.A.	2.5	N.A.
11.8	1.4	N.M.	N.M.	49.8	11.9	318.8	24.7	12.8
21.1	-1.3	106.4	116.7	246.9	171.7	43.8	7.7	-0.6
-3.3	-1.6	141.3	N.A.	173.7	160.3	8.4	-15.0	-328.2
-0.4	0.3	139.4	146.2	18.7	16.7	11.9	-14.4	14.8
0.6	4.5	281.0	311.4	12.0	11.7	2.5	22.8	65.6
0.3	0.3	N.M.	N.M.	4.5	4.5	0.7	130.4	92.9
N.A.	-19.9	N.A.	126.6	N.A.	37.1	N.A.	N.A.	-12.1
3,874.2	**2,363.3**	**91.9**	**98.3**	**28,482.4**	**18,984.0**	**50.0**	**11.5**	**8.1**
606.0	701.2	103.6	104.7	5,435.2	4,095.1	32.7	15.4	15.5
278.9	216.3	100.1	101.9	1,715.5	1,494.0	14.8	9.5	10.0
275.4	143.1	98.0	103.8	1,851.2	1,545.9	19.7	9.2	6.2
171.2	289.5	N.M.	N.M.	2,109.8	2,420.0	-12.8	3.4	5.3
2,356.7	1,641.6	52.8	54.0	23,096.3	15,732.1	46.8	61.3	58.9
-648.2	71.6	139.0	108.1	2,504.7	2,391.3	4.7	-32.7	4.4
-124.0	235.5	105.4	171.8	5,119.4	4,876.1	5.0	-5.6	5.1
169.2	35.4	92.6	98.3	1,553.1	990.5	56.8	9.5	2.6
350.6	-1,825.9	102.6	279.6	4,007.2	3,139.9	27.6	15.3	-105.6
117.6	-1.6	92.4	100.3	1,174.5	757.2	55.1	9.1	-0.2
119.0	N.A.	N.M.	N.M.	N.A.	N.A.	N.A.	8.1	N.A.
-28.6	7.4	105.1	103.0	545.7	512.4	6.5	-2.8	1.0
62.1	40.3	96.2	103.5	912.8	857.1	6.5	7.0	5.8
-65.9	-90.1	105.2	109.0	949.9	894.5	6.2	-7.8	-7.5
227.9	117.2	N.M.	N.M.	2,151.8	2,368.9	-9.2	7.0	3.2
-10.7	-1.3	92.7	N.A.	464.3	337.4	37.6	-3.0	-162.8
109.1	-33.3	97.9	84.6	372.9	300.2	24.2	14.0	-29.9
40.4	16.5	N.M.	N.M.	1,094.2	963.3	13.6	5.3	2.3
-282.0	-553.4	156.2	179.7	667.2	623.4	N.A.	-38.9	-58.8
-65.2	1.5	121.8	107.8	500.6	580.2	-13.7	-11.6	0.2
29.7	3.9	97.3	104.7	314.3	275.0	14.3	6.0	0.9
-131.1	13.6	151.3	112.0	1,636.9	1,138.6	43.8	-26.8	3.4
20.4	4.8	101.1	100.5	354.3	250.2	41.6	4.0	1.2

Global Reinsurance List by Country

Rating as at Aug. 1, 2004	Company	Net Reinsurance Premiums Written (Mil. $) 2003	2002	Change (%)
U.S. (CONTINUED)				
BBB+	SCOR Re Co.	335.0	551.5	-39.3
AA	Transamerica Financial Life Insurance Co.	301.2	366.9	-17.9
AA-	Toa Re Co. of America	278.7	229.8	21.3
NR	Hannover Life Reassurance Co. of America	277.8	277.1	0.3
NR	Revios Re U.S. Inc.[3]	217.2	47.7	355.0
AAA	Assured Guaranty Corp.	214.8	106.9	100.9
AA	Radian Re Inc.	182.1	107.4	69.6
AA	Putnam Re Co.	155.0	116.8	32.7
NR	Dorinco Re Co.	128.2	105.0	22.1
A-	Alea North America Insurance Co.	117.8	46.6	152.7
NR	Trenwick America Re Corp.	98.6	383.5	-74.3
A	PXRE Re Co.	79.4	210.6	-62.3
AAA	National Indemnity Co. of the South	78.3	17.0	360.6
NR	Arch Re Co.	68.4	33.8	102.4
AAA	Wesco-Financial Insurance Co.	67.1	67.8	-1.0
A	Axis Re Co.	59.0	1.0	N.M.
NR	Great Lakes Insurance Co.	58.9	74.4	-20.8
NR	Overseas Partners U.S. Re Co.	55.5	156.6	-64.6
AA-	Mapfre Re Corp.	55.0	37.9	45.1
BBB	AXA Corporate Solutions Re Co.	46.2	505.3	-90.9
BBB-	Centre Insurance Co.	34.1	26.2	30.2
NR	Inter-Ocean NA Re	4.5	N.A.	N.A.
BBB+	SCOR Life U.S. Re Co.	-37.2	145.0	-125.7
	Total	**35,084.5**	**31,930.6**	**9.9**
ZIMBABWE				
NR	Zimbabwe Re Co. Ltd.[1]	83.2	72.6	14.6
	Total	**83.2**	**72.6**	**14.6**
	Grand Total	**163,550.4**	**142,924.7**	**14.4**

1. Figures for 2003 have been estimated by Standard & Poor's.
2. In October 2002, Gerling ceased underwriting new business in the non-life reinsurance market, and this business is now in run-off. Standard & Poor's has included Gerling in this year's survey in order to provide comparative industry totals for 2002. During 2003, Gerling Global General & Re Co. Ltd. (U.K.) changed its name to Global General & Re Co. Ltd.
3. The Revios group was established in 2003 and comprises the life reinsurance operations of Gerling-Konzern Globale Rück-AG.
4. All figures, except net reinsurance premiums written, include primary and reinsurance business.
5. The company changed its name from GoshawK Re.
6. In September 2001, the company ceased underwriting and has subsequently been placed into run-off.
7. In March 2004, the company merged with AXA Re.
8. Figures for 2003 are preliminary.
9. In July 2003, the company was placed into run-off; business has been renewed through Faraday Re Co. Ltd. and Lloyd's Syndicate 435.
10. The company changed its name from HDI Re Ireland.
11. Figures for 2003 are unaudited.
12. The company changed its name from Irish European Re Co. Ltd.
13. Figures for 2003 have been estimated by the company.
14. In January 2003, the company was placed into run-off; renewal business will be written through the Italian branch of Swiss Re Co.
15. The expense ratio relates to the reinsurance fee ratio only. Therefore, the combined ratio may be understated.
16. The company changed its name from Namur Re S.A.

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2003	2002	2003	2002	2003	2002	Change (%)	2003	2002
-218.3	-68.7	159.2	114.9	425.9	405.8	5.0	-56.7	-15.1
99.8	-2.0	N.M.	N.M.	626.3	613.4	2.1	4.5	-0.1
14.0	25.5	106.3	102.6	306.7	253.0	21.2	4.6	10.1
18.0	-1.3	N.M.	N.M.	118.8	108.2	9.8	5.3	-0.4
-1.2	-10.5	N.M.	N.M.	82.1	46.7	75.8	-0.5	-18.2
84.5	59.5	57.9	81.2	255.6	287.0	-10.9	40.7	38.9
74.7	71.0	66.1	57.1	370.1	272.1	36.0	40.3	55.2
17.7	9.8	98.0	103.8	127.7	110.3	15.7	10.6	7.9
111.3	-1.7	106.1	115.8	392.7	237.9	65.1	32.1	-0.5
-5.4	-2.8	103.9	177.7	245.5	122.8	99.9	-5.9	-11.5
-26.6	-121.2	143.9	134.7	79.0	125.9	-37.3	-10.9	-33.6
46.6	41.2	83.8	81.3	425.2	457.2	-7.0	30.1	21.0
4.7	1.1	83.2	95.6	48.2	38.9	23.9	6.2	3.5
47.9	11.2	41.5	73.6	382.8	359.2	6.6	68.5	47.1
86.6	92.1	83.7	91.5	2,016.0	1,839.1	9.6	55.9	66.2
-7.9	7.2	99.2	145.3	503.1	372.8	34.9	-14.5	87.5
29.8	29.9	61.8	67.3	53.6	34.0	57.6	45.0	37.3
-4.8	-9.4	116.1	112.6	69.7	73.4	-5.0	-7.5	-5.6
6.2	1.5	96.2	106.1	130.5	109.9	18.7	10.9	4.0
34.2	-9.9	180.7	102.1	579.9	277.4	109.0	13.3	-1.9
-1.7	2.6	134.0	125.4	82.4	84.2	-2.1	-1.5	2.7
0.0	N.A.	219.1	N.A.	1.3	N.A.	N.A.	0.0	N.A.
N.A.	N.A.	N.M.	N.M.	N.A.	N.A.	N.A.	N.A.	-33.8
3,988.6	**1,159.0**	**101.0**	**116.1**	**65,854.9**	**52,772.8**	**24.8**	**7.1**	**3.3**
N.A.	113.0	N.A.	116.7	N.A.	203.8	N.A.	N.A.	63.3
N.A.	**113.0**	**N.A.**	**116.7**	**N.A.**	**203.8**	**N.A.**	**N.A.**	**63.3**
25,716.3	**9,163.6**	**95.4**	**104.7**	**338,262.3**	**244,801.3**	**38.2**	**11.4**	**4.4**

17. The company is due to be liquidated by the end of 2004. Therefore, no new business was accepted in 2003. Parts of the business have been transferred to GE ERC Strategic Re Co. Ltd., Ireland.
18. In 2003, Universal Re merged with Malayan Re to form Universal Malayan Re Co.
19. The company changed its name from GeneralCologne Re U.K. Ltd.

Pretax operating income = underwriting profit (or loss) + net investment income + other income. Net realized gains/losses are excluded from this item.

Combined ratio = net losses incurred + net underwriting expenses/net premiums earned.

Total adjusted shareholders' funds = capital + shareholders' reserves (including claims equalization reserve and any excess or deficiency of market value of investments over the balance sheet value).

ROR = pretax operating income/total revenue. Total revenue is the sum of net premiums earned, net investment income, and other income.

N.A.—Not available.
N.M.—Not meaningful.
NR—Not rated.
R—Under regulatory supervision.

Global Life Reinsurance: Shrinking Competition and Improving Prospects

Global life reinsurance continues to benefit from attrition in the industry, with fewer players globally and many becoming specialized in niche markets. The result is increased selectivity and pricing power, as well as a greater focus on capital planning and management.

North America:
Reduced Competition Brings Stronger Margins

North American life reinsurers have unprecedented pricing power following another wave of consolidation in 2003, although the positive profitability trends are to some extent offset by the challenges acquirers are facing in integrating operations. Capacity in the life reinsurance sector continues to shrink. In 2003, Reinsurance Group of America Inc. announced it would acquire the life reinsurance business of Allianz Life Insurance Co. of North America; Employers Reinsurance Corp. announced it would stop accepting new life business in the U.S., and then sold part of its book to Scottish Re Group Ltd.; and Annuity & Life Re Ltd. placed itself into run-off. In all, the North American life reinsurance industry has seen nine significant acquisitions since 1997. As a result, eight companies dominated 90% of the new reinsurance business written in 2003[1], down from 10 companies in 2002 and more than 15 just a few years earlier.

In most traditional business, life insurer risk pools are split between four to six reinsurers. With only eight meaningful players remaining, this leaves ceding companies with few options and reinsurers with the best pricing power they have seen in years. Although the amount and proportion of life insurance ceded shrank slightly in 2003 after a decade of rapid growth, market exits have left more than enough growth potential for the remaining players. Moreover, further consolidation of life reinsurers is expected by 2005.

Pricing has been particularly strong in the most concentrated market segments, notably group life where, following the exit of the ERC Life group, there are only three companies with significant market share remaining. The same goes for life reinsurance sold to Canadian insurers and for accident and health coverage in the U.S.

As a result, some primary life companies have increased their retention of risk, or have forgone certain coverages, particularly catastrophe protection. Larger, well-capitalized insurers can absorb the strain this may cause, but many others will have to pay the higher reinsurance rates or leave themselves vulnerable to greater risk in the near future.

At the same time, the industry is beginning to feel the pressure from conservative U.S. reserving requirements for products with long-term guarantees. In particular, insurers are facing severe reserve strain caused by the effect of so-called “Regulation XXX” on level-term insurance. The traditional approach has been to reinsure these risks offshore and back the reserve strain with letters of credit (LOCs). This solution tends to be finite and risky, given the long-term nature of the liability versus the uncertainty about the cost and availability of LOCs in the future. By some estimates, the level of collateral needed could exceed $100 billion by early in the next decade, and it is doubtful that LOC capacity will be adequate.

Most reinsurers are therefore exploring new solutions in the capital markets to lock in long-term financing. These alternatives may ‘securitize’ the redundant reserves through a nonrecourse structured arrangement, or may simply be funded by debt with full recourse, but fully collateralized. Although these alternatives are generally more costly than LOCs, they

1. According to the annual survey of the Society of Actuaries.

Table 1: Top 10 Life Reinsurance Groups

Ranking	Group	Country	Gross Premiums Written 2003 (Mil. $)	Gross Premiums Written 2002 (Mil. $)
1	Swiss Re	Switzerland	9,392.5	8,833.8
2	Munich Re	Germany	6,854.6	5,530.9
3	Employers Re	U.S.	3,367.0	2,574.0
4	Reinsurance Group of America Inc.	U.S.	2,922.5	2,330.4
5	Hannover Re	Germany	2,857.2	2,590.4
6	Berkshire Hathaway Re[1]	U.S.	1,839.0	1,899.0
7	Revios Re	Germany	1,641.0	1,522.3
8	SCOR	France	1,271.5	1,054.4
9	Transamerica Re (Aegon)	U.S.	1,253.0	1,160.0
10	Allianz	Germany	1,114.3	891.4

1. Premium figures relate to net premiums written.

do eliminate the uncertainty of future pricing and capacity. Given the improved pricing environment, reinsurers should generally be able to pass the added cost of these solutions to their customers, although the largest ceding companies are likely to seek to handle the issue themselves.

Europe:
Reduced Capital Brings Greater Focus

Market upheaval has been no less pronounced in Europe, where consolidation, questionable pricing, and the poor performance of non-life business have caused a shake-up among the top players.

Virtually all of the significant life reinsurance players in Europe have seen ratings downgrades over the past few years, mostly in relation to poorly performing investment portfolios and non-life affiliates. The two largest reinsurers, Swiss Reinsurance Co. (Swiss Re) and Munich Reinsurance Co. (Munich Re), lost their 'AAA' ratings in 2002 and are now rated 'AA' and 'A+', respectively.

The fall of the Gerling group was more dramatic. Gerling suffered multiple downgrades before finally placing its non-life reinsurance units into run-off at the end of 2002. A new entity, Revios Rückversicherung AG (Revios), was created in order to ringfence Gerling's life reinsurance portfolio from the problems at its parent. Revios, which spent the better part of 2003 without a rating, has generally been successful at retaining its existing business. However, the extent of Revios' internal focus during 2003 and continuing uncertainty surrounding its long-term ownership have constrained its ability to capitalize on opportunities to win new business.

SCOR's situation was less severe, but still affected its market presence. SCOR was downgraded in 2003, predominantly due to weak performance in its U.S. non-life business. As a result, SCOR transferred its existing life reinsurance activity into a specific subgroup headed by a new company, SCOR Vie. The group then sought to raise capital by opening up SCOR Vie's ownership to outside investors. SCOR abandoned this course of action once it became apparent that an acceptable offer could not be achieved, and instead successfully raised €750 million through a rights issue at the end of the year. SCOR continues to be an important player in certain niche areas, with a very strong presence in mortality and long-term care risk in France, as well as strong positions in southern Europe and Asia. However, more capital-intensive businesses, such as business financing or level-term reinsurance in the U.S., are now less accessible given the heightened cost of capital at SCOR's current 'BBB+' rating level.

The result of these various upheavals is that life reinsurers in Europe have less capital than before to invest in the business. Furthermore, with a substantially harder market in non-life reinsurance, capital is often invested more effectively in non-life rather than life business. The result is that the major life reinsurers are choosing their battles wisely and narrowing their focus.

As examples, following concerns about pricing adequacy, Swiss Re has largely abandoned the market for guaranteed-rate critical illness (CI) risk in the U.K.,

"Gerling suffered multiple downgrades before finally placing its non-life reinsurance units into run-off at the end of 2002."

and has instead focused on providing life cover to larger clients. Munich Re is following a similar strategy, also in the U.K. At the same time, the XL Capital group (XL), historically a non-life insurer, has sought to fill the competitive void by focusing on guaranteed-rate CI (with higher rates than could be sold a few years earlier), as well as by buying large blocks of payout annuities from primary companies. The overall result is a greater degree of focus but less product diversification within given markets, and the long-term effect on the sector is probably neutral to modestly positive.

"Despite improved margins and pricing power, some level of consolidation is likely to continue as companies seek to deploy capital more efficiently."

Latin America:
Slim Pickings for Life Reinsurers

Apart from limited success in Mexico, Latin America has yielded few rewards for life reinsurers. Brazil's long-awaited opening of its government-controlled reinsurance market seems to have been permanently suspended, and the Argentine economy has not yet recovered enough to make a viable market. The most likely country for success may be Chile, but its market is too small to attract most leading companies.

Asia:
Potential for Growth

Asia accounts for less than 10% of global life reinsurance premiums written today, but it holds some promise for the future. Japan and South Korea are two of the largest life insurance markets in the world, but reinsurers have had little success there to date. Recent financial distress in those markets, however, is creating new opportunities. First, foreign primary companies (North American- and European-owned) are having greater success than in the past, and are more open to external reinsurance than their domestic peers. Second, local companies, some of them financially diminished, are considering reinsurance where it would have been dismissed in the past. The opening of the Chinese and Indian markets also creates enormous long-term potential, although the profits will take several years to materialize due to start-up costs. By now, virtually all major life reinsurers have more than one Asia-Pacific office, and are set to take advantage of the potential of this market.

The Future:
New Challenges and Opportunities Beckon

Life reinsurers are seeing creative new ways to acquire business and transfer risk. Swiss Re, always an innovator, issued the first mortality catastrophe bond in 2003, raising $250 million in contingent capital, which can be tapped in the event of an extreme mortality stress. However, the development of these structured alternatives is both a blessing and a curse for life reinsurers. On the positive side, these transactions provide new sources of capital and risk transfer for the sector. But as direct companies also pursue these new structures, they put investors and bankers in direct competition with solutions offered by the professional reinsurance community.

Despite improved margins and pricing power, some level of consolidation is likely to continue as companies seek to deploy capital more efficiently. Press reports have widely suggested that ING may entertain the sale of its life reinsurance business. Several second-tier players, including Great-West/Canada Life, Generali, Revios, and SCOR, may also be considering alternatives, including deploying additional capital to grow the business, or possibly selling out. Meanwhile, at least some new entrants are expected, especially once the non-life market softens (as may already have begun). XL, for example, has already entered the U.K. market, and may be looking to expand from that base. Other players are also rumored to be investigating the life reinsurance market. The only certainty is that the face of life reinsurance will continue to change at a rapid pace.

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Reinsurance Acquisitions: Beware the Siren Calls

Mergers and acquisitions are a feature of every capitalist economy, being part of the natural selection process that ensures that only the strongest and fittest survive. Reinsurance is no different in this respect. Faced with relatively low barriers to entry and potentially large exposures, reinsurers have sought to expand through large-scale acquisitions. The period 1995-1999 was characterized not only by a precipitous decline in premium rates, but also by the rapid consolidation that took place in the industry.

The statistics in Table 1 highlight the level of consolidation between 1994 and 2003. During this time, the equivalent share of total net reinsurance premiums written of the industry's top 100 companies controlled by the top 20 groups increased to 97% from 83%. Some of this was achieved via higher levels of organic growth, but most came through acquisitions, some of them material.

Parallels exist between the current insurance market and that of 1995. Premium rates have peaked in many lines of business, but profitability is and should remain strong over the next year or so, aided in part by low levels of natural catastrophes. There is plenty of cash sitting on reinsurers' balance sheets. The most recent wave of start-ups are looking to reduce reliance on short-tail lines of business while the industry remains under pressure from shareholders to keep the top line growing. Back in the mid-1990s, faced with falling premiums and pressure to grow, many companies saw a straight choice: acquire or be acquired. Driven also by the belief that the benefits of diversification were boundless, reinsurers set off on the acquisition trail. There are some signs of a renewed interest in acquisitions in the industry, with Odyssey Re Holdings Corp.'s purchase of Overseas Partners U.S. Reinsurance Co. for $43 million, and White Mountains Insurance Group Ltd. acquiring Sirius International Insurance Corp. for $425 million, both in 2004. Faced with the same choices today, what can the industry learn from past experience?

Table 2 lists the majority of the larger acquisitions that took place from 1995 onward, the performance of the acquired companies following purchase, and the comparable performance of the industry during the same period. On average, acquired companies underperformed the market by some 22 percentage points on the combined ratio following acquisition. To conclude that all acquisitions are misguided is an oversimplification, not least because mitigating circumstances exist in some instances and a simple comparison of combined ratios has well-known shortcomings. In addition, it should be stressed that this analysis is limited to non-life purchases; acquisitions of life reinsurers do not appear to have the same chequered history. However, the simple analysis below is not the first to highlight the fact that acquisitions more often than not fail to add value[1].

With the exception of German insurer Hannover Re's acquisition of U.S.-based Clarendon Insurance Group, the most striking disparities between company and industry performance have occurred in 'cross-Atlantic' purchases where the large European groups have sought to establish or consolidate a position in the world's largest insurance market. Unfortunately, the U.S. reinsurance industry has

1. "Assessing Insurance Deals", Lars Jacob Bø, Måns Hulterström, and Terje Pilskog, *The McKinsey Quarterly, 2003 Number 2*.

Table 1: Top 20 Reinsurance Groups in 1994 Ranked by Net Reinsurance Premiums Written (Mil. $)

Ranking	Group	2003	1994	Growth (%)
1	Munich Re	29,198	11,979	243
2	Swiss Re	24,777	9,297	267
3	Cologne Re	Acquired by General Re in 1995	3,551	N/A
4	Employers Re	9,729	3,484	279
5	Hannover Re	10,241	3,228	317
6	General Re	Acquired by Berkshire Hathaway in 1998	3,001	N/A
7	Gerling	Withdrawn from third-party reinsurance[1]	2,661	N/A
8	Generali	Withdrawn from third-party reinsurance[1]	2,249	N/A
9	Mercantile & General	Acquired by Swiss Re in 1996	1,973	N/A
10	Frankona Re	Acquired by Employers Re in 1995	1,908	N/A
11	SCOR	4,260	1,856	230
12	Zurich Financial Services	Spun off into Converium in 2001	1,689	N/A
13	American Re	Acquired by Munich Re in 1996	1,551	N/A
14	AXA	1,609	1,235	130
15	Toa Fire & Marine	1,326	1,082	123
16	Tokio Marine[2]	3,246	1,015	320
17	Berkshire Hathaway Re[3]	11,946	1,006	1187
18	Transatlantic Re	3,341	868	385
19	Prudential Re	Spun off into Everest Re in 1995	863	N/A
20	Winterthur	Withdrawn from third-party reinsurance[1]	822	N/A

Source: ***Global Reinsurance Highlights.***
1. Date not known.
2. Now part of the Millea insurance group.
3. Including premiums from General Re Corp.
N/A—Not applicable.

underperformed the global market, with an average combined ratio 16.9 percentage points higher than the global figure (excluding the U.S.) of 108.5% over the past three years. Chart 1 shows the development of the acquired companies' combined ratios for U.S. entities purchased by European companies, with the broken line indicating pre-acquisition performance and the solid line showing how the companies have fared post acquisition. As Chart 2 shows, the picture has not been much better for U.S. groups buying in Europe. What this perhaps illustrates is the challenge of bringing together two culturally diverse organizations.

So What Are the Major Lessons to Be Learned From the Previous Record of Acquisitions?

First, the benefit of extra diversification from non-life acquisitions is often overstated. Any non-life acquisition has to be made on a more strategic basis than simply to increase diversification.

"Back in the mid-1990s, faced with falling premiums and pressure to grow, many companies saw a straight choice: acquire or be acquired. Driven also by the belief that the benefits of diversification were boundless, reinsurers set off on the acquisition trail."

Second, global cost savings are difficult to achieve because such a significant portion of costs are brokerage costs, which grow in step with premiums rather than overheads, where synergies may emerge. Furthermore, the cost of integrating inherited IT systems is potentially greater than the overall savings of having a combined system.

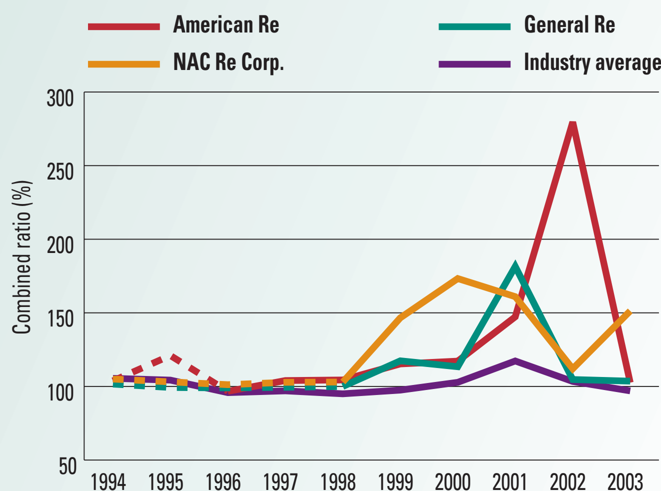
Third, the most dangerous period for the buyer is immediately following the acquisition: the established management can become exuberant following the sig-

Table 2: Selected Reinsurance Acquisitions

Buyer	Acquired
General Re	Cologne Re
Employers Re	Frankona Re
Munich Re	American Re
Partner Re	Société Anonyme Française de Réassurances
Kohlberg, Kravis, Roberts & Co. L.P. (KKR)	Rhine Re
Hannover Re	Clarendon Insurance Group
Berkshire Hathaway Re	General Re
XL Capital Ltd.	NAC Re Corp.
SCOR	CRP
Trenwick Group Inc.	Chartwell
Gerling	Constitution Re Corp.
Markel Corp.	Terra Nova
QBE Insurance Group Ltd.	LIMIT PLC
Swiss Re	Underwriters Re
SCOR	Sorema S.A. and Sorema North America Re Co.

Source: ClassicDirect, *Global Reinsurance Highlights*, Reinsurance Association of America returns, company accounts.
1. Market combined ratio is based on top 40 companies ranked by net reinsurance premiums written.
2. Combined ratio quoted relates to Swiss Re America Corp., as Underwriters Re does not report separately.
N.A.—Not available.

Chart 1: Performance of Selected American Reinsurers Pre and Post Acquisition



Source: ClassicDirect, *Global Reinsurance Highlights*, Reinsurance Association of America returns, company accounts.

nificant increases in market muscle provided by their new parent and expand too fast. The more successful acquisitions are those where the purchaser takes charge immediately, rather than worrying about the effect that such 'interference' may have on the existing brand, management, and client base.

Fourth, as with underwriting, the timing of an acquisition can be important: some of the best purchases are made just before or at the top of the cycle (which has now passed for the current cycle). Although this may mean paying more, getting 'value for money' through low price/net asset values is often a false economy.

Fifth, acquirers should not underestimate cultural differences. It remains very difficult to integrate two different organizations, particularly across continents.

Finally, the question has to be asked whether the strategic objectives of a reinsurer can be achieved without resorting to acquisitions. For instance, some groups have demonstrated that new business can be accessed via existing channels. Similarly, diversity can be achieved by using innovative swap mechanisms.

If the potential for value creation is not clear, then maybe it is best to take the lead from Odysseus when faced with the bewitching call of the Sirens: if you are

Date	Price (Bil. $)	Average Combined Ratio Since Acquisition (%)	Market Combined Ratio for Equivalent Period[1] (%)
June 1995	1.5	112.2	101.1
July 1995	1.0	117.4	101.1
November 1996	3.3	134.3	100.7
July 1997	1.0	115.6	101.4
December 1997	0.2	118.0	101.4
September 1998	0.5	92.4	102.2
December 1998	22.0	124.1	102.2
June 1999	1.2	149.8	103.6
August 1999	N.A.	156.3	103.6
October 1999	N.A.	139.8	103.6
December 1999	0.7	125.1	103.6
March 2000	0.9	119.0	105.1
August 2000	0.5	101.7	105.1
October 2000	0.7	128.7[2]	105.1
August 2001	0.3	142.3	105.9

going to be tempted to jump into the sea, have your sailors tie you to the mast. For a reinsurer, a more practical method is to return the cash to your shareholders; far from being an admission of defeat, this demonstrates that the management is maintaining a true focus on creating value.

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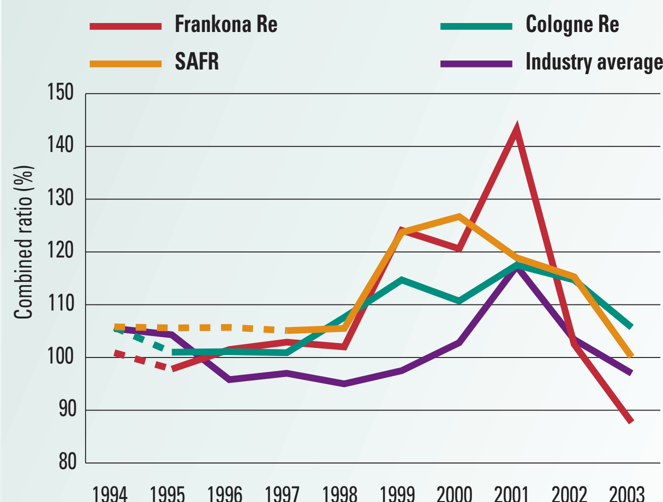
Chart 2: Performance of Selected European Reinsurers Pre and Post Acquisition



Source: ClassicDirect, *Global Reinsurance Highlights,* Reinsurance Association of America returns, company accounts. SAFR–Société Anonyme Française de Réassurances.

The Pace of European Reinsurance Regulation Accelerates

The regulation of direct insurance (and, where applied, reinsurance) plays an important role in protecting the policyholder, particularly where the availability of public information on the insurer is limited. While policyholder protection is also central to the activities of rating agencies, the role played by regulators is very different.

"The past few years have seen a surge of regulatory interest in the European reinsurance market, due to concerns over the deterioration in financial strength of reinsurers and the consequent systemic risk posed to direct companies."

Regulators provide a license to conduct business, which can be rescinded if any regulatory (especially solvency) rules are breached. Regulators can also intervene, to varying degrees, where they identify adverse trends emerging that might result in a future solvency breach. Rating agencies, on the other hand, using a mix of qualitative and quantitative analysis, communicate their opinion of financial strength through the granularity of the rating scale: Standard & Poor's Ratings Services has 10 rating categories from its highest 'AAA' (extremely strong financial strength) to its lowest 'R' (for regulatory supervision). The respective roles and approaches are therefore very different.

Regulation in Europe is evolving rapidly under the weight of Solvency I, Solvency II, the Financial Groups Directive, International Financial Reporting Standards (IFRS), and the Reinsurance Directive. The past few years have seen a surge of regulatory interest in the European reinsurance market, due to concerns over the deterioration in financial strength of reinsurers and the consequent systemic risk posed to direct companies. In addition, there is a desire to create a more level playing field in the regulatory treatment of direct and reinsurance companies within Europe and to bring European reinsurance regulation more in line with certain other parts of the world, particularly the U.S. Reinsurers pose particular challenges for regulators because of the truly global nature of their business.

There are a number of regulatory initiatives that have the potential to affect reinsurers active in the European market. The European Commission (EC) and the International Association of Insurance Supervisors (IAIS) are both active in this area, and are indeed collaborating to ensure a consistent regulatory approach. In addition, there are national regulatory changes, particularly in the U.K., which will be applied to reinsurers. A list of the major regulatory developments is shown in Table 1. Standard & Poor's does not consider these will likely affect ratings in the near term. The longer term impact of Solvency II may result in some realignment in the European reinsurance market, however. In addition, IFRS, while not regulation per se, is also included, as if implemented it will have a significant impact on regulatory reporting.

Standard & Poor's recognizes that the greater regulatory scrutiny of reinsurers could yield material benefits. These benefits may include (1) simplified corporate structures with fewer subsidiaries, (2) fewer collateralization requirements, (3) potentially reduced regulatory arbitrage (also in conjunction with Basel II), and (4) more consistent and detailed reporting. On the other hand, regulations need to be fully thought through so as not to create competitive distortions, particularly with direct markets and between different reinsurance markets. In addition, the increased regulatory scrutiny of reinsurers will not replace the need for buyers of reinsurance to assess the providers' financial strength independently of supervisors.

Filling the Gaps: the Reinsurance Directive

There are currently no prudential requirements dealing with reinsurance in the EU. In contrast, direct insurance activities are already highly regulated and supervised in accordance with EC directives. These have evolved over the past 25 years, and have been broadly successful in ensuring consistent practices in terms of the setting up and regulation of insurers across the EU. Furthermore, the incidence of insurer

Table 1: Major Regulatory Developments

Regulation	Geographical Application	Purpose	Date Effective
IAIS Standard on Supervision of Reinsurers	Global	Lays down supervisory standards for reinsurance globally	September 2003
CP190	U.K.	Introduces risk-based capital regime	2005
Financial Groups Directive	EU	Introduces a financial regime for international financial conglomerates to enable regulation on a whole-group basis rather than piecemeal in each country of operation	2005
IFRS	Global	Introduces international accounting standards	Phase I is expected in 2005, with full implementation in 2007
Reinsurance Directive	EU	Introduces the fast-track adoption of regulation for European reinsurers	2008
Solvency II	EU	Creates a consistent, risk-based insurance solvency system that is compatible with international developments in supervision and financial reporting	2011

failures in Europe as a whole has been relatively low over this period.

Currently, there is a patchwork of regulatory and accounting regimes across the EU, with each country regulating reinsurers based on national legislation only. The U.K., Finland, Denmark, Luxembourg, and Portugal are among those countries where reinsurers are currently regulated in the same way as direct insurers. At the other extreme are countries such as Belgium, Ireland, and Greece, where there is no supervision of reinsurers at all. In the middle group of countries, Austria, Italy, Spain, and Sweden have more reinsurer supervision than Germany, France, and the Netherlands. There is no regulatory solvency margin requirement in Austria, Italy, Germany, France, the Netherlands, Belgium, Ireland, or Greece.

In Switzerland—that is, outside the EU—while reinsurance business is to some extent covered in insurance regulation, most requirements for direct insurance companies do not apply to reinsurance companies. Authorization and supervision are required for Swiss reinsurers, but not for foreign reinsurers doing business there. There is no solvency requirement for Swiss reinsurers, although the regulator applies a benchmark of 20% of net premiums written as a minimum equity requirement.

The key features of the draft Reinsurance Directive, published in April 2004, are as follows:

- Fast-track implementation of regulation based primarily on current direct supervision rules;
- Solvency requirements to be brought in line with those of direct insurance, with the possibility of enhancement by class of business of up to 50% of non-life requirements;
- Introduction of mandatory licensing system;
- Ability to make use of a license obtained in one member country across other EU countries; and
- Collateralization requirements to be abolished. Instead, regulatory credit will be given to assets relating to licensed reinsurers.

Reinsurance companies in those countries where reinsurers are currently regulated in the same way as direct insurers—the U.K., Finland, Denmark, Luxembourg, and Portugal—will not notice much difference in the way they are supervised following the adoption of the new directive. The impact on reinsur-

ers in the remainder of the EU member states will be greater. Outside of the EU, Switzerland is expected to adopt the directive, but Swiss reinsurers will not benefit from the single licensing system, at least initially.

The directive applies to reinsurance undertakings in the EU that conduct only reinsurance business—that is, professional reinsurers. Companies that write both direct business and reinsurance will continue to be regulated under the direct insurance directives.

Interim measure: the fast-track approach.

The EC has opted for a fast-track approach for a directive based primarily on current direct supervision rules. A risk-based capital approach has been deferred until Solvency II is implemented for all EU insurers and reinsurers. Solvency II will in due course supersede the Reinsurance Directive, and is expected to create a consistent, risk-based insurance solvency system. Solvency II is likely to be implemented by member states in 2011, while the Reinsurance Directive is likely to be adopted in 2008.

"As mortality risk is the dominant risk for most European life reinsurers, implementing the 0.3% requirement would make many life reinsurance transactions uneconomic."

Reinsurance solvency requirements brought into line with direct insurance regulation.

Given that rating agency risk-based capital requirements are generally somewhat more demanding than existing regulatory requirements for direct insurers, the proposed solvency requirements for non-life reinsurance, driven as they are by the solvency requirements for direct non-life insurers, are not expected to lead to rated reinsurers being required to hold additional capital.

According to the proposal, solvency requirements for direct non-life business as set out in the direct non-life insurance directives should apply until decisions on possible enhanced requirements for specific reinsurance business lines or types of reinsurance contracts have been taken. The direct non-life insurance directives already provide for an increase of 50% over capital requirements for direct insurance in respect of liability insurances, because they are subject to a particularly volatile risk profile. Therefore, the proposed enhancements of up to 50% may be applied to specific types or classes of business other than liability. The enhanced solvency requirements will only be used after detailed analysis and extensive consultation with interested parties, and will be introduced by the EC. This approach to solvency can be seen as an intermediate step between the current direct solvency regime and Solvency II, with its risk-based capital emphasis.

However, the position with life reinsurance is less clear, and is potentially threatening to EU reinsurers with large life businesses. It is currently proposed that the regulation and solvency requirements in respect of life reinsurance will be based on current supervision rules for direct life insurance. Therefore, as the situation currently stands, life reinsurers will be required to hold solvency at a level equivalent to 4% of reserves and 0.3% of sums at risk (that is, the difference between sums insured and reserves). Since the risks faced by most direct life insurers are predominantly investment-based, the 4% reserve requirement is the more significant capital requirement for direct life insurers. The sums-at-risk component has been viewed for a long time as onerous, but its impact is not significant to most direct insurers. However, as mortality risk is the dominant risk for most European life reinsurers, implementing the 0.3% requirement would make many life reinsurance transactions uneconomic. In Standard & Poor's risk-based capital model, for instance, sums-at-risk charges are 0.08% for the largest companies. The proposed regulatory change therefore implies a quadrupling of this capital requirement. Lobbying against these proposals is intense and, in view of the obvious threat to the competitiveness of life reinsurers in the EU, Standard & Poor's expects it will have some success. Alternative approaches being put forward include using the non-life or health insurance capital requirements.

Licensing becomes mandatory and applicable across the EU.

The mandatory licensing system being proposed is more rigorous than a voluntary passport system (also under consideration). Under the proposal, all reinsurance companies active in the EU, including those whose head offices are outside the region, must obtain a license in order to operate in the EU. (Under the voluntary passport system, reinsurers could trade even in the absence of a license.) The request for a license would be made in the country where the EU head office of the reinsurer is located, while a license would be granted to operate across the EU and could relate to non-life reinsurance, life reinsurance, or both. Reinsurers who are headquartered outside of the EU will have to establish a subsidiary in an EU country (of their choice) as head office, and will be licensed from there. Those reinsurers already active at the time of implementation of the directive will not be required to apply for a license, but will be required to comply with the rest of the regulations.

Collateralization requirements will be abolished.

Standard & Poor's welcomes the abolition of collateralization requirements in the EU; these requirements currently exist in France and Germany only. The practice of requiring collateralization regardless of financial strength does not, in Standard & Poor's view, facilitate efficient operation of the market, and provides less incentive to reinsurers to manage themselves in a prudent manner.

Proposals in the Reinsurance Directive are similar to supervision carried out in the major reinsurance centers of the U.S. and Bermuda, in the sense that they follow the approach used for direct insurers

in key areas such as licensing and solvency requirements. One major difference in the U.S., however, is that solvency requirements for both direct insurers and reinsurance companies follow a risk-based capital approach closer to Standard & Poor's risk-based model than the current EU approach. In Bermuda, there are differing solvency requirements according to the type of business written. Whereas the minimum capital and surplus requirements for most reinsurers is just $1 million, the minimum for property-catastrophe and excess-liability reinsurers is $100 million.

IAIS Turns its Attention to Reinsurers

Given the patchy global reinsurance supervision regime, one of the early focuses of the IAIS has been in this area. The IAIS has adopted a set of principles for minimum requirements for the supervision of reinsurers, as well as a standard on reinsurance supervision. It has also issued a report on the need for greater transparency in the reinsurance industry's financial reporting.

In 2002, the IAIS issued its principles outlining the minimum requirements to be applied by insurance supervisors around the world to regulate reinsurers domiciled in their jurisdictions. The principles also stipulated that the home supervisor was responsible for effective regulation of the reinsurer's business worldwide, and was expected to communicate effectively with supervisors across the globe. Given that reinsurance is a global industry, Standard & Poor's believes that global regulatory standards are required, and therefore welcomes the role being taken by the IAIS. Nevertheless, Standard & Poor's also recognizes that these principles will take many years to implement and represent a significant challenge to supervisors, many of whom have not supervised reinsurers according to these principles in the past. A facilitating factor in the EU will be that the supervisors have experience of implementing the direct directives on which the Reinsurance Directive will be based.

The principles also established that the regulation and supervision of reinsurers should be the same as for direct insurers, with the exception of technical provisions, investments and liquidity, capital requirements, and corporate governance issues. In these areas, it was recognized that a similar, although slightly different, approach was required. The Standard on Supervision of Reinsurers adopted by the IAIS in September 2003 focused on these specific areas and provided related detailed guidance to supervisors.

The Reinsurance Transparency Group (formerly the Task Force on Enhancing Transparency and Disclosure in the Reinsurance Sector) seeks to address the perceived opaqueness of the reinsurance industry as identified by the Financial Stability Forum. The underlying concern is the potential systemic threat that the global reinsurance market might represent. The first step toward improving the transparency of the global reinsurance industry will be the preparation by the IAIS of global reinsurance market reports, including the analysis and interpretation of statistical data such as reinsurers' involvement in derivative financial instruments and credit risk transactions, as well as counterparty risk and linkages to other sectors. The first such report, analyzing 2003 data, will be published in the fourth quarter of 2004 and will consist of nationally aggregated and global data. It will not include reinsurer-specific data.

The IAIS is particularly interested in improving transparency in the areas of (1) the exposure of counterparties (insurers, financial institutions, sovereigns, and others) should reinsurers be unable to honor their obligations on credit-risk-transfer transactions such as credit default swaps, and (2) the resilience of the reinsurance sector to large loss events.

Standard & Poor's will continue to monitor the impact of proposed changes in regulation on rated reinsurers and on industry risk.

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Insurer Financial Strength Ratings

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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.

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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.

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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.

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