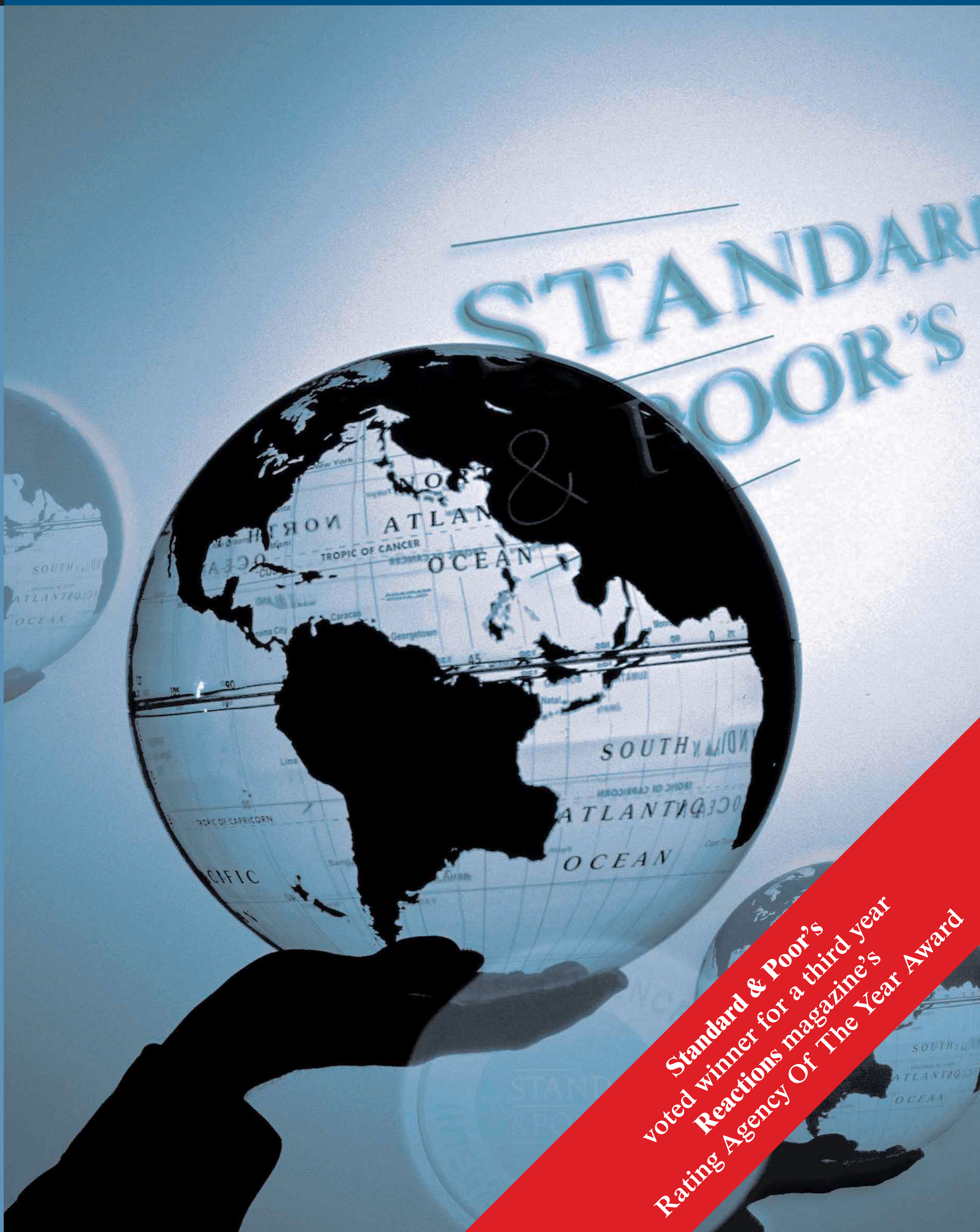
STANDARD & POOR'S

Global Reinsurance Highlights
2005 Edition



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STANDARD & POOR'S

Global Reinsurance Highlights

2005 Edition


The strength to reinsure the world's
leading insurance companies

STANDARD &POOR'S

Transparency Is The Watchword

Transparency is a theme that runs through the 2005 edition of *Global Reinsurance Highlights*. Transparency represents challenges for the industry, but opportunities as well.

The regulatory scene has moved on in unexpected ways. There is a clear warning for industry executives not to be complacent about established industry practices. Corporate boards will need to be imaginative in identifying where the next threats will emerge from and address them before they become issues. Furthermore, executives must not just comply with the letter of the law (or rule, regulation, or standard); executives are being held to account for the spirit too *(see "Costs Mount, Uncertainties Linger In Global Wake Of U.S. Regulatory Storms," on page 50 of this publication)*. The demands for greater transparency continue unabated from shareholders, lenders, brokers, cedents, and regulators in all their forms (insurance supervisors, the IASB, the EU, the SEC, attorneys general).

Substance over form is also the name of the game as far as the trends in accounting standards are concerned. IFRS 4 is effective in Europe for 2005 year-ends, and will result in greater transparency. While the Phase II standard is not expected before 2010, the transparency and consistency of accounts will be elevated to a new level, and Phase II of IFRS 4 may also be adopted as a global standard *(see "International Financial Reporting Standard 4 For Insurance: Threat Overstated, But Phase II Looms," on page 55)*.

Following feedback received by Standard & Poor's Ratings Services from reinsurers at the 2004 Rendezvous, we have embarked on an initiative that will enhance our analysis of insurers' risk management *(see "Enterprise Risk Management Initiative To Enhance Insurance Analysis," on page 53)*. There are two distinct steps involved: first, to determine the quality of insurers' risk management practices; and second, for those with strong risk management practices, to evaluate the models used to quantify risk and capital requirements. We will regularly update reinsurers and the users of ratings as the initiative develops. This is part of Standard & Poor's ongoing commitment to transparency. Meanwhile, reinsurers are exploring how best to communicate the results of their enterprise risk management models, both within their organizations and externally.

Much like enterprise risk management, cycle management means different things to different people. All are agreed that cycle management is essential, but each reinsurer has its own view on the state of the cycle and how best to address the softening market. So how does Standard & Poor's analyze cycle management? Find out in "Cycle Management: The Key To Reinsurer Financial Strength," on page 48. Transparency is playing its part here, too; for example, with the results of rate-monitoring tools being incorporated into reinsurers' governance structures and being placed in the public domain.

One area where transparency is lacking is in the field of reserve adequacy, an issue that continues to haunt the global reinsurance industry. Companies continue to report adverse development on 2001 and prior accident years, albeit that this is increasingly offset by reserve releases from more recent years. Much of the problem can be traced to U.S. primary casualty business. Our most recent study highlights the extent of this problem *(see "Amid Record Profits, Loss Reserving Remains A Sticky Issue For U.S. Property/Casualty Insurers," on page 58)*.

Collectively, all these issues are pushing an industry agenda that includes improved corporate governance, greater professionalism, better underwriting discipline, new technology, more transparent accounting, increased contract certainty, and greater commission disclosure. While the cycle will remain, these positive influences all contribute to our expectation of "ever-decreasing cycles" *(see "Global Reinsurance: Outlook Stable Despite Market Softening," on page 10)*.

In the face of a softening market, the industry is at a critical point, and all eyes will be on the January 2006 renewals season for the next chapter of the unfolding story.

We think *Global Reinsurance Highlights* reflects some of the challenges and opportunities ahead. We hope that you enjoy the 2005 edition. Please contact us if you have any feedback that may help us to enhance *Global Reinsurance Highlights* in future years.

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Global Reinsurance: Outlook Stable Despite Market Softening

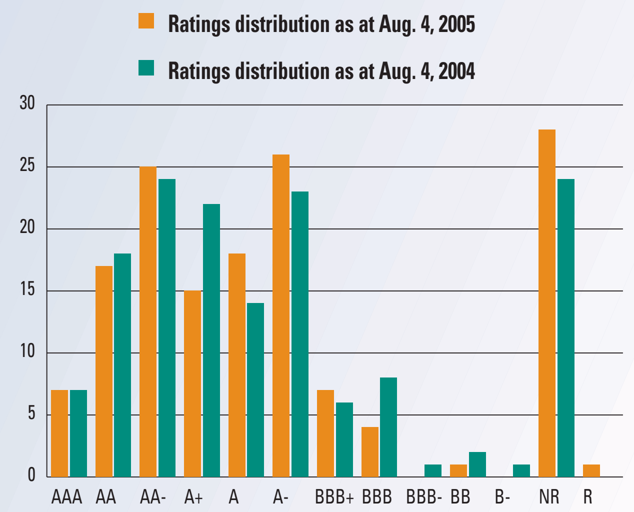
Standard & Poor's Ratings Services is maintaining its stable outlook on the global reinsurance industry: there remains a possibility that a small number of downgrades and upgrades may occur during the remainder of 2005 and into 2006, but the ratings are unlikely to change for the majority of the industry's constituents.

The stable outlook is driven by good prospects for continued strong medium-term non-life underwriting performance, an expectation that the next cyclical low will be less severe than historically, and, beyond that, an expected persistent flattening of cyclical swings. Although under-reserving continues to be an issue for underwriting years prior to 2002, its impact is expected to be largely offset by reserve surpluses from the more recent underwriting years, allowing strong accident-year performance to flow directly to the bottom line in 2005 and 2006. Other clouds on the horizon—such as the various U.S.-led investigations into the (mis)use of finite reinsurance—are significant challenges, but are not, in general, a threat to ratings.

Chart 1 shows the stability in ratings during the past year. Among the largest 150 reinsurers, there has been a small migration downward to 'A' from 'A+' and upward to 'A-' from 'BBB+'. The changes have generally been much less marked than in recent years, however, and this reflects the stable, largely benign environment.

The stable industry outlook is reflected in chart 2. Among the largest 150 reinsurers, a large proportion (72%) of outlooks on ratings are stable, compared with 19% that are negative and 7% that are positive.

Chart 1: Change In Ratings Distribution For Top 150 Reinsurers Globally



2004 Reinsurers' Earnings

The reinsurance industry turned in another respectable performance in 2004, despite the significant storm activity of the third quarter. The non-life combined ratio for the industry, based on the largest 150 reinsurers, was 97% in 2004, compared with 94% for the same group in 2003. In the 17 years covered by chart 3, 2004 marked only the second time that a combined ratio under 100% was achieved, and the average for the period was a mediocre 108%. ROR was a good 8.2% in 2004, compared with 10.7% in 2003 and an average over the 17-year period of 5.3%.

On a group basis and using ROR as the benchmark, Bermuda-based reinsurers outperformed their European counterparts in 2004, with no fewer than five groups achieving RORs in excess of 10% despite the storms. The larger European reinsurers achieved RORs under 10%, but nevertheless largely met ROE expectations. Perhaps the most dramatic worsening in performance was by RenaissanceRe Holdings Ltd., whose ROR fell to 7.2% from 41.9%, entirely due to storm losses. Montpelier Re Holdings Ltd., ACE Tempest Re, and Platinum Underwriters Holdings Ltd. also saw RORs cut significantly compared with 2003 because of the storms.

U.S. reinsurers continued to perform worse than their counterparts elsewhere. In 2004, U.S. reinsurers' combined ratio and ROR averaged 111% and 2%, respectively. However, the price increases over the past four years should have meant that results for 2004 would be very good. Instead, results were dragged down by continued reserve strengthening of slightly more than $4 billion reported, which contributed an estimated 16 percentage points to the 2004 combined ratio. These results followed equally unimpressive operating performance in previous years, with the U.S. reinsurance industry reporting combined ratios of 127% and 106% and ROR of negative 7% and 6%, in 2002 and 2003 respectively.

Ever-Decreasing Cycles…

The global non-life reinsurance industry is entering a critical phase in its development. In the past, the industry has been characterized by extreme periodic swings in the relative power of the buyers and sellers of reinsurance. The resulting volatility in prices, terms, and conditions has been the largest single driver of the erratic, and in aggregate poor, operating performance of reinsurers, and has been a significant contributor to the decline in financial strength seen in recent years.

Although the cyclical high has passed, reinsurer discipline is being maintained on the whole, both in absolute terms and relative to some primary markets, where there are signs of weakening resolve. The Jan. 1 2005 renewals saw weakening prices in some lines of business compared with the cyclical high of 2004 (the "hard market"), and the key issue for the industry is whether history will be repeated or whether there will be a reduction in the severity of the downturn in the cycle compared with previous cyclical lows. Specifically, a repeat of the underwriting conditions of 1999-2000 would again place enormous stress on the industry's financial strength, and on its ratings.

Clearly, the cycle has not been consigned to history. Among other factors, the continued availability of new capital and the ease of entry into the market guarantee this. Nevertheless, there is an accumulation of factors in play that are applying considerable pressure on reinsurers' senior management to maintain the discipline that has been observed thus far:

- Underwriting and pricing tools are becoming increasingly scientific, and pricing is incorporating required returns on allocated capital.
- There is greater transparency and disclosure for shareholders, lenders, brokers, and cedents.
- Increasingly demanding shareholders are feeding off the increased transparency and requiring adequate returns.
- The levels of excess capital held by some Continental European reinsurers before 2001 (and destroyed by 2003) are unlikely to be replicated as a consequence of the increased demands of shareholders.
- Capital is now managed by most companies as a scarce resource, with some using advanced enterprise risk management tools. Consequently, capital needs are quantified and capital is allocated where it is most effectively utilized.
- Excess capital is being returned to shareholders by some new Bermudian and Lloyd's businesses.

Chart 2: Outlook Distribution As At Aug. 4, 2005

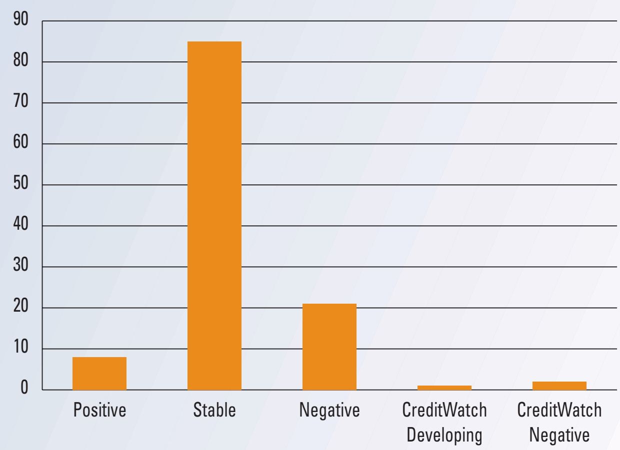
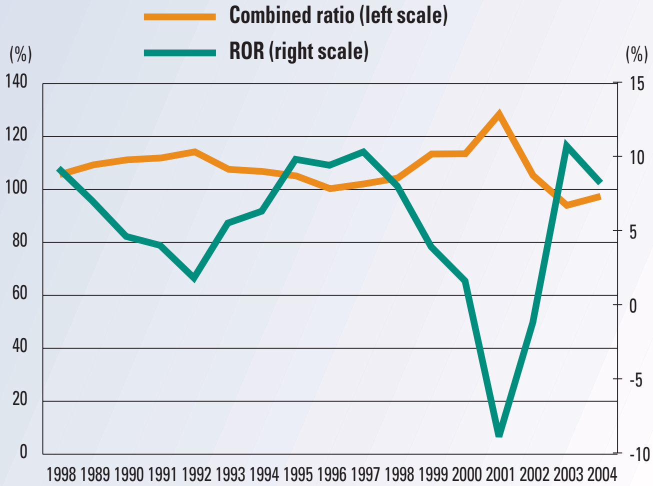


Chart 3: Aggregate Combined Ratio And ROR For Reinsurers



- Modest investment returns are anticipated for the foreseeable future.
- There is heightened scrutiny of broker and client security committees.
- There is more regulation, and more intelligent regulation.

With the exception of investment returns, we believe that these factors are favorable trends that, in combination, will result in ever-decreasing cycles. Some of the above are self-explanatory, whereas others are worthy of further exploration, either below or in other articles in this publication.

Pricing tools are becoming more sophisticated

The use of more sophisticated pricing tools deserves amplification. Insurers are being increasingly scientific in their approach to underwriting and pricing. Once

Top 10 Non-Life Reinsurance Groups

Ranking	Group	Country	Gross Premiums Written (Mil. $) 2004	2003
1	Munich Re	Germany	22,203.6	24,267.4
2	Swiss Re	Switzerland	17,680.7	17,442.6
3	Lloyd's	U.K.	11,881.2	11,798.9
4	Hannover Re	Germany	10,080.0	11,380.3
5	Berkshire Hathaway Re[1]	U.S.	8,558.0	10,107.0
6	GE Insurance Solutions	U.S.	7,221.0	8,191.0
7	Allianz Re[2]	Germany	6,516.0	6,303.3
8	Everest Re	Barbados	4,704.1	4,573.8
9	Transatlantic Holdings Inc.	U.S.	4,141.2	3,637.9
10	Converium	Switzerland	3,591.2	4,025.4

1. Premium figures relate to net premiums written.
2. For 2004, less than 10% of net premiums written relate to third-party reinsurance business.

the exception, the use of pricing tools based on models driven by target ROE has become the norm for the industry, and ensures that the financial targets set by senior management are reflected in the pricing decisions taken at a local level by underwriters. While the use of such tools for property catastrophe risks has been a feature of the industry for some time, the widespread application to other lines, including casualty business, is a comparatively recent development. The output from these tools is increasingly a key determinant in the acceptance or refusal of a risk and, as such, drives profitability. We look more favorably on those reinsurers that are able to demonstrate that there are appropriate assumptions embedded in these tools and that there are controls around them to ensure that their effectiveness is not weakened by commercial pressures.

Transparency is increasing

The demands for greater transparency continue unabated from shareholders, lenders, brokers, cedents, and regulators in all their forms (insurance supervisors, the IASB, the EU, the SEC, attorneys general). Collectively, these demands are pushing the agenda for improved corporate governance, greater professionalism, better underwriting discipline, more transparent accounting, increased contract certainty, and greater commission disclosure.

Historically, the reinsurance industry has been considerably more difficult for outsiders (including analysts) to understand than other industries and, in some cases, opaque even to those operating within it. However, things are changing rapidly:

- The heightened scrutiny of financial reinsurance transactions is an obvious high-profile area where the bar has been raised by regulators in the U.S. and Europe.
- The International Association of Insurance Supervisors, which can be thought of as the emerging global regulator for insurance, has pointed to the need for greater disclosure, while the G30 working group on reinsurers' public disclosure, whose members include representatives from across the industry, is due to issue a report on this topic also.
- The introduction of IFRS will require greater disclosure that will enhance users' understanding of reinsurers' financial standing considerably.
- Brokers are on the defensive and having to reinvent their income streams and disclosure thereof.
- The Financial Services Authority is likely to impose financial penalties on U.K. insurers if contract certainty at inception is not achieved by 2007.
- Catching the transparency wave, many reinsurers voluntarily provide extensive disclosures after the end of the Jan. 1 renewal season, allowing a glimpse of the cyclical position.

While acknowledging the changes that are taking place, we consider that there is more that can be done to improve transparency. Even for some of the largest reinsurers, levels of disclosure vary greatly, and greater standardization is highly desirable. In particular, comparisons between European and North American reinsurers of line-by-line property/casualty performance gross and net of reinsurance and of loss reserve development trends remain challenging. The GAAP financial statements of some of the larger U.S. reinsurers are subsumed into those of much bigger conglomerate groups. Another area where comparison is difficult is the performance of life reinsurance. European reinsurers have embraced embedded value, but embedded-value reporting is not comparable with U.S. GAAP. This discrepancy may change with the implementation of IFRS Phase II.

...But The Cycle Will Persist

Although Standard & Poor's expects a significant reduction in the volatility of the cycle, the cycle will persist. The reasons for this include:

- New capital is readily available.
- Barriers to entry are low, especially for short-tail lines.
- Reinsurers face difficulties in differentiating themselves in more commoditized lines of business.
- The pressure to perform declines as capital is rebuilt.
- Some shareholders and equity analysts, despite the best efforts of management, continue to see growth in premiums as unconditionally positive.
- It is difficult to motivate underwriters and marketing staff when there is no top-line growth.
- Reinsurers with high fixed expenses will be reluctant to cut the top line if expense ratios suffer.
- Diversification benefits factored into pricing models make it possible for the large multi-line reinsurers to accept potentially lower premiums compared with monoline reinsurers, thus exerting a downward pressure on the market.

Perhaps of most significance, a marked improvement in investment returns on their current levels would release the pressure to make underwriting profits. However, we are not expecting significant changes in the investment environment for the foreseeable future.

Reserving Less Of An Issue

Although Standard & Poor's does not expect the issue of adverse reserve development to disappear, it is expected to be less of a factor in the immediate future than previously. This is largely because it is likely that, in years to come, reserves will be released from the 2002 and later underwriting years—years that benefited from strong pricing and terms and conditions—and that this will offset to a significant extent any further adverse development on earlier years. In 2004, there was $21 billion of adverse development in the U.S. property/casualty insurance sector[1]. Between 2002 and 2004, U.S. insurers added a massive $34 billion to reserves in respect of accident years 1997-2001. U.S. casualty insurance has been the source of the reinsurance industry's reserving issues. In view of the reporting delays, reinsurers tend to catch up some months after the insurers, as evidenced recently by American Re's latest round of reserve additions, announced in July 2005. U.S. reinsurers alone added $18 billion to reserves, most of it relating to the same underwriting years, in 2001-2004.

The 2002 accident year is proving to be more problematic from a reserving perspective than previously thought, and a number of companies have reported adverse development. In 2004, U.S. insurers reversed $1.2 billion of the initial $5.0 billion reserve release made in 2003.

The reserving opacity of the major European insurers has meant that large reserve additions in the U.S. subsidiaries are to some extent "hidden" by releases elsewhere in their group or centrally held reserves.

Absent a significant increase in the claims count or acceleration in paid losses, Standard & Poor's believes most reinsurers will not be under pressure to increase their asbestos claims reserves further in the medium term. Reserve strengthening for asbestos exposure among primary writers dropped considerably in 2004 following big increases in the previous two years. Travelers started the last round of asbestos reserve additions in the fourth quarter of 2002. Then, in 2003, all the major players—ACE Corp., Hartford Financial Services Group Inc., Liberty Mutual Group Inc., CNA Financial Corp., Nationwide Financial Services Inc., Allstate Corp., St. Paul Cos., and Chubb Corp.—followed suit. Most recently, after Travelers' merger with St. Paul Cos. in April 2004, the merged group boosted its asbestos claims reserves by more than $900 million in the fourth quarter of 2004.

Most insurers and reinsurers now appear comfortable with their reserve position, even taking into account that they believe that chances for quick, favorable federal legislation to resolve the issue are slim. Companies are also heartened that legislative and judicial measures at the state level are beginning to adopt medical criteria to screen out unimpaired claimants and are placing their cases on inactive dockets.

Claims related to silica exposure are a potential threat to the same insurers that have large asbestos exposures. However, there were no significant legal developments or large additions to reserves related to silica in 2004.

Investigations Continue, But Are Not A Threat To The Industry

The various investigations into broker business practices and financial reinsurance are expected to have a limited impact on the reinsurance industry. There will continue to be uncertainty while these investigations endure and subpoenas continue to be issued. On the financial reinsurance front, it is worthy of note that all of the restated financial statements published so far have resulted in immaterial adjustments stemming from the reclassification of reinsurance transactions. More significant is the fact that demand for these transactions has dried up in the current climate. The providers of financial reinsurance may find this line of business increasingly challenged in the more transparent world. *(See also "Costs Mount, Uncertainties*

1. See "Amid Record Profits, Loss Reserving Remains A Sticky Issue For U.S. Property/Casualty Insurers," published June 14, 2005, on RatingsDirect and ClassicDirect, Standard & Poor's Web-based credit analysis systems, and on page 58 of this publication.

Linger In Global Wake Of U.S. Regulatory Storms," on page 50 of this publication.)

Securitization Gains Momentum

Securitization is being used more and more as new investors become increasingly comfortable with new asset classes. Swiss Re's mantra of "increasing the velocity of risk through [its] balance sheet" shows signs of delivering real competitive advantage. Even where Swiss Re's balance sheet is not involved, the group often acts in an advisory capacity for other insurers or corporates. Natural catastrophe bonds are well established, but have been supplemented in recent years by catastrophe swaps and securitizations of life embedded value and mortality. Securitizations of motor underwriting risk and man-made catastrophes may follow soon.

First-Half Results Suggest Strong Profitability In 2005

History has shown that pricing and other terms and conditions remain the most important determinants of aggregate medium-term industry profitability, rather than large loss events. Terms and conditions are agreed for up to two-thirds of the major reinsurers' traditional treaty portfolios at the Jan. 1 renewals, while for the U.S. market, in particular, the July 1 renewals are also significant. Therefore, reinsurer behavior at these renewals is an important indicator of future profitability trends.

After four years of rising premium rates, the Jan. 1, 2005 renewals were expected to be characterized by falling rates, particularly in property classes. To an extent, this was true: capacity was plentiful; for some loss-free property accounts, reductions in prices of up to 15% were reported; and, potentially more concerning, increasing competition emerged in certain U.S. casualty lines. However, material wholesale reductions were avoided, perhaps due to the proximity of the unusual 2004 hurricane season. Inevitably for accounts affected by the hurricanes, reinsurers were able to push through meaningful price increases. For property lines where general price declines have been recorded, rates still appear to be at economic levels. More importantly, other terms and conditions have remained largely intact. The July 1, 2005 renewals saw a continuation of these trends. While weakening, reinsurers' discipline is more robust than in the primary marketplace, where insurers' resolve is questionable in a number of lines of business and territories.

Most reinsurers report that premium rates continue to be above the level required to meet ROE targets. As always, there is considerable variation by geography and by line of business. Rates on European risks are more healthy than those on U.S. risks, while the margin on casualty business is generally higher than that on property business. Aviation risks are still profitable, but close to breakeven.

While it is expected that premium rates will continue to fall over the remainder of 2005 and at the January 2006 renewals, the benefit of the price increases implemented during the 2003 and 2004 renewals is expected to be felt in reinsurers' 2005 and 2006 results. In addition, for the reasons given above, the reductions are not expected to be as dramatic as in the past. Consequently, barring a major catastrophe, shorter tail writers are expected to record combined ratios below 85% in 2005. Those with a longer tail mix of business should be able to achieve ratios around 95%. This is borne out by the reported results for the first half of 2005, although, with the main storm seasons still to come, first-half results are not necessarily a good indication of the full-year outcome. Unsurprisingly, as 2004 was the peak of the pricing cycle for short-tail business, shorter tailed writers reported combined ratios lower than 85% at June 30, 2005. 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 2006.

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.

"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."

Ratings Will Have To Be Reassessed If Rate Reductions Accelerate

The stable outlook for the reinsurance industry is predicated on the expectation that the historically cyclical volatility will remain, but will be reduced. This should manifest itself in a rather more gentle decline in prices and in the robustness of terms and conditions over the next few years than that which occurred after the last cyclical peak in the early- to mid-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 review of ratings in the industry will be required.

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Consolidation Breeds Strength For A Stable Life Reinsurance Sector Outlook

Consolidation in the life reinsurance sector continued in 2004, and is reaping benefits for the sector as a whole, leading to a stable outlook.

Steady demand combined with reduced supply have not only increased pricing power, but have also greatly improved the terms by which the game is played. The sustainability of this scenario will depend on discipline—not only by incumbents, but also by a new class of entrants that has recently emerged. Meanwhile, capital markets might turn out to be friend or foe, as both reinsurers and primaries evaluate the role of new innovative forms of capital as risk management tools.

Another One Bites The Dust

In late 2004, Scottish Re Group Ltd. (Scottish Re) announced its acquisition of the individual life reinsurance business of ING GROEP N.V. (ING Re)—yet another major transaction in the race to consolidate the life reinsurance sector. (ING retained its group life reinsurance business.) In this little-fish-eats-big-fish acquisition, the previously No. 6 Scottish Re springboarded to No. 2 by insurance in force in the U.S. market, squeaking past Reinsurance Group of America Inc. (RGA), with both having about 15% market shares, behind Swiss Re, which holds nearly 30%.

For new business, the picture is dramatic: in its sprint toward the finish, ING Re had the highest market share for ordinary new business written in 2004 at 18%, and was seen by many as the price leader. ING Re took top honors away from Swiss Re, which spent the year aggressively reunderwriting and repricing its entire U.S. book, raising premium rates by 8% on average. Before sale, ING Re stopped accepting new business, and the frenzy began, with ceding companies scrambling to replace ING Re with similar terms and pricing—a challenging task. In most cases, cedents were forced to accept higher pricing from the replacement carrier and will face a struggle in hoping to pass that pricing onto the end customer.

With ING Re's exit from the reinsurance market, that leaves only two 'AA' rated life reinsurers—Swiss Re and Transamerica Re (a unit of AEGON N.V.)—operating in the U.S. market. ING Re was the fourth major highly rated reinsurer to leave the market in the past five years. Cedents will almost certainly have to accept lower credit ratings, higher prices, or both, to replace ING Re and maintain well-diversified treaty participation.

The loss of ING Re should take some additional pressure off of pricing, which will help all who remain in the sector. Improved pricing adequacy had begun to take hold ahead of the ING Re acquisition, and seems to be extending further, although some reinsurers are hinting that it is really not enough. Many have implied that margins have improved, but that it is still difficult to meet the market's ROE demands in the current competitive market. Some, while maintaining their U.S. traditional positions, are seeking niche positions either abroad or in specialty coverages or services to enhance margins.

When The Going Gets Tough, The Tough Get Tougher

Although the rest of the market was scrambling to take advantage of consolidation by grabbing additional share, Swiss Re actually retrenched by taking full advantage of its market heft. In 2004, Swiss Re conducted reviews of underwriting and claims functions at its entire U.S. life reinsurance portfolio of clients, in most cases raising prices, and in some cases refusing to re-bid at all. As Swiss Re has done in various European countries before, it is taking advantage of its leading

Top 10 Life Reinsurance Groups

Ranking	Group	Country	Gross Premiums Written (Mil. $) 2004	2003
1	Swiss Re	Switzerland	10,356.1	9,393.1
2	Munich Re	Germany	8,346.6	6,854.6
3	Reinsurance Group of America Inc.	U.S.	3,644.5	2,918.5
4	Hannover Re	Germany	2,968.8	2,857.2
5	GE Insurance Solutions	U.S.	2,410.0	3,367.0
6	Berkshire Hathaway Re[1]	U.S.	2,022.0	1,839.0
7	SCOR	France	1,646.3	1,271.5
8	Revios Re	Germany	1,641.4	1,641.0
9	XL Re	Bermuda	1,343.5	673.0
10	Transamerica Re (AEGON)	U.S.	1,202.0	1,253.0

1. Premium figures relate to net premiums written.

market position by playing hardball with clients. Swiss Re has one advantage over some of its core competitors: given the strong margins in its property/casualty business at this point in the cycle, that business is the better place to invest capital, so Swiss Re is quite content to accept stunted growth in life for the sake of greater profitability.

A side benefit that the entire sector is enjoying (at the expense of their clients) is tightening of terms and conditions. Particularly in respect of underwriting, reinsurers are setting strict standards that ceding companies must adhere to or risk a reinsurer's refusal to pay a claim or force arbitration. The move is in part a reflection that heavy use of reinsurance had removed ceding companies' incentive to underwrite carefully, and now reinsurers are seeking to bring back discipline. Swiss Re has led the charge globally, but its treaty standards are quickly moving the greater market, much to its competitors' delight. At the same time, several reinsurers have become more aggressive at pursuing arbitration to enforce treaty terms rather than working out polite arrangements. Clearly, the gentlemen's agreements that used to govern life reinsurance relationships are not just dying; they are dead.

All of this should bode well for life reinsurers, but possibly at the expense of their reputation as business partners. Flashpöhler Research Group Inc. (Flashpöhler) conducts a biennial survey of ceding company attitudes about reinsurers. Satisfaction rates had been slowly declining for a decade, but in its 2005 report, Flashpöhler showed that the percentage of cedents who responded that they were very satisfied with their reinsurers plummeted to 15% from 46% in the previous survey. The results of the survey were heavily influenced by the exit of one of the top reinsurers, accompanied by the tough tactics of another, but the entire sector now has a black eye. The responses to the survey indicate that life cedents see their reinsurers as having transitioned from partner to adversary over a very short period of time.

Given this backdrop, what is a ceding company to do? One possibility is to use less reinsurance by increasing retention or switching from quota share to an excess-of-retention structure. A handful of companies have done this, as demonstrated by a 1% decline in new face amounts reinsured versus an estimated increase of 6% in new face amounts issued in 2004. Most public companies, however, are reluctant to bring mortality-related volatility into their financial statements, meaning that they have been reluctant to decrease reinsurance use. Many companies have decreased their reinsurance cost by switching from coinsurance to yearly renewable term, where rates have not risen quite as much. This often leaves the primary company with term insurance reserves under Regulation Triple-X that must be funded, but given reinsurance rate increases, many companies are finding it more economical to solve that problem themselves than to pass it onto the reinsurers.

How Long Will The Party Last?

Already new entrants are beginning to make waves in the market. Wilton Reassurance Co. (Wilton Re) joined the scene in the fall of 2004 as the first significant de novo life reinsurer to enter the U.S. market in about five years. Although the company has yet to make a significant impact on the market, it is well positioned with more than $600 million of committed capital and a strong executive pool, with many former Swiss Re senior executives.

"Much like in the U.S., term life insurance drives the U.K. life reinsurance market. Fueled by mortgage-related sales, which are now dying down with the end of the housing boom, new term sales were down 17% in 2004, according to Swiss Re Term & Health Watch, following more than 10 years of continuous growth."

Among the most credible new entrants, however, are those that have been active in non-life reinsurance, perhaps dabbling a bit around the edges of life reinsurance. In the U.S., ACE Tempest Life Reinsurance Ltd. and Max Re Ltd. have increased their writings and their interest in life reinsurance, generally specializing in niche areas such as payout annuities, closed books, and customized financial structures. Similarly, the XL Re group and Partner Re S.A. have increased their activity in Europe, and particularly the U.K., with a focus on payout annuities, but looking at mortality coverage as well. These companies have all found very profitable niches given consolidation in the sector, and seem to be looking to the Swiss Re model of moderating property/casualty volatility through investment in the far more stable life reinsurance segment.

Conditions are ripe for these companies to do well, given the supply/demand imbalance in the market; however, it is too early to know their ultimate effect. XL Re and Partner Re saw opportunity in both payout annuities and critical illness (CI) in the U.K., and already have affected rates on those sectors due to increased competition. Wilton Re is likely to fill a portion of the void left by ING Re's market exit, although some cedents might be reluctant to enter business with an untested company, in spite of a rich balance sheet and management track record; however, if margins in the sector have truly improved, it will not take long for these and possibly other entrants to dive in with force, perhaps even bringing back some bargains for the life companies. Life reinsurance does not exhibit such a volatile underwriting cycle as property/casualty, but competitive forces have spurred more of a cycle than in the past—a situation that, at least over the medium term, is likely to become more pronounced by the presence of aggressive new entrants.

U.K. Market In Upheaval

The U.K., Europe's largest life reinsurance market, has gone through a good degree of upheaval recently. Swiss Re has retrenched somewhat in the U.K., not unlike its U.S. strategy, reducing its focus to fewer, more profitable clients. Meanwhile, Swiss Re and Munich Re both have allowed their top positions to be overtaken (with respect to new business) by refusing to write CI insurance with guaranteed rates. This product has been a key market driver and has allowed GE Frankona Reinsurance Ltd. (formerly ERC Frankona) to take over the top spot. In spite of increased premium rates in that market of about 30% in the past few years, many carriers are still running in fear. A few new entrants, including XL Re, Partner Re, and RGA, have all shown at least some willingness to accept this risk, keeping the market active and making things challenging for the former top two.

Much like in the U.S., term life insurance drives the U.K. life reinsurance market. Fueled by mortgage-related sales, which are now dying down with the end of the housing boom, new term sales were down 17% in 2004, according to Swiss Re Term & Health Watch, following more than 10 years of continuous growth. Despite a decline in sales, average premiums and amounts in force continued to rise, which should speak well of the adequacy of pricing—at least on the primary side. At the same time, the proportion of term insurance policies sold with a CI acceleration rider decreased to 37% in 2004 from 47% in 2003, due to the steep rise in rates. Many primary companies have played tough with reinsurers, requiring them to accept CI risk to get the mortality business. If the proportion of sales remains low, CI might become less important to the major protection writers, reopening the door for those who have shied away from CI—primarily Swiss Re and Munich Re.

The U.K. consolidation and new entrant trend is perhaps about two years ahead of the U.S., and the new entrants have mostly had their success in niche areas or by accepting risks that few others wanted—namely payout annuities (that is, longevity risk) and guaranteed CI. The argument is that due to lack of competition, these products held the higher margins. A new developing trend is likely to help those companies to crack open the mainstream: U.K. insurers are now developing individual capital assessments (ICA) to determine their regulatory capital need. These models will be more robust than in the past, and, although standards are still under development, might encourage diversification across reinsurers to limit credit exposures and capital requirements.

On the continent, Solvency II will roll out over the remainder of the decade. An outgrowth of Basel II, this regulation will likely look a great deal like the ICA in the U.K. Given that in many countries this will be the first robust risk-based capital requirement, it is likely to raise the capital requirements significantly for some companies, who might turn to reinsurance far more than before. The major Continental European markets have historically focused on service and relationship, as well as financing for savings products, often with only a few reinsurers dominating each country. Reinsurers are increasingly interested in the potential development of financial solutions to help companies, particularly in the large German market, to solve capital strain through reinsurance, which should invite new players into the market. In these slow-moving markets, however, meaningful change is probably several years away.

Life Reinsurers Use Capital Markets To Access Capital

The past two years have been a time of rapid development for new and innovative capital markets transactions for the life insurance sector, led by the reinsurers. These transactions have allowed the companies access to capital or to risk management tools that did not exist in the past.

Swiss Re produced one of the most innovative with its mortality catastrophe bond, issued by Vita Capital Ltd. in November 2003. The $400 million facility had a three-year term and will pay Swiss Re in the event that a predefined population mortality index should exceed 130% of the 2002 level. In April 2005, Swiss Re pushed the bar further, raising $362 million through Vita Capital II Ltd., this time with the first tranche attaching at 110% of expected mortality for any two-year period over a five-year term. With concerns over terror and pandemic, Swiss Re found an innovative way to protect itself against a portion of its mortality tail risk, and more such innovation is likely in the future.

In a different type of capital, Swiss Re raised $245 million through Queensgate Special Purpose Ltd., which will be repaid through the embedded value emerging from various blocks of acquired life insurance business. This represents a key development in Swiss Re's ongoing Administrative Re block acquisition business, providing a key source of nonrecourse capital to make future acquisitions.

In another unique transaction, BNP Paribas designed a product with Partner Re to hedge longevity risk. In this case, the insurer (Partner Re) is taking on the longevity risk, allowing it to offer a unique financial product to various U.K. funds to hedge their risk. The future of exactly such instruments is not known, but the development underscores that reinsurers need to be capital markets savvy to stay ahead of peers and to meet varied client needs.

Scottish Re has used numerous means to access capital, collateral, and liquidity to support its fast-growing business. In its Stingray Pass-Through Trust, the company locked in $325 million of access to liquidity as a substitute for a bank line of credit, but with a 10-year term. Then through Orkney Holdings LLC, the company raised $850 million of reserve collateral to support its Regulation Triple-X liabilities. This was the first such facility by a reinsurer and the largest to date. As all reinsurers operating in the U.S. have similar liabilities, most are looking at this development and investigating their options.

Scottish Re was not the first, however, to securitize excess Triple-X reserves. Two primary companies, First Colony Life Insurance Co. and Banner Life Insurance Co., developed similar facilities in 2004 in a sort of declaration of independence from the need to access reinsurer capital to fund Triple-X reserves, and in large part a response to reinsurers raising their pricing for such collateral. This may be a wake-up call to reinsurers that they need to stay competitive or ceding companies will explore alternative means of risk management. In reality, most smaller companies do not have the critical mass to create one of these transactions on their own. But for larger companies, capital markets are enhancing the array of options at their disposal, and reinsurers could see their business disappear if they do not respond.

Conclusion

Life reinsurers globally, but particularly in the hyper-competitive U.S. and U.K. markets, continue to gather those rosebuds, as the timing seems to be optimal to write high-quality, high-margin business. As new entrants gain traction, they are likely to eat away at the quantity and quality of business written by the incumbents. Large reinsurers are looking for new alternatives—perhaps Asia— for profitable growth outside of the traditionally highly commoditized western markets. Still less than 5% of the global life reinsurance market, Asia has perhaps the greatest potential for those that can manage to be effective in that market. Like chess players, each of the remaining players—and potential new ones—continue to guess the moves of competitors and clients alike to maximize position. Interesting times lie ahead.

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Top 40 Global Reinsurance Groups

Top 40 Reinsurance Groups Ranked By Net Reinsurance Premiums Written

Ranking	Group	Country	Net Reinsurance Premiums Written (Mil. $) 2004	2003
1	Munich Re	Germany	28,889.4	29,197.9
2	Swiss Re	Switzerland	25,780.2	24,776.6
3	Berkshire Hathaway Re	U.S.	10,580.0	11,946.0
4	Hannover Re	Germany	10,125.9	10,241.6
5	GE Insurance Solutions	U.S.	8,173.0	9,729.0
6	Lloyd's	U.K.	7,653.1	7,818.3
7	Allianz Re[1]	Germany	5,586.1	5,226.1
8	Everest Re	Bermuda	4,531.5	4,315.4
9	XL Re	Bermuda	4,149.3	3,483.1
10	PartnerRe	Bermuda	3,852.7	3,589.6
11	Transatlantic Holdings Inc.	U.S.	3,749.3	3,341.1
12	Converium	Switzerland	3,553.0	3,827.0
13	Tokio Marine & Nichido Fire Insurance Co. Ltd.[2]	Japan	3,455.1	2,579.7
14	Reinsurance Group of America Inc.	U.S.	3,342.5	2,639.2
15	SCOR	France	3,296.8	4,260.1
16	Odyssey Re	U.S.	2,362.6	2,153.6
17	Sompo Japan Insurance Inc.	Japan	2,052.8	2,027.3
18	Mitsui Sumitomo Insurance Co. Ltd.	Japan	1,956.1	1,859.8
19	Caisse Centrale de Réassurance	France	1,718.1	1,403.1
20	Korean Re	Korea	1,678.4	1,350.8
21	Platinum Underwriters Holdings Ltd.	Bermuda	1,646.0	1,172.1
22	ACE Tempest Re	Bermuda	1,524.6	1,225.4
23	Revios Re	Germany	1,384.5	1,257.0
24	Aioi Insurance Co. Ltd.	Japan	1,370.4	1,443.5
25	RenaissanceRe Holdings Ltd.	Bermuda	1,349.3	1,154.8
26	Alea Group Holdings (Bermuda) Ltd.	Bermuda	1,338.1	1,028.7
27	Transamerica Re (AEGON)[3]	U.S.	1,327.0	1,451.0
28	Toa Re Co. Ltd.	Japan	1,310.3	1,326.4
29	AXA Re	France	1,308.4	1,609.7
30	QBE Insurance Group Ltd.	Australia	1,305.0	1,402.0
31	Endurance Specialty Holdings Ltd.	Bermuda	1,290.8	1,222.5
32	White Mountains Re	Bermuda	1,246.3	1,475.3
33	Chubb Re	U.S.	1,138.7	N.A.
34	Axis Capital Holdings Ltd.	Bermuda	1,060.2	654.4
35	Mapfre Re	Spain	1,053.1	727.5
36	Aspen Insurance Holdings Ltd.	Bermuda	1,009.1	821.0
37	Arch Re Ltd. (Bermuda)	Bermuda	820.4	866.6
38	Manulife Financial Corp. (reinsurance division)	Canada	815.1	568.5
39	Montpelier Re Holdings Ltd.	Bermuda	749.3	778.0
40	Deutsche Rück	Germany	706.0	563.3

1. For 2004, less than 10% of net premiums written relate to third-party reinsurance business.
2. In October 2004, Tokio Marine & Fire Insurance Co. Ltd. and Nichido Fire & Marine Insurance Co. Ltd. merged to form Tokio Marine & Nichido Fire Insurance Co. Ltd.
3. Figures relates to gross premiums written.

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.

Pretax Operating Income (Mil. $)		Expense Ratio (%)		Loss Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)		ROR (%)	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
1,470.0	1,922.2	28.3	27.5	70.7	69.1	28,285.8	24,328.1	4.4	6.0
1,916.4	994.1	26.7	25.7	72.0	72.6	20,610.5	17,686.5	6.2	3.5
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	48,486.0	40,818.0	N.A.	N.A.
476.1	673.5	22.3	14.0	81.6	86.8	3,784.1	3,274.3	4.0	5.8
-271.0	331.0	17.1	19.9	91.4	78.5	8,248.0	7,943.0	-2.7	2.9
2,712.1	3,417.1	31.4	33.2	65.0	57.2	26,236.6	20,611.2	10.9	15.1
3,629.6	3,596.9	25.9	27.7	57.5	65.9	65,741.5	56,066.2	42.5	42.2
470.1	529.2	24.5	25.6	74.4	69.6	3,712.5	3,164.9	9.6	12.8
N.A.	N.A.	28.7	29.0	66.3	90.0	N.A.	N.A.	N.A.	N.A.
382.6	383.1	28.9	27.7	65.4	65.5	3,351.9	2,594.4	9.4	10.1
254.0	376.7	26.0	26.2	75.2	70.4	2,587.1	2,376.6	6.4	10.9
-469.2	206.0	22.9	21.9	89.5	71.4	1,720.2	2,083.3	-11.7	5.3
503.1	1,069.4	31.4	N.A.	64.3	N.A.	30,678.3	29,769.9	9.4	31.0
341.8	253.4	N.M.	N.M.	N.M.	N.M.	2,279.0	1,947.7	8.6	8.0
145.9	-440.6	36.2	25.6	69.3	97.3	1,805.9	777.0	3.8	-8.7
165.3	175.6	28.1	29.4	69.9	67.5	1,585.5	1,390.2	6.3	7.6
738.2	595.2	31.2	31.9	68.5	56.8	15,613.9	14,125.5	21.6	20.4
770.0	1,555.4	31.2	32.0	70.4	55.0	18,177.9	17,321.8	4.4	9.1
225.5	123.7	11.0	8.2	73.5	115.6	2,476.8	1,931.0	12.1	8.3
73.0	76.5	29.5	26.5	67.3	69.6	623.1	495.0	4.4	5.7
113.2	190.9	27.2	32.2	70.4	54.7	1,133.0	1,067.2	7.4	16.9
213.5	358.7	24.1	24.8	69.7	50.9	N.A.	N.A.	14.0	30.1
106.7	76.4	N.M.	N.M.	N.M.	N.M.	764.0	621.0	6.8	5.2
20.0	206.5	N.A.	N.A.	N.A.	N.A.	6,243.1	5,904.1	N.A.	N.A.
109.7	525.5	22.5	23.4	81.9	33.0	2,144.0	2,084.6	7.2	41.9
22.1	75.3	32.7	33.3	70.4	61.6	706.4	725.4	1.8	8.2
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
-12.6	38.9	N.A.	N.A.	88.5	64.4	2,143.5	2,121.2	-0.8	2.5
151.2	143.5	14.5	33.1	81.4	71.1	1,573.8	1,850.9	10.0	5.6
113.9	93.3	32.0	31.9	65.3	65.3	840.8	681.7	7.2	6.2
345.8	252.5	30.4	29.9	57.3	54.5	1,862.7	1,644.8	25.5	26.2
66.4	148.8	31.2	30.7	72.6	73.7	1,873.3	1,910.8	4.7	8.7
N.A.	N.A.	32.7	N.A.	62.3	N.A.	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	21.1	18.5	63.4	47.1	3,238.1	2,817.1	N.A.	N.A.
84.7	52.2	33.2	34.2	58.5	58.3	654.2	408.7	9.2	7.7
266.7	209.0	25.1	27.8	59.6	50.8	1,481.5	1,298.7	20.5	24.8
186.5	175.4	28.0	23.4	57.4	58.0	1,808.7	1,323.7	19.4	22.2
261.5	215.5	N.M.	N.M.	N.M.	N.M.	N.A.	N.A.	26.1	27.9
233.2	399.6	26.4	27.0	51.4	23.3	1,751.9	1,657.7	27.0	52.3
20.9	0.1	36.8	31.5	53.8	62.7	417.7	301.4	3.3	0.0

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

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 some of those areas.

Asia-Pacific

Cheaper capacity reduces reinsurers' profits but outlook remains stable

Standard & Poor's expects the financial strength of local reinsurers in the Asia-Pacific region to remain stable in the coming year, even as market conditions soften. This outlook is supported by local reinsurers' relatively conservative underwriting, reasonable earnings, and adequate capitalization.

The Asia-Pacific non-life reinsurance markets are softening. However, the degree of softening varies among markets in the region, due to factors such as reliance on reinsurance, competition, market sophistication, and catastrophe risk exposure.

In some markets such as Japan and Australia, which are more sophisticated and prone to natural catastrophe risks, reinsurers have been better able to maintain terms and conditions than providers in other markets in the region. Although premium rates and terms have softened, rates remain more favorable when compared with the pre-2001 level. For those markets with weaker market discipline, high competition, and sufficient reinsurance capacity available—such as Hong Kong, Taiwan, and Singapore—reinsurance pricing has dropped significantly for non-catastrophe-risk reinsurance cover in the past two years. In markets with a low reliance on reinsurance, such as China, pricing in the primary market has been soft due to the lower influence from the wider global reinsurance market.

In 2004, catastrophe losses from the tsunami in the Indian Ocean and typhoons in Japan and Taiwan had a limited impact on those regional non-life reinsurance markets: the 2005 reinsurance renewal was soft compared with 2004, and is likely to soften further in the coming year if the primary markets remain profitable and there are no further major catastrophe events.

Between 2002 and 2004, insurance companies tried to reduce their reinsurance costs by increasing their risk retention, either by increasing the retentions on their existing treaties or by purchasing nonproportional rather than proportional treaties. At the 2005 renewals, however, insurance companies in the region largely maintained their reinsurance arrangements similar to 2004, although treaty limits were increased due to cheaper reinsurance capacity available.

Life reinsurance has benefited from the good growth momentum in the region, as well as from the increased need for reinsurance capacity for new business development in emerging markets such as China. Nevertheless, pricing on life business has also softened due to increased competition and the relatively low risks compared with non-life reinsurance.

Latin America

Strong growth sparks shuffling of region's reinsurance players

Competition among Latin American reinsurers has increased, largely because of the region's consistent annual premium growth rates of about 10%. This has resulted in decreasing prices, particularly for jumbo risks, where price reductions were as high as 20% for catastrophe programs and facultative non-life writings. It is important to mention that in spite of the price reductions, underwriting practices have remained prudent and reinsurance commissions are decreasing, so the quality of business has not changed. As a reflection of trends in global markets, Latin American reinsurance dynamics are being affected by three key issues: decreasing prices; further reductions in proportional capacity; and an important switch in the strategy followed by international players.

Although Latin American insurance markets are a very small proportion (barely 1.5%) of global direct premiums, they still generate an interesting amount of ceded premiums and some volume for nonproportional revenues. In 2004, estimated ceded premiums in the region were $8.7 billion, while premiums from nonproportional contracts were barely $700 million.

Latin American insurers have seen reduced capacity for proportional reinsurance contracts of as much as 15% in the past two years. Given that a large number of global reinsurers are acting more prudently regarding their exposures while pursuing business that is more profitable, these reinsurers have been reducing their proportional exposures and increasing the proportion of excess-of-loss coverage in their books of business.

In particular, 2004 was a catastrophic year for the Caribbean. According to the Economic Commission for Latin America and the Caribbean, hurricanes Ivan and Jeanne caused direct and indirect losses totaling about $2.1 billion. Although the effects of the 2004 hurricane season in the Caribbean did not affect pricing in the region as a whole for the 2005 renewals in June, some upward rebound is expected at year-end when claims start to develop. However, given the large capacity directed to the region, there are no important price increases to occur for primary insurers, especially for those not writing business in the Caribbean. Higher price increases are expected mainly for the Dominican Republic, the Bahamas, the Cayman Islands, and Jamaica. For the rest of the countries affected by these hurricanes, there are no significant claims for insurers expected.

Large global players that traditionally dominated the reinsurance arena in the region—mainly Swiss Re, Munich Re, and Hannover Re—are redefining their strategy in Latin America and reducing capacity to the region, strengthening underwriting conditions, or letting some business go. Others like XL Re Latin America and SCOR Re have dropped business lines completely. On the other side, companies that showed limited appetite for Latin American risks like General Re and Mapfre are slowly increasing their market share—though cautiously under good pricing and underwriting conditions. Of particular interest is the penetration by the U.K.-based Lloyd's insurance market, which, following the increase in its underwriting capacity, is writing a large amount of catastrophe contracts, thus increasing its market share in the region.

For the years to come, Standard & Poor's expects a switch in the market share of traditional players in the market as well as the entrance of players that remained dormant in the past. However, the largest companies—Swiss Re and Munich Re—will remain as the leading underwriters in the region, though limiting their capacities. The volume of ceded premiums from the region for 2006 is expected to remain close to the $9 billion level, and premiums from excess-of-loss programs will increase, but remain below $1 billion. These forecasts take into account further reductions in proportional capacity favoring nonproportional schemes.

Central And Eastern Europe

The challenges facing regional reinsurers

The opening-up of the insurance markets in Central and Eastern European (CEE) over the past 15 years has led to the development of a number of regional reinsurers based in and around the region specializing in providing reinsurance to CEE primary insurers.

These reinsurers are either new start-ups or, in some cases, national reinsurers under the old regimes that have ventured outside their traditional borders. From the new EU countries have come Poland-based Polskie Towarzystwo Reasekuracji S.A. (PTR), Latvia-based JSC Riga Re, and Slovenia-based Pozavarovalnica Sava d.d. (Sava Re). Elsewhere in CEE have come Dunav Reosiguranje a.d. and DDOR Novi Sad a.d. from Serbia, Croatia Lloyd d.d. from Croatia, and Bosna Reosiguranje d.d. from Bosnia and Herzegovina. And from Russia have hailed the reinsurance operations of the long-established Ingosstrakh Insurance Co., as well as Moscow Reinsurance Co., Russian Re, JSC Trans-Siberian Reinsurance Corp., and Reso Re. Despite the early success of these reinsurers, their long-term survival will depend on how well they are able to cope with the changes that will come about as the markets in the region begin to mature.

"The emergence of local Central and Eastern European reinsurers has been based on two main advantages: closeness to the markets and appropriate size."

It would be a fundamental mistake to regard the countries of CEE as in any way homogeneous. The level of economic, political, and insurance market development varies radically from country to country. Slovenia produces insurance premium of $905 per capita, for example, close to the $1,255 per capita produced in Portugal, which has been an EU member for almost 20 years. In contrast, Ukraine and Romania produce only $62 and $49 per capita, respectively.

The distinguishing feature for these countries, however, is the growth potential that exists over the next few decades as political changes allow their economies to move closer to those of Western Europe and as an increasing number of these countries aspire toward membership of the EU. While the levels of premium remain fairly low today, the potential from a region of 188 million people (excluding the 144 million in Russia) is very significant.

In CEE, along with some of the larger global reinsurers, there has developed a whole range of relatively small regional players. It is interesting to reflect on what has been the basis of their success so far and to consider what they will need to do to succeed in the future.

The emergence of local CEE reinsurers has been based on two main advantages: closeness to the markets and appropriate size.

“The winners in the long term will be those local reinsurance companies that do not just grow in line with the market, but can also increase their capacity more quickly in order to be able to play a part in the markets as they develop further and demand greater capacity and improved security.”

Closeness to the markets derives from the relevance of these reinsurers’ experience. CEE reinsurers, particularly those based in the countries that recently joined the EU, have often been involved in the key stages of market development that are just being tackled or have yet to be tackled in other countries in the CEE region. PTR, for example, has successfully invested in primary insurers in Lithuania, Ukraine, and Poland, and Sava Re has significant shares in the second- and fifth-largest insurers in Slovenia—Zavarovalnica Maribor d.d., and Zavarovalnica Tilia d.d.—and in Helios Osiguranje d.d. in Croatia. This very specific knowledge allows those reinsurers to offer additional support to primary insurers in the less developed markets, particularly in the eastern regions of CEE.

Closeness to the markets also reflects cultural ties. Historical ties should not be underestimated in the region, as they reflect shared histories as part of the Austro-Hungarian Empire or, more recently, Yugoslavia. The ties of common languages remain strong, whether they are different languages with common Slavic roots, whether they reflect the widespread use of the Serbo-Croatian language in some areas, or whether they reflect the generations in central CEE who were all taught Russian at school.

Many of these reinsurers are of appropriate size for their clients. They are often relatively small operations, but they are providing capacity to small and midsize primary writers that are themselves small by international standards. These reinsurers are prepared to consider relatively small risks and write them at realistic premiums or offer quota-share capacity on relatively small accounts. For example, reinsurers have in some cases provided facultative reinsurance to insurers for individual high-value cars. This type of business would not generally be considered by larger reinsurers.

The long-term success of these domestic players will depend on how well they are able to deal with the maturing of the CEE insurance markets. This challenge has already begun to emerge in the more developed insurance markets of CEE, and will increasingly face reinsurers across the whole region. As the market grows and as regulation becomes more sophisticated, there is generally a need for more capital. The result of this is consolidation in the market, together with acquisitions of some midsize local operations by international groups. The result of both these actions is that the number of small and midsize insurers is reduced. The size of their capital bases also increases, allowing them to have greater premium retentions and to focus on buying higher capacity surplus and excess-of-loss covers. The effect of this is to reduce the need for the very type of protections offered by the local reinsurers, and in the area of the markets where they have a competitive advantage. Primary insurers will also inevitably become more focused on the financial strength of their reinsurers. The effect of these two factors will be to demand greater capital from the local reinsurers, both to provide meaningful reinsurance capacity to these changing markets and to improve their financial strength.

These developments will take time to emerge across the whole region. The winners in the long term will be those local reinsurance companies that do not just grow in line with the market, but can also increase their capacity more quickly in order to be able to play a part in the markets as they develop further and demand greater capacity and improved security.

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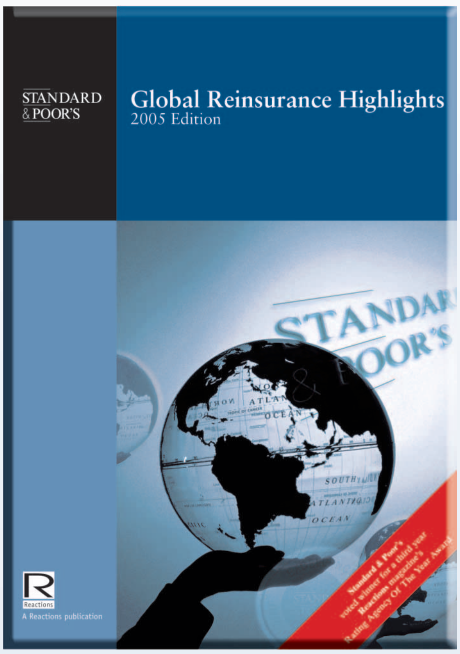

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Global Reinsurer List By Country

To bring you the 2005 edition of *Global Reinsurance Highlights*, Standard & Poor's Ratings Services collected data on approximately 220 reinsurance organizations from 48 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.

As in 2004, Standard & Poor's has endeavored to collect 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

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
ALGERIA				
NR	Compagnie Centrale de Réassurance	26.6	25.8	3.2
	Total	**26.6**	**25.8**	**3.2**
AUSTRALIA				
NR	Swiss Re Australia Ltd.	301.2	333.5	-9.7
NR	Hannover Life Re of Australasia	192.6	142.2	35.4
A+	Munich Re Co. of Australasia Ltd.	184.0	165.0	11.5
AA	Swiss Re Life & Health Australia Ltd.	180.2	158.3	13.8
AAA	General Re Life Australia Ltd.	63.5	61.8	2.7
AAA	General Re Australia Ltd.	58.4	80.3	-27.2
	Total	**979.9**	**941.1**	**4.1**
AUSTRIA				
NR	Generali Holding Vienna AG	1,318.6	650.4	102.7
A-	UNIQA Versicherungen AG	736.9	554.3	32.9
NR	Generali Rück AG	136.2	86.2	58.1
AAA	GeneralCologne Re Rück AG, Wien[1]	N.A.	24.7	N.A.
	Total	**2,191.8**	**1,315.5**	**66.6**
BAHRAIN				
BBB	Arab Insurance Group (B.S.C)	119.4	102.7	16.2
NR	Trust International Insurance Co.	9.2	7.6	20.4
	Total	**128.5**	**110.3**	**16.5**

calculated as (net losses incurred + net underwriting expenses)/net premiums 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. For those groups or entities writing non-life and life reinsurance business, the combined ratio reflects non-life business only.

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 net 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 17.

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 (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
7.6	10.1	70.9	63.2	57.7	56.3	2.4	20.7	27.8
7.6	**10.1**	**70.9**	**63.2**	**57.7**	**56.3**	**2.4**	**20.7**	**27.8**
161.1	71.1	83.1	91.3	429.7	338.1	27.1	38.8	21.1
15.6	18.6	N.M.	N.M.	147.9	125.2	18.2	7.5	11.6
42.9	23.0	87.4	102.8	220.2	238.1	-7.5	18.6	10.7
38.6	23.5	N.M.	N.M.	112.1	91.0	23.2	17.6	12.2
7.6	1.8	N.M.	N.M.	30.7	25.3	21.1	11.1	2.8
-12.9	30.8	155.8	91.2	146.9	146.1	0.5	-14.4	30.7
252.9	**168.8**	**92.4**	**94.6**	**1,087.6**	**964.0**	**12.8**	**20.0**	**16.0**
53.2	36.0	100.9	100.1	2,585.3	2,266.4	14.1	5.7	4.4
41.7	26.0	102.1	110.1	1,828.2	1,425.9	28.2	4.8	3.8
4.9	4.8	100.8	103.5	190.7	171.7	11.1	3.2	4.9
N.A.	22.6	N.A.	41.1	N.A.	58.3	N.A.	N.A.	64.2
99.8	**89.3**	**101.3**	**103.4**	**4,604.1**	**3,922.2**	**17.4**	**5.2**	**5.3**
9.6	6.1	106.5	112.5	223.1	128.8	73.3	5.8	4.8
9.3	5.3	58.1	56.9	169.8	109.8	54.7	66.7	56.6
18.9	**11.3**	**103.1**	**108.7**	**392.9**	**238.6**	**64.7**	**10.2**	**8.4**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
BARBADOS				
NR	Imagine Insurance Co. Ltd.	506.3	474.2	6.8
AA-	Royal Bank of Canada Insurance Co. Ltd.	496.0	577.3	-14.1
NR	London Life and Casualty Re Corp.	192.9	357.9	-46.1
NR	Revios Re International Barbados Ltd.	96.3	89.1	8.1
NR	European International Re Co. Ltd.	1.5	27.6	-94.6
	Total	**1,293.0**	**1,526.2**	**-15.3**
BELGIUM				
A-	Secura N.V.	315.9	327.3	-3.5
	Total	**315.9**	**327.3**	**-3.5**
BERMUDA				
AA-	XL Re Ltd.	2,326.2	1,566.7	48.5
AA-	Partner Re Co. Ltd.	2,030.9	1,797.8	13.0
AA-	Everest Re (Bermuda) Ltd.	1,418.8	1,196.8	18.5
A+	ACE Tempest Re Ltd.	1,127.6	921.4	22.4
NR	Arch Re Ltd. (Bermuda)	820.4	866.6	-5.3
A-	Montpelier Re Ltd.	749.3	778.0	-3.7
AA-	Renaissance Re Ltd.	732.2	605.9	20.8
NR	Olympus Re[2]	561.4	523.2	7.3
A	AXIS Specialty Ltd.	536.4	452.3	18.6
NR	Max Re Ltd.	535.6	662.4	-19.1
A-	Endurance Specialty Insurance Ltd.	484.1	485.4	-0.3
A-	Alea (Bermuda) Ltd.	411.4	269.3	52.8
A+	IPCRe Ltd.	358.3	308.9	16.0
NR	Catlin Group Ltd.	326.2	284.5	14.7
A	Aspen Insurance Ltd.	287.9	198.4	45.1
A	PXRE Re Ltd.	265.0	197.1	34.5
AA-	Hannover Re Bermuda Ltd.	252.8	186.9	35.2
A+	ACE Tempest Life Re Ltd.	220.5	184.9	19.3
A	DaVinci Re Ltd.	198.8	184.0	8.0
NR	Rosemont Re	131.9	175.6	-24.9
NR	Transamerica International Re Bermuda	116.5	133.0	-12.4
AA-	Tokio Millennium Re Ltd.	102.3	100.0	2.2
NR	ESG Re Bermuda Ltd.	81.5	53.5	52.2
AAA	RAM Re Co. Ltd.	66.1	67.9	-2.7
AA	Top Layer Re Ltd.	41.3	42.3	-2.4
AA-	MS Frontier Re Ltd.	19.8	8.2	141.5
	Total	**14,203.0**	**12,250.9**	**15.9**

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
103.4	71.3	99.9	100.4	524.2	385.1	36.1	15.8	17.2
229.9	305.0	71.0	58.0	732.7	648.4	13.0	45.0	50.2
-13.0	4.8	N.M.	N.M.	316.1	318.2	-0.7	-3.9	0.8
21.7	4.8	N.M.	N.M.	32.0	12.0	167.2	13.0	5.3
3.7	20.8	N.M.	183.7	341.6	386.9	-11.7	9.4	28.2
345.7	**406.7**	**85.6**	**79.8**	**1,946.5**	**1,750.6**	**11.2**	**23.9**	**25.3**
38.0	1.7	97.0	105.7	216.2	159.9	35.2	10.7	0.5
38.0	**1.7**	**97.0**	**105.7**	**216.2**	**159.9**	**35.2**	**10.7**	**0.5**
N.A.	N.A.	101.1	53.8	N.A.	N.A.	N.A.	N.A.	N.A.
473.6	453.4	80.6	80.0	2,357.2	1,998.7	17.9	22.5	22.9
213.9	145.1	96.5	96.7	1,486.9	1,222.3	21.6	13.2	13.6
248.5	329.3	89.8	71.0	3,284.6	2,575.8	27.5	21.5	35.5
186.5	175.4	85.4	81.4	1,808.7	1,323.7	36.6	19.4	22.2
233.2	399.6	77.8	50.3	1,751.9	1,657.7	5.7	27.0	52.3
206.3	473.0	89.0	47.7	1,455.0	1,300.0	11.9	24.4	64.7
N.A.	197.6	N.A.	61.0	N.A.	715.7	N.A.	N.A.	41.6
N.A.	N.A.	68.3	60.2	2,501.2	1,823.6	37.2	N.A.	N.A.
41.6	-12.4	95.9	100.3	937.0	805.2	16.4	6.2	-1.6
353.5	274.2	64.6	76.4	1,387.6	1,065.2	30.3	57.0	47.1
-38.3	15.2	113.1	114.7	421.2	409.9	2.8	-11.6	6.7
130.5	245.1	71.4	28.5	1,669.0	1,567.1	6.5	31.7	68.1
170.6	145.2	90.2	86.8	971.2	638.6	52.1	14.0	16.5
35.3	28.7	91.5	81.4	658.8	377.0	74.8	13.0	25.4
48.2	93.6	84.6	51.6	749.1	425.8	75.9	17.8	48.9
101.7	177.6	67.4	16.5	1,294.9	821.8	57.6	35.0	81.8
47.4	8.4	N.M.	N.M.	1,308.9	1,121.9	16.7	19.3	4.0
-53.1	88.8	134.9	64.2	565.0	594.1	-4.9	-23.5	42.1
-10.0	36.0	107.3	94.5	241.7	260.1	-7.1	-6.1	13.9
22.3	63.0	N.M.	N.M.	1,081.2	441.8	144.7	14.8	40.6
26.2	53.7	106.1	61.3	595.3	582.7	2.2	16.8	62.0
-9.0	-15.7	100.7	110.5	19.2	33.1	-42.0	-10.4	-22.5
26.9	21.2	80.6	75.4	349.3	287.0	21.7	49.0	52.4
34.4	41.8	17.6	19.4	62.0	69.8	-11.2	83.5	89.2
14.8	4.0	25.5	60.4	220.3	106.3	107.2	81.3	57.3
2,504.9	**3,442.0**	**89.0**	**71.3**	**27,177.0**	**22,224.8**	**22.3**	**19.6**	**31.2**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
BOSNIA				
NR	Bosna Re	4.8	5.3	-8.8
	Total	**4.8**	**5.3**	**-8.8**
BRAZIL				
NR	IRB-Brasil Resseguros S.A.	525.9	433.9	21.2
	Total	**525.9**	**433.9**	**21.2**
CANADA				
A+	Munich Re Co. of Canada	273.5	140.4	94.9
AA	Swiss Re Life & Health Canada	149.1	139.6	6.8
AA	Swiss Re Co. Canada	137.4	109.3	25.7
A-	SCOR Canada Re Co.	48.5	104.1	-53.4
NR	Revios Re Canada Ltd.	36.5	37.2	-1.9
	Total	**645.0**	**530.5**	**21.6**
CAYMAN ISLANDS				
A-	Scottish Annuity & Life Insurance Co. (Cayman) Ltd.	489.7	266.1	84.0
	Total	**489.7**	**266.1**	**84.0**
CROATIA				
NR	Croatia Lloyd	22.8	18.4	23.9
	Total	**22.8**	**18.4**	**23.9**
CYPRUS				
BBB	Alliance International Re Public Co. Ltd.	32.7	33.1	-1.3
	Total	**32.7**	**33.1**	**-1.3**
DENMARK				
A	GE Frankona Re A/S[3]	395.0	258.5	52.8
NR	KaB International	4.4	4.9	-10.2
	Total	**399.4**	**263.4**	**51.6**
EGYPT				
NR	Egyptian Re Co.	43.3	38.2	13.5
	Total	**43.3**	**38.2**	**13.5**

STANDARD & POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
1.0	0.9	N.A.	N.A.	7.3	5.8	25.0	20.5	16.6
1.0	**0.9**	**N.A.**	**N.A.**	**7.3**	**5.8**	**25.0**	**20.5**	**16.6**
186.8	126.2	100.0	100.1	520.5	416.6	24.9	31.0	29.0
186.8	**126.2**	**100.0**	**100.1**	**520.5**	**416.6**	**24.9**	**31.0**	**29.0**
47.2	10.4	92.0	99.7	303.5	249.4	21.7	14.8	9.5
22.8	-11.7	N.M.	N.M.	186.2	165.8	12.3	8.3	-4.4
27.6	41.4	88.9	81.6	126.7	142.9	-11.3	19.1	33.9
16.3	11.7	95.3	100.5	129.6	104.2	24.4	21.1	8.2
0.7	2.6	N.M.	N.M.	59.6	59.3	0.3	1.7	6.3
114.6	**54.3**	**91.4**	**94.3**	**805.6**	**721.6**	**11.6**	**14.0**	**10.4**
62.0	-17.4	N.M.	N.M.	988.2	770.8	28.2	8.8	-4.2
62.0	**-17.4**	**N.M.**	**N.M.**	**988.2**	**770.8**	**28.2**	**8.8**	**-4.2**
6.6	7.0	86.7	79.1	42.0	38.3	9.7	25.9	33.4
6.6	**7.0**	**86.7**	**79.1**	**42.0**	**38.3**	**9.7**	**25.9**	**33.4**
3.3	2.6	94.2	100.6	59.6	53.5	11.4	9.2	8.0
3.3	**2.6**	**94.2**	**100.6**	**59.6**	**53.5**	**11.4**	**9.2**	**8.0**
285.0	83.6	24.7	75.7	N.A.	314.5	N.A.	65.5	23.1
-1.0	-2.2	140.6	183.2	14.5	12.6	14.8	-19.0	-36.9
284.0	**81.5**	**26.0**	**77.7**	**14.5**	**327.1**	**N.M.**	**64.6**	**22.0**
12.5	15.6	142.1	156.2	129.2	131.3	-1.6	16.8	19.4
12.5	**15.6**	**142.1**	**156.2**	**129.2**	**131.3**	**-1.6**	**16.8**	**19.4**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
FRANCE				
AAA	Caisse Centrale de Réassurance	1,718.1	1,403.1	22.5
AA-	AXA Re[4]	1,308.4	1,337.5	-2.2
AA-	PartnerRe S.A.	1,029.8	861.4	19.6
A-	SCOR	765.8	876.6	-12.6
AA-	XL Re Europe	284.9	315.9	-9.8
NR	Mutuelle Centrale de Réassurance[2]	284.0	264.7	7.3
NR	CORIFRANCE[2]	32.8	30.6	7.3
	Total	**5,424.0**	**5,089.8**	**6.6**
GERMANY				
A+	Munich Re Co.	24,729.0	25,489.4	-3.0
AA-	Hannover Rück AG[5]	5,638.2	4,663.2	20.9
AA-	Allianz AG[6]	5,058.8	4,661.9	8.5
AAA	Kölnische Rück Ges AG[1]	2,027.1	2,012.0	0.8
AA-	E+S Rück AG[5]	1,807.7	1,844.0	-2.0
AA	Swiss Re Germany AG[7]	1,367.8	2,222.6	-38.5
A	GE Frankona Rück AG[3]	1,281.1	2,628.7	-51.3
A+	R+V Versicherung AG	1,182.0	788.5	49.9
A-	Revios Rück AG	591.3	406.9	45.3
BBB+	Converium Rück (Deutschland) AG	530.7	488.5	8.6
A+	Deutsche Rück AG	407.8	326.4	24.9
BBB	Wüstenrot & Württembergische AG	374.3	397.2	-5.8
NR	Versicherungskammer Bayern Konzern-Rück	322.1	271.6	18.6
A-	SCOR Deutschland Rück AG	101.1	132.0	-23.4
NR	Hanseatica Rück AG	0.3	1.3	-73.9
	Total	**45,419.1**	**46,334.2**	**-2.0**
HONG KONG				
A-	China International Re Co. Ltd.	117.4	125.3	-6.3
	Total	**117.4**	**125.3**	**-6.3**
INDIA				
BBpi	General Insurance Corp. of India	1,053.6	943.5	11.7
	Total	**1,053.6**	**943.5**	**11.7**

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
225.5	123.7	84.4	123.8	2,476.8	1,931.0	28.3	12.1	8.3
151.2	50.0	95.9	104.2	1,573.8	2,171.5	-27.5	10.0	3.0
17.2	30.4	111.0	103.5	677.6	596.6	13.6	1.5	3.2
-16.8	-975.2	101.3	128.5	2,170.3	1,035.6	109.6	-2.0	-106.0
67.2	25.9	80.3	97.5	541.0	369.1	46.6	20.8	7.6
N.A.	17.1	N.A.	106.1	N.A.	234.3	N.A.	N.A.	5.8
N.A.	3.7	N.A.	86.9	N.A.	48.7	N.A.	N.A.	11.7
444.3	**-724.4**	**95.0**	**113.3**	**7,439.5**	**6,386.8**	**16.5**	**7.8**	**-13.8**
1,437.6	2,871.4	96.5	93.6	35,708.0	31,366.9	13.8	5.2	11.2
58.7	50.5	96.8	94.8	4,958.1	3,834.2	29.3	0.9	0.9
2,869.1	3,445.3	84.9	96.0	64,625.1	55,146.5	17.2	36.1	42.6
230.8	147.7	99.5	109.8	1,528.4	1,230.3	24.2	10.0	6.4
83.3	53.6	96.7	87.0	1,695.0	1,406.3	20.5	3.9	2.6
344.3	353.7	89.2	94.3	2,042.5	1,811.9	12.7	21.1	14.2
363.6	141.3	66.9	87.7	N.A.	1,456.6	N.A.	25.1	4.9
123.7	89.0	102.9	105.4	1,995.9	4,053.8	-50.8	9.1	9.5
26.5	54.5	N.M.	N.M.	686.8	626.1	9.7	3.5	10.6
35.0	-12.7	95.8	99.0	351.2	197.5	77.8	5.9	-2.4
66.8	45.3	81.2	87.5	377.8	305.9	23.5	17.9	14.1
-11.3	50.5	104.9	106.3	4,411.2	4,078.7	8.2	-3.0	10.5
53.3	55.4	81.7	82.7	243.6	143.9	69.3	15.4	19.0
24.2	37.4	101.5	84.4	139.2	369.0	-62.3	20.0	24.0
0.1	-0.1	267.5	152.5	14.1	13.9	1.9	7.3	-3.1
5,705.6	**7,382.6**	**94.3**	**94.4**	**118,777.0**	**106,041.5**	**12.0**	**9.5**	**12.5**
25.6	24.7	100.1	97.7	176.8	161.3	9.6	14.1	13.6
25.6	**24.7**	**100.1**	**97.7**	**176.8**	**161.3**	**9.6**	**14.1**	**13.6**
182.7	289.4	113.1	100.4	973.6	937.8	3.8	13.9	23.9
182.7	**289.4**	**113.1**	**100.4**	**973.6**	**937.8**	**3.8**	**13.9**	**23.9**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
IRELAND				
NR	Hannover Life Re Ireland Ltd.	544.5	475.2	14.6
NR	London Life & General Re Co.	470.5	556.6	-15.5
AA-	Hannover Re (Ireland) Ltd.[8]	449.7	705.0	-36.2
AAA	Cologne Re Co. (Dublin) Ltd.[8]	256.6	234.9	9.2
NR	Scottish Re (Dublin) Ltd.	234.6	191.8	22.3
AA-	Hannover Re (Dublin) Ltd.[8]	227.5	340.6	-33.2
A	Atradius Re Ltd.	209.0	182.5	14.5
AA	Swiss Re Ireland Ltd.[8]	162.1	685.5	-76.4
AA-	E+S Re (Ireland) Ltd.[8]	129.1	160.5	-19.5
AA-	Tokio Marine Global Re Ltd.	82.1	92.1	-10.9
A+	QBE Re (Europe) Ltd.	74.2	89.7	-17.3
AA-	Mitsui Sumitomo Re Ltd.	66.4	47.7	39.3
A	GE ERC Strategic Re Ltd.[3, 8]	52.0	28.0	85.7
NR	ESG Re (Ireland) Ltd.[2]	38.8	36.2	7.3
NR	Revios Re Ireland Ltd.	26.7	-7.9	N.M.
NR	RBC Re (Ireland) Ltd.	7.2	2.7	171.8
	Total	**3,031.1**	**3,821.0**	**-20.7**
ITALY				
A+	Münchener Rück Italia SpA[9]	517.0	527.8	-2.0
A-	SCOR Italia Riassicurazioni SpA[9]	137.4	181.3	-24.2
	Total	**654.4**	**709.1**	**-7.7**
JAPAN				
AA-	Tokio Marine & Nichido Fire Insurance Co. Ltd.[10]	3,455.1	2,579.7	33.9
AA-	Sompo Japan Insurance Inc.	2,052.8	2,027.3	1.3
AA-	Mitsui Sumitomo Insurance Co. Ltd.	1,956.1	1,859.8	5.2
A-	Aioi Insurance Co. Ltd.	1,393.0	1,470.3	-5.3
AA-	Toa Re Co.	998.1	1,011.4	-1.3
A+	NIPPONKOA Insurance Co. Ltd.	995.3	959.2	3.8
A+	Nissay Dowa General Insurance Co. Ltd.	408.5	394.7	3.5
BBB+	Fuji Fire & Marine Insurance Co.[11]	381.4	376.8	1.2
BBB+	Kyoei Fire & Marine Insurance Co.	232.7	236.0	-1.4
BBB+	Nisshin Fire & Marine Insurance Co. Ltd.	183.3	198.6	-7.7
A-	ACE Insurance	22.7	26.6	-15.0
	Total	**12,079.1**	**11,140.5**	**8.4**

STANDARD &POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
16.3	4.0	N.M.	N.M.	144.7	125.8	15.0	2.7	0.8
2.5	8.2	N.M.	N.M.	113.3	110.8	2.2	0.5	1.4
78.9	61.2	138.2	138.4	698.5	622.7	12.2	10.3	6.3
11.9	12.6	109.3	104.5	211.5	204.4	3.5	3.9	4.8
-63.8	-19.0	N.M.	N.M.	-55.0	2.5	N.M.	-18.9	-6.9
47.5	144.9	109.5	95.1	278.6	243.5	14.4	15.5	31.4
389.7	293.0	84.2	72.6	136.1	89.4	52.2	17.6	20.8
-46.3	40.0	128.4	104.0	325.6	336.2	-3.1	-9.4	5.5
15.9	17.3	164.3	179.4	203.6	188.6	7.9	6.6	6.0
-15.1	6.0	118.1	89.5	56.8	77.0	-26.2	-16.6	6.9
-1.0	12.1	114.5	101.1	257.9	260.0	-0.8	-1.1	11.7
-4.9	0.6	97.1	93.0	100.5	45.3	121.9	-7.9	1.5
47.7	48.0	133.3	100.0	N.A.	N.A.	N.A.	51.3	57.8
N.A.	1.7	N.A.	134.9	N.A.	45.3	N.A.	N.A.	-6.0
-0.5	4.0	N.M.	N.M.	86.0	79.5	8.1	-9.6	-58.0
0.9	0.3	68.2	-2.3	5.2	3.9	31.9	33.7	38.3
479.7	**635.0**	**120.5**	**114.1**	**2,563.4**	**2,435.0**	**5.3**	**3.4**	**7.4**
N.A.	-1.9	N.A.	104.6	298.8	368.3	-18.9	N.A.	-0.4
7.8	3.8	105.2	113.9	58.2	55.8	4.4	4.9	1.7
7.8	**1.9**	**105.2**	**107.0**	**357.0**	**424.0**	**-15.8**	**4.9**	**0.2**
503.1	1,069.4	95.7	52.8	30,678.3	29,769.9	3.1	9.4	31.0
738.2	595.2	99.6	88.1	15,613.9	14,125.5	10.5	21.6	20.4
770.0	1,555.4	102.0	92.0	18,177.9	17,321.8	4.9	4.4	9.1
14.9	217.4	97.8	94.3	6,308.0	6,007.4	5.0	N.A.	N.A.
-7.9	15.6	119.6	88.2	2,040.7	2,045.1	-0.2	-0.6	1.3
-254.1	165.5	74.2	59.8	8,053.7	7,868.9	2.3	-2.5	1.7
N.A.	N.A.	92.8	76.6	N.A.	N.A.	N.A.	N.A.	N.A.
N.A.	N.A.	78.9	62.8	N.A.	N.A.	N.A.	N.A.	N.A.
-36.9	43.5	97.9	90.7	1,191.9	1,105.1	7.9	-1.6	1.9
42.9	78.8	99.2	89.0	1,392.9	1,198.4	16.2	17.7	29.8
0.8	4.9	102.9	74.5	N.A.	N.A.	N.A.	3.1	17.4
1,770.9	**3,745.7**	**97.3**	**77.7**	**83,457.3**	**79,442.1**	**5.1**	**8.6**	**16.6**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
KENYA				
NR	Kenya Re Corp. Ltd.	24.1	25.0	-3.6
NR	PTA Re Co.	18.8	19.4	-2.8
	Total	**42.9**	**44.4**	**-3.3**
KOREA				
BBB	Korean Re Co.	1,678.4	1,350.8	24.3
	Total	**1,678.4**	**1,350.8**	**24.3**
KUWAIT				
BBB	Kuwait Re Co. K.S.C.	20.7	18.3	12.7
	Total	**20.7**	**18.3**	**12.7**
LEBANON				
NR	Arab Re Co.	20.4	13.8	47.7
	Total	**20.4**	**13.8**	**47.7**
LUXEMBOURG				
A	Atradius Re S.A.	86.1	86.4	-0.4
A	Luxembourg European Re S.A.[3, 12]	N.A.	70.0	N.A.
	Total	**86.1**	**156.5**	**N.M.**
MALAYSIA				
BBBpi	Malaysian Re Bhd.	138.7	145.3	-4.5
	Total	**138.7**	**145.3**	**-4.5**
MEXICO				
mxAA-	QBE del Istmo Mexico, Cia. de Reaseguros, S.A. de C.V.	7.2	5.9	22.9
	Total	**7.2**	**5.9**	**22.9**
MOROCCO				
NR	Société Centrale de Réassurance	195.7	177.1	10.5
	Total	**195.7**	**177.1**	**10.5**

STANDARD
&POOR'S

Pretax Operating Income (Mil. $) 2004	2003	Combined Ratio (%) 2004	2003	Total Adjusted Shareholders' Funds (Mil. $) 2004	2003	Change (%)	ROR (%) 2004	2003
7.3	9.2	N.A.	79.6	59.7	51.3	16.3	25.4	31.9
2.0	1.4	87.6	117.5	12.4	9.3	34.0	10.4	8.1
9.3	**10.5**	**87.6**	**96.2**	**72.1**	**60.6**	**19.0**	**18.8**	**21.5**
73.0	76.5	96.8	96.0	623.1	495.1	25.9	4.4	5.7
73.0	**76.5**	**96.8**	**96.0**	**623.1**	**495.1**	**25.9**	**4.4**	**5.7**
2.4	1.5	104.2	112.4	90.4	89.6	0.9	10.3	8.9
2.4	**1.5**	**104.2**	**112.4**	**90.4**	**89.6**	**0.9**	**10.3**	**8.9**
3.7	3.6	104.8	109.3	38.2	36.1	5.9	13.8	20.3
3.7	**3.6**	**104.8**	**109.3**	**38.2**	**36.1**	**5.9**	**13.8**	**20.3**
5.7	-13.6	122.1	121.8	30.8	28.3	8.7	6.5	-15.0
-10.9	10.3	N.A.	125.4	N.A.	156.3	N.A.	N.M.	13.8
-5.3	**-3.3**	**122.1**	**123.4**	**30.8**	**184.6**	**N.M.**	**6.5**	**-2.1**
32.6	23.1	92.0	90.4	165.4	154.6	7.0	17.9	16.1
32.6	**23.1**	**92.0**	**90.4**	**165.4**	**154.6**	**7.0**	**17.9**	**16.1**
0.3	0.2	85.2	94.5	3.3	2.9	13.8	3.8	4.6
0.3	**0.2**	**85.2**	**94.5**	**3.3**	**2.9**	**13.8**	**3.8**	**4.6**
N.A.	33.5	N.A.	116.1	N.A.	79.4	N.A.	N.A.	17.1
N.A.	**33.5**	**N.A.**	**116.1**	**N.A.**	**79.4**	**N.A.**	**N.A.**	**17.1**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
NETHERLANDS				
AA	Swiss Re Life & Health Nederland N.V.	256.9	257.7	-0.3
	Total	**256.9**	**257.7**	**-0.3**
NIGERIA				
BBB+	African Re Corp.	264.0	164.2	60.8
	Total	**264.0**	**164.2**	**60.8**
PANAMA				
NR	QBE del Istmo, Cia. de Reaseguros, S.A.	41.5	35.5	16.8
	Total	**41.5**	**35.5**	**16.8**
POLAND				
BBB-	Polskie Towarzystwo Reasekuracji S.A.	68.2	47.2	44.5
	Total	**68.2**	**47.2**	**44.5**
RUSSIA				
BB	Ingosstrakh Insurance Co.[2]	46.9	43.7	7.3
B	Moscow Re Co.	27.0	17.1	57.9
NR	Russian Re Co. Ltd.	6.5	11.8	-44.5
	Total	**80.4**	**72.6**	**10.8**
SINGAPORE				
A-	SCOR Re Asia-Pacific	84.2	132.2	-36.3
NR	Singapore Re Corp. Ltd.	36.1	35.0	3.0
	Total	**120.3**	**167.3**	**-28.1**
SLOVENIA				
NR	Sava Re Co. Ltd.	94.6	78.2	21.0
	Total	**94.6**	**78.2**	**21.0**

Pretax Operating Income (Mil. $) 2004	2003	Combined Ratio (%) 2004	2003	Total Adjusted Shareholders' Funds (Mil. $) 2004	2003	Change (%)	ROR (%) 2004	2003
39.6	25.5	N.M.	N.M.	223.3	224.6	-0.6	10.8	8.6
39.6	**25.5**	**N.M.**	**N.M.**	**223.3**	**224.6**	**-0.6**	**10.8**	**8.6**
10.6	6.7	95.3	89.7	130.0	94.1	38.2	4.8	4.5
10.6	**6.7**	**95.3**	**89.7**	**130.0**	**94.1**	**38.2**	**4.8**	**4.5**
2.4	2.5	94.7	88.1	25.3	20.7	22.2	5.5	7.6
2.4	**2.5**	**94.7**	**88.1**	**25.3**	**20.7**	**22.2**	**5.5**	**7.6**
1.2	1.9	99.2	100.6	41.7	32.5	28.3	1.8	4.3
1.2	**1.9**	**99.2**	**100.6**	**41.7**	**32.5**	**28.3**	**1.8**	**4.3**
N.A.	N.A.	N.A.	110.2	N.A.	133.5	N.A.	N.A.	N.A.
4.3	-0.7	85.9	102.3	28.7	5.9	386.4	16.6	-4.1
1.7	0.7	75.6	92.7	4.9	3.4	42.3	28.2	5.2
6.0	**0.0**	**83.9**	**105.5**	**33.6**	**142.8**	**N.M.**	**18.9**	**-0.3**
6.6	59.0	99.4	68.3	148.1	147.8	0.2	6.6	39.9
6.9	5.2	99.9	103.3	90.3	83.0	8.8	15.8	12.7
13.5	**64.2**	**99.5**	**75.6**	**238.4**	**230.8**	**3.3**	**9.4**	**34.2**
10.4	12.7	N.A.	110.3	N.A.	85.4	N.A.	N.A.	14.0
10.4	**12.7**	**N.A.**	**110.3**	**N.A.**	**85.4**	**N.A.**	**N.A.**	**14.0**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
SOUTH AFRICA				
A-	Munich Re Co. of Africa Ltd.	198.7	203.5	-2.4
NR	Swiss Re Life & Health Africa Ltd.	167.9	109.6	53.2
NR	Swiss Re Africa Ltd.	161.2	153.5	5.0
BBB	Hannover Re Africa Ltd.	102.4	113.3	-9.6
NR	Hannover Life Reassurance Africa Ltd.	89.9	52.2	72.3
AAA	General Re Africa Ltd.	74.7	42.3	76.4
	Total	**794.9**	**674.4**	**17.9**
SPAIN				
AA-	Mapfre Re Compañía de Reaseguros, S.A.	963.0	662.7	45.3
A	Nacional de Reaseguros, S.A.	282.5	234.0	20.7
	Total	**1,245.4**	**896.8**	**38.9**
SWEDEN				
A-	Sirius International Insurance Corp.	546.9	435.2	25.7
A-	Revios Sweden Re Co. Ltd.	142.7	100.3	42.3
	Total	**689.6**	**535.5**	**28.8**
SWITZERLAND				
AA	Swiss Re Co.[5]	15,628.2	14,003.9	11.6
AA	European Re Co. of Zurich[5]	3,210.1	2,130.7	50.7
BBB+	Converium AG	2,674.3	2,504.5	6.8
A+	New Re Co.	594.4	491.4	21.0
A-	Alea Europe Ltd.	422.8	351.4	20.3
AA	Trans Re Zurich	409.8	277.1	47.9
NR	Deutsche Rück Schweiz AG	298.3	236.2	26.3
AA-	XL Re Latin America Ltd.	158.5	212.0	-25.2
A-	Revios Rück Schweiz AG	65.2	186.9	-65.1
	Total	**23,461.6**	**20,394.0**	**15.0**
TAIWAN				
BBB+	Central Re Corp.	358.4	339.5	5.6
	Total	**358.4**	**339.5**	**5.6**

Pretax Operating Income (Mil. $) 2004	2003	Combined Ratio (%) 2004	2003	Total Adjusted Shareholders' Funds (Mil. $) 2004	2003	Change (%)	ROR (%) 2004	2003
41.5	38.8	84.1	86.7	155.5	114.6	35.7	19.1	17.8
43.9	16.0	N.M.	N.M.	166.6	147.3	13.1	19.6	11.2
1.7	12.2	109.4	100.8	56.6	45.1	25.5	1.1	8.0
19.7	9.7	96.9	101.1	66.3	43.4	52.9	16.4	6.8
2.2	-1.3	N.M.	N.M.	7.7	5.0	54.4	2.4	-2.3
14.8	12.9	112.6	N.M.	45.6	37.2	22.7	17.4	21.4
123.8	**88.2**	**98.1**	**94.8**	**498.4**	**392.6**	**27.0**	**13.2**	**11.3**
75.2	35.6	89.5	92.8	607.5	351.1	73.0	9.2	6.0
14.8	10.7	99.2	100.7	130.0	102.8	26.5	5.4	4.5
90.0	**46.4**	**91.7**	**94.9**	**737.5**	**453.8**	**62.5**	**8.3**	**5.6**
79.1	55.6	95.7	98.4	1,245.8	1,127.4	10.5	12.9	9.9
10.5	5.5	N.M.	N.M.	43.1	27.4	57.4	7.0	5.2
89.6	**61.1**	**95.7**	**98.4**	**1,288.9**	**1,154.8**	**11.6**	**11.7**	**9.0**
596.4	1,028.7	103.9	100.1	10,803.1	9,154.8	18.0	3.5	6.5
216.1	299.8	98.0	83.0	1,028.4	740.9	38.8	6.2	12.0
-837.8	270.3	103.5	88.6	1,679.7	2,113.5	-20.5	-30.5	10.6
84.0	46.5	97.0	105.7	353.1	253.6	39.2	11.8	7.5
16.4	45.0	97.5	80.9	179.8	153.1	17.4	3.6	13.4
31.5	10.8	102.1	104.9	84.7	70.4	20.3	7.4	3.8
1.5	0.6	102.1	102.8	63.2	40.1	57.9	0.5	0.2
N.A.	N.A.	110.4	102.5	N.A.	N.A.	N.A.	N.A.	N.A.
6.0	6.9	N.M.	N.M.	45.6	36.6	24.6	6.7	2.7
114.1	**1,708.7**	**102.7**	**96.8**	**14,237.6**	**12,563.0**	**13.3**	**0.2**	**7.6**
16.5	14.0	97.4	97.2	165.2	140.4	17.7	4.3	3.8
16.5	**14.0**	**97.4**	**97.2**	**165.2**	**140.4**	**17.7**	**4.3**	**3.8**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
THAILAND				
BBB+	Thai Re Public Co. Ltd.	54.7	49.2	11.2
	Total	**54.7**	**49.2**	**11.2**
TUNISIA				
BBB	B.E.S.T. Re Co.	67.8	56.5	20.0
NR	Société Tunisienne de Réassurance[2]	13.2	12.3	7.3
	Total	**81.0**	**68.8**	**17.7**
TURKEY				
NR	Milli Reasurans T.A.S.	365.0	293.8	24.2
	Total	**365.0**	**293.8**	**24.2**
U.K.				
A	Lloyd's	7,653.1	7,818.3	-2.1
A	GE Frankona Reassurance Ltd.[3]	945.0	1,332.3	-29.1
A	Aspen Insurance U.K. Ltd.	790.1	674.5	17.1
AA	Swiss Re Life & Health Ltd.	620.8	616.9	0.6
A	GE Frankona Re Ltd.[3]	457.0	719.6	-36.5
A-	Alea London Ltd.	367.7	203.9	80.4
NR	BRIT Insurance Ltd.	354.2	236.4	49.8
A+	QBE International Insurance Ltd.	319.2	295.6	8.0
AA	Swiss Re Co. U.K. Ltd.	212.1	329.3	-35.6
A-	Revios Re U.K. Ltd.	170.0	182.1	-6.6
A-	Endurance Worldwide Insurance Ltd.	137.7	29.4	367.7
AAA	Faraday Re Co. Ltd.	131.2	139.1	-5.7
AAA	General Re U.K. Ltd.	96.6	129.2	-25.3
A+	Great Lakes Re (U.K.) PLC	82.6	63.0	31.1
NR	Platinum Re (U.K.) Ltd.	80.8	49.4	63.4
NR	Markel International Insurance Co. Ltd.	66.4	74.0	-10.2
A-	SCOR U.K. Co. Ltd.	54.8	119.6	-54.2
A	Liberty Mutual Insurance Europe Ltd.	46.2	42.9	7.5
A-	Scottish Re Ltd.	26.7	44.5	-40.0
BBBpi	Kyoei Fire & Marine Insurance Co. (U.K.) Ltd.	1.7	1.5	13.2
A-	Alea Jersey Ltd.	0.1	0.1	20.2
A-	Alea Global Risk Ltd.	-0.2	0.5	-141.1
NR	Hannover Life Re (U.K.) Ltd.[13]	-16.8	52.6	-131.9
	Total	**12,597.2**	**13,155.0**	**-4.2**

STANDARD & POOR'S

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
12.7	11.3	87.6	96.8	56.4	58.8	-4.1	21.3	15.0
12.7	**11.3**	**87.6**	**96.8**	**56.4**	**58.8**	**-4.1**	**21.3**	**15.0**
5.0	4.8	89.0	88.8	65.4	53.7	21.7	7.5	8.8
N.A.	3.3	N.A.	98.9	N.A.	29.3	N.A.	N.A.	21.2
5.0	**8.1**	**89.0**	**90.6**	**65.4**	**83.0**	**N.M.**	**7.5**	**11.0**
52.7	27.4	102.7	107.4	258.7	133.8	93.3	13.1	9.3
52.7	**27.4**	**102.7**	**107.4**	**258.7**	**133.8**	**93.3**	**13.1**	**9.3**
2,712.1	3,417.1	96.4	90.4	26,236.6	20,611.2	27.3	10.9	15.1
171.0	N.A.	N.M.	N.M.	N.A.	1,009.4	N.A.	16.2	N.A.
183.7	122.2	80.5	78.8	957.9	797.4	20.1	23.4	24.2
147.9	46.2	N.M.	N.M.	1,039.8	1,189.4	-12.6	18.1	5.7
180.0	-70.0	80.5	99.2	N.A.	911.2	N.A.	28.4	-9.2
-7.2	51.7	103.1	107.5	180.2	195.0	-7.6	-2.2	16.0
112.5	83.6	91.9	84.3	694.0	581.4	19.4	12.8	20.9
-0.1	-23.9	109.0	113.0	542.9	380.9	42.5	0.0	-7.9
12.5	-42.0	132.8	126.2	567.8	496.9	14.3	4.1	-10.8
37.2	-0.6	N.M.	N.M.	143.8	74.6	92.8	21.1	-0.3
17.1	-3.3	99.6	141.3	210.3	171.5	22.6	18.2	-15.0
34.9	31.9	100.3	99.0	223.1	136.4	63.5	19.8	15.8
71.2	36.7	85.5	107.0	424.3	313.5	35.3	41.8	16.2
47.8	40.0	110.1	100.6	359.5	289.0	24.4	36.2	37.8
5.5	1.0	86.6	76.5	188.5	168.2	12.0	6.1	1.8
-11.4	-13.7	110.9	115.4	246.0	192.7	27.7	-2.9	-5.6
27.5	46.8	81.9	145.9	104.9	96.7	8.5	29.9	28.4
31.0	21.1	100.3	106.4	307.6	246.9	24.6	7.7	7.7
-6.1	11.8	N.M.	N.M.	73.9	49.8	48.3	-20.7	24.7
-0.2	0.4	161.5	121.0	19.9	18.6	7.0	-6.3	17.1
0.2	0.3	N.M.	N.M.	2.1	4.5	-54.4	96.7	130.4
1.4	4.9	N.M.	N.M.	10.7	12.0	-10.8	54.2	177.2
-2.5	1.7	N.M.	N.M.	71.7	56.6	26.8	23.2	1.6
3,766.0	**3,764.1**	**95.8**	**93.4**	**32,605.5**	**28,003.9**	**16.4**	**12.9**	**12.2**

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
U.S.				
AA	Transatlantic Re Co.	3,223.6	2,945.3	9.4
AA-	Everest Re Co.	2,800.5	2,964.5	-5.5
AAA	National Indemnity Co.	2,577.2	2,523.4	2.1
AAA	General Re Corp.	2,193.1	3,073.3	-28.6
AA	Swiss Re Life & Health America Inc.	2,168.6	2,227.9	-2.7
AA	Swiss Re America Corp.	2,139.1	1,988.5	7.6
A-	Odyssey America Re Corp.	1,986.3	1,837.8	8.1
A	American Re Co.	1,850.2	1,584.1	16.8
A	Employers Re Corp.	1,716.0	1,968.0	-12.8
A+	Berkley Insurance Co.	1,599.3	1,395.6	14.6
A	Employers Reassurance Corp.	1,119.0	1,104.0	1.4
AA	Transamerica Occidental Life Insurance Co.	1,044.4	768.9	35.8
A-	Folksamerica Re Co.	986.9	883.3	11.7
AA-	Partner Re Co. of U.S.	877.4	1,039.4	-15.6
AAA	General Re Life Corp.	860.0	837.0	2.7
NR	Arch Re Co.	749.4	574.7	30.4
A+	Munich American Reassurance Co.	723.7	663.2	9.1
NR	Platinum Underwriters Re Co.	715.4	667.5	7.2
A-	Endurance Re Corp. of America	669.0	707.6	-5.5
AA-	XL Re America Inc.	526.0	427.0	23.2
A	GE Re Corp.	486.0	630.0	-22.9
Api	American Agricultural Insurance Co.	470.2	479.7	-2.0
A+	QBE Re Corp.	449.4	389.7	15.3
R	Converium Re (North America) Inc.	348.0	833.9	-58.3
A	AXIS Re Co.	332.9	199.8	66.7
NR	Hannover Life Reassurance Co. of America	284.4	277.8	2.4
AA-	Toa Re Co. of America	283.0	278.7	1.5
A-	Scottish Re (U.S.) Inc.	245.5	66.8	267.6
AA	Transamerica Financial Life Insurance Co.	240.7	301.2	-20.1
NR	Revios Re U.S. Inc.	217.6	217.2	0.1
A-	Alea North America Insurance Co.	171.2	117.8	45.3
AA	Putnam Re Co.	169.7	155.0	9.4
A-	SCOR Life U.S. Re Co.	158.2	98.4	60.8
AA	Transamerica Life Insurance Co.	148.3	641.4	-76.9
A-	SCOR Re Co.	130.6	353.5	-63.0
A-	Scottish Re Life Corp.	122.2	7.5	N.M.
NR	Dorinco Re Co.	110.1	128.2	-14.1
AA-	Mapfre Re Corp.	76.3	55.0	38.8
NR	London Life Re Co.	55.2	57.1	-3.3

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
192.8	275.4	102.4	98.0	1,944.5	1,851.2	5.0	5.7	9.2
272.1	278.9	101.2	100.1	2,093.2	1,715.5	22.0	9.0	9.5
2,227.0	2,356.7	64.3	52.8	27,224.8	23,096.3	17.9	56.0	61.3
376.9	606.0	111.5	103.6	7,159.0	5,435.2	31.7	12.3	15.4
77.2	-19.5	N.M.	N.M.	2,006.6	1,602.2	25.2	2.4	-0.6
-124.6	-648.2	117.8	140.2	2,647.7	2,504.7	5.7	-5.6	-32.7
175.9	169.2	95.2	92.6	1,675.9	1,553.1	7.9	8.6	9.5
-228.6	350.6	122.0	102.6	4,005.9	4,007.2	0.0	-9.9	15.3
-596.0	-124.0	144.0	105.4	5,513.1	5,119.4	7.7	-27.1	-5.6
199.4	117.6	96.9	92.4	1,511.6	1,174.5	28.7	11.5	9.1
23.0	119.0	N.M.	N.M.	N.A.	N.A.	N.A.	1.6	8.1
458.0	227.9	N.M.	N.M.	2,742.1	2,151.8	27.4	9.2	7.0
-7.6	62.1	103.7	96.2	917.4	912.8	0.5	-0.8	7.0
-5.1	-28.6	108.0	105.1	586.5	545.7	7.5	-0.5	-2.8
N.A.	N.A.	N.M.	N.M.	N.A.	N.A.	N.A.	N.A.	N.A.
33.5	-1.4	96.5	102.3	183.2	155.5	17.8	4.8	-0.3
48.6	40.4	N.M.	N.M.	1,159.5	1,094.2	6.0	5.6	5.3
51.1	109.1	97.0	97.9	403.1	372.9	8.1	7.1	14.0
-6.8	-10.7	106.3	92.7	511.3	399.4	28.0	-1.1	-3.0
121.5	-131.1	89.2	151.3	1,775.4	1,636.9	8.5	20.9	-26.8
-236.0	-282.0	156.1	156.2	689.1	667.2	3.3	-37.8	-38.9
13.8	29.7	100.8	97.3	331.9	314.3	5.6	2.8	6.0
42.3	20.4	94.9	101.1	435.6	354.3	22.9	5.9	4.0
-474.3	-65.9	164.2	105.2	197.1	949.9	-79.3	-74.8	-7.8
-6.8	-7.9	115.5	126.9	517.0	503.1	2.8	-4.0	-14.5
17.8	18.0	N.M.	N.M.	136.0	118.8	14.4	5.1	5.3
-10.8	14.0	115.1	106.3	330.0	306.7	7.6	-3.5	4.6
-24.1	-34.3	N.M.	N.M.	728.7	364.3	100.1	-8.3	-42.3
126.1	99.8	N.M.	N.M.	690.7	626.3	10.3	4.5	4.5
-1.0	-1.2	N.M.	N.M.	111.3	82.1	35.5	-0.4	-0.5
24.0	-5.4	88.0	103.9	261.7	245.5	6.6	16.0	-5.9
12.3	17.7	102.4	98.0	125.6	127.7	-1.6	6.8	11.0
26.6	14.2	N.M.	N.M.	199.7	189.8	5.2	9.5	6.9
107.0	326.3	N.M.	N.M.	1,864.3	1,322.1	41.0	1.8	3.7
-67.1	-248.3	147.2	159.2	734.4	620.6	18.3	-32.4	-53.6
13.0	1.9	N.M.	N.M.	192.7	185.9	3.7	8.7	24.0
-13.7	111.3	128.0	106.1	415.8	392.7	5.9	-5.4	32.1
-1.0	6.2	107.0	96.2	151.3	130.5	15.9	-1.3	10.9
N.A.	N.A.	N.M.	N.M.	N.A.	N.A.	N.A.	N.A.	N.A.

Global Reinsurer List By Country

Rating As At Aug. 4, 2005	Company	Net Reinsurance Premiums Written (Mil. $) 2004	2003	Change (%)
U.S. (CONTINUED)				
NR	Amerihealth Casualty Insurance Co.	52.2	31.8	64.4
A	PXRE Re Co.	45.5	79.4	-42.7
NR	Atrium Insurance Corp.	45.0	36.5	23.2
AA	Transamerica Life Insurance & Annuity Co.	6.3	26.1	-75.8
AA	Reassure America Life Insurance Co.	-139.4	518.4	-126.9
	Total	**35,034.3**	**36,162.0**	**-3.1**
ZIMBABWE				
NR	Zimbabwe Re Co. Ltd.	19.9	45.5	-56.2
	Total	**19.9**	**45.5**	**-56.2**
	Grand Total	**166,899.2**	**161,598.4**	**3.3**

1. During 2004, the business of GeneralCologne Re Rück AG, Wien was transferred to Kölnische Rück Ges AG (Germany); 2003 figures for Kölnische Rück Ges AG have been restated to reflect this change.
2. Figures for 2004 have been estimated by Standard & Poor's.
3. Figures for 2004 have been presented excluding intercompany transactions. All data have been prepared using U.S. GAAP. The exclusion of intercompany balances means that it has not been possible to determine adjusted shareholders' funds for individual subsidiaries. Consolidated adjusted shareholders' funds are presented under GE Insurance Solutions on page 21.
4. Figures for 2004 are presented on a consolidated basis and are therefore not directly comparable with 2003 data.
5. The combined ratio includes both non-life and life business.
6. For 2004, less than 10% of net premiums written relate to third-party reinsurance business.
7. In 2004, Swiss Re Germany AG arranged a quota-share agreement with its parent, Swiss Re Co. (Switzerland), which constitutes 40% of Swiss Re Germany AG's gross premiums written.
8. The company writes financial reinsurance. Consequently, the combined ratio is a poor proxy for performance when compared with companies writing traditional business.
9. Figures for 2004 have been estimated by the company.
10. In October 2004, Tokio Marine & Fire Insurance Co. Ltd. and Nichido Fire & Marine Insurance Co. Ltd. merged to form Tokio Marine & Nichido Fire Insurance Co. Ltd. For 2003, the expense ratio relates to the reinsurance fee ratio only. Therefore, the combined ratio may be understated.
11. For 2004 and 2003, the expense ratio relates to the reinsurance fee ratio only. Therefore, the combined ratio may be understated.
12. This company is no longer writing new business. Existing contracts have been transferred to GE ERC Strategic Re Ltd. (Ireland).
13. On Dec. 31, 2004, the company entered into a new funds-withheld reinsurance treaty with a fellow group company in respect of its standard annuity business. The initial transfer of existing business at Dec. 31, 2004, was £70.821 million. Under U.K. GAAP reporting, this transfer is shown as ceded premiums, which has caused overall net premiums written to be negative for 2004.

Pretax Operating Income (Mil. $)		Combined Ratio (%)		Total Adjusted Shareholders' Funds (Mil. $)			ROR (%)	
2004	2003	2004	2003	2004	2003	Change (%)	2004	2003
2.4	0.5	96.4	84.8	23.1	24.0	-3.6	4.0	2.7
2.1	27.3	111.3	83.8	224.9	425.2	-47.1	4.1	17.6
37.2	45.7	22.9	-18.9	64.7	63.0	2.7	78.3	117.9
173.2	26.4	N.M.	N.M.	877.8	1,153.4	-23.9	4.3	0.5
201.6	184.1	N.M.	N.M.	579.3	359.1	61.3	17.8	10.3
3,253.0	**4,047.9**	**104.9**	**100.8**	**73,943.5**	**64,855.0**	**14.0**	**5.1**	**6.3**
5.8	18.8	75.2	67.5	8.4	23.2	-63.9	25.9	38.5
5.8	**18.8**	**75.2**	**67.5**	**8.4**	**23.2**	**-63.9**	**25.9**	**38.5**
20,284.0	**25,810.7**	**97.9**	**93.4**	**377,374.7**	**337,406.3**	**11.8**	**8.3**	**10.9**

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.

Cycle Management: The Key To Reinsurer Financial Strength

Cyclicality has long been a feature of the insurance industry. This is particularly the case for the primary commercial lines and reinsurance sectors.

During the most recent cycle, pricing among the majority of reinsurance business lines fell persistently between 1995 and 2000. Price competition during this period was in part due to the apparent benign claims environment (a false premise demonstrated by the subsequent reserve additions relating to the latter part of this period) and, more importantly, because of a plentiful supply of cheap capital. Capital was plentiful during the latter half of the 1990s, largely because of booming stock markets. A patchy recovery began in early 2001, as some reinsurers realized that the prevailing level of pricing was unsustainable. This recovery accelerated following the Sept. 11, 2001 loss and falling stock markets until the first quarter of 2003, and continued into early 2004.

There is a general consensus that 2004 marked the top of the cycle and that prices among most lines of reinsurance are now falling again. Terms and conditions proved resilient at first, but some ground is being conceded now. Although the exact degree of amplitude of this cycle and earlier ones is difficult to measure and will depend to an extent on the particular lines of business and geographies, history suggests that top-to-bottom swings can be very substantial. Therefore, a major challenge for both sellers and buyers of reinsurance is how to manage such wide swings in price as well as terms and conditions.

Why Is Cycle Management Important For Ratings?

Standard & Poor's Ratings Services believes cycle management is a key indicator of long-term reinsurer profitability and is therefore one of the most important determinants of reinsurer financial strength. Observing the strategy taken by the top-performing quartile of reinsurers during the last cycle, one can observe that the key to better operating results for these players was not higher premium growth relative to the industry during the bottom of the cycle in the late 1990s, but instead lower premium growth, and in many cases premium volume declines, as well as aggressive management of lines of business and geographical locations in which these reinsurers chose to operate during that period. For the most part, reinsurers that chose a more opportunistic strategy, thus being more willing to withdraw from severely underpriced contracts, were more successful in avoiding some of the larger losses incurred by participants in recent years, most of which had adopted a more relationship-based strategy and were more willing to renew unprofitable contracts during the late 1990s. Good cycle management affects both profits and the quality of earnings. To the extent that the cycle causes more unpredictable results, this is punished by the capital markets via an overall higher cost of capital.

Challenges Of Managing The Cycle

It can be argued that cycle management is one of the main challenges facing reinsurers because of the conflicting demands of the stakeholders and features of the industry, particularly:

- Needs of clients and brokers. Reinsurance remains a very homogeneous product and, consequently, price remains the most important differentiating factor. In the interests of price, reinsureds may switch their reinsurer on a regular basis.
- Determining when pricing has turned. Capacity cannot simply be turned off, but has to be managed down. Consequently, to an extent, reinsurers have to start to manage volumes down during the early phase of a softening cycle and well before it is reflected in reported earnings. However, if they start this process too early, they might turn away potentially profitable business. Timing is key.
- There is not one cycle. The picture is often far from clear as different lines (and geographies) are at different stages in the cycle. Often, it is the shorter tail lines that lead the cycle.
- Shareholders/equity analysts. Despite many years of investor communication, it is clear that a large number of investors and equity analysts still focus on and require steady top-line growth. This therefore makes it more difficult for management to cut volumes when the cycle turns.

How Can The Cycle Be Managed?

There are a number of tools available to management that can provide information and help prevent the worst effects of the pricing cycle:

- Cycle-monitoring tools can be used to identify inflexion points in the cycle and give managers an early indication of when they should begin cutting back on the various lines of business. These tools have to incorporate pricing and other terms and conditions, such as attachment points and policy exemptions.
- Pricing tools and risk management processes. Pricing is increasingly derived using cash-flow-based models, to which minimum hurdle rates can be applied. However, it is not enough to simply have the tools. Companies must ensure that these tools are embedded into the risk management culture to ensure that the proper controls are in place.
- Active internal capital management. By reallocating capital/capacity, exposure to entities, business units, and lines of business based on perceived risk, capital finds its way to finance the better priced business (in conjunction with good pricing tools).
- Diversity. It is clear that not all lines of business are at the same stage in the cycle. More diverse organizations, particularly those writing uncorrelated business lines, have the opportunity to reallocate capital from one business line to a more profitable one.
- Low/flexible expense base. Lower fixed costs allow reinsurers to shrink in response to changing premium volumes.
- Properly aligned remuneration. A management challenge is to set underwriter remuneration so that incentive payments reflect the proper emergence of profits. This can be difficult for the longer tailed business lines, where it is unclear whether the business written will be profitable for some years.
- External capital management. The amount of business written is in part determined by the amount of capital, as this will determine both the capacities (lines) that the reinsurer can put down and, more importantly, the ROE expectations of shareholders. Management should therefore demonstrate a flexible approach to capital management while not putting policyholders at risk.

How Does Standard & Poor's Analyze Cycle Management?

In part, good cycle management should be reflected in better-than-average underwriting profitability over the longer term, and therefore be picked up through Standard & Poor's analysis of operating performance, particularly relative to peers. However, Standard & Poor's also closely reviews the existence and use of the cycle management tools listed above within its assessment of management and corporate strategy and considers an excess appetite for growth during a softening phase of a cycle as a red flag in its analysis.

Standard & Poor's also considers how management has managed capital through the cycle. On the potentially important issue of external capital management, Standard & Poor's has stated that it will not penalize companies for returning capital, if management believes that pricing is softening to the point where the company will not receive an adequate rate of return on underwriting, with the following caveats:

- Management has put in place a clear capital management plan.
- Management can quantify a withdrawal of exposure over the coming year or years.
- Capital is withdrawn commensurate with exposure on a risk-adjusted basis.
- Management is committed to maintaining a minimum appropriate level of risk-based capital adequacy.
- Standard & Poor's is convinced that if the market hardens and management increases its exposure, it can and will increase its capital commensurately.

The Future Of The Cycle

While the cycle will not die (largely because of the ease of market entry), it is reasonable to expect reduced amplitude in future because of:

- Better science and consistent science in pricing and the inclusion of the cost of capital in these pricing models.
- Better disclosure, including IFRS and renewals disclosure.
- The greater focus on shareholder value (more accountability).
- More and better regulation.
- Lower absolute investment returns appear to be here to stay.

Cycle Management A Key Differentiator

Communication remains the key to good cycle management. Cutting back on premiums can affect business relationships, unsettle shareholders, and create issues in the management of underwriting staff. Demonstrating how good cycle management generates better quality earnings and provides policyholders with more consistent pricing will be a key distinguishing feature over the next few years.

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"Demonstrating how good cycle management generates better quality earnings and provides policyholders with more consistent pricing will be a key distinguishing feature over the next few years."

Costs Mount, Uncertainties Linger In Global Wake Of U.S. Regulatory Storms

The seemingly endless stream of U.S.-based regulatory issues, and their resulting subpoenas, indictments, settlements, and convictions, have taken the insurance industry by storm.

These developments stem from either the codification of principles underlying good corporate governance (Sarbanes-Oxley) or, in the case of the subpoenas, indictments, and settlements surrounding broker bid rigging and finite reinsurance, the failure of corporate governance. These regulatory issues, while stemming from a number of specific instances, have affected much of the (re)insurance industry, not least through the increased cost burden associated with the tightening of corporate governance.

Although these developments originated in the U.S., the impact is global. Sarbanes-Oxley affects subsidiaries of SEC registrants globally and, on an indirect basis, has globally raised the awareness of corporate governance. As far as the major brokers are concerned, their business is global and the broker business model is being examined on both a U.S. and global level. On the finite reinsurance scene, although the abuses are expected to be on a smaller scale, regulators outside the U.S. are pursuing similar lines of inquiry.

Sarbanes-Oxley

The Sarbanes-Oxley Act was enacted in 2002 in response to the highly publicized corporate failures of Enron Corp., WorldCom Inc., Adelphia Communications Corp., HealthSouth Corp., Tyco International Ltd., Global Crossing Ltd., and Cendant Corp. Sarbanes-Oxley mandated a number of reforms to enhance corporate responsibility, improve the transparency of financial disclosures, and combat corporate and accounting fraud. Although the act's implementation has not triggered any insurance rating actions, it has been costly, particularly for smaller firms, in both senior management time and funds expended on consultants and auditors. The recent spate of regulatory events, including allegations of bid rigging and the accounting impropriety of certain transactions (including some pertaining to finite reinsurance), illustrates the financial damage caused by a lack of corporate responsibility, inadequate financial disclosures, and, in some cases, alleged corporate and accounting illegalities—both to the violators and, more significantly, to the insurance sector as a whole.

While acknowledging the significant quantitative and qualitative costs (management time) of implementing Sarbanes-Oxley, Standard & Poor's Ratings Services believes that the benefits of Sarbanes-Oxley in terms of improved internal controls and enhanced corporate governance led by the increasingly independent and empowered boards of directors have materially enhanced the risk profile of Sarbanes-Oxley-compliant companies.

Broker Probes

The Oct. 14, 2004 allegation by New York State Attorney General Eliot Spitzer of bid rigging against Marsh & McLennan Cos. (Marsh) was a historic event for both Marsh and the insurance industry. It also highlighted the inherent conflict of interest posed by brokers' collection of volume- and profitability-based commissions from insurers as a material part of the insurance broker business model. The seriousness of the charges against Marsh, and the implication of certain individuals at other insurance and reinsurance companies, resulted in nearly $1.1 billion of settlements for Marsh and other global brokers including Aon Corp. (Aon) and Willis Group Holdings Ltd. (Willis) and, most significantly, the discontinuation of the collection of contingent commissions, which for these brokers totaled about $1.1 billion annually.

Although the investigations by various regulatory entities are ongoing, the momentum of these probes appears to have slowed. Their lasting impact will be the uncertainty of implementing a broker distribution model, at least for the settling brokers (Marsh, Aon, Willis, and Arthur J. Gallagher & Co.) that excludes volume- and profit-based contingent commissions, and the uncertainty of this business model for the contingent-collecting brokers. The impact on Marsh's financial strength was dramatic: a four-notch counterparty and senior debt downgrade to 'BBB' from 'A+'. The impact for the remaining brokers, though material, was not as great, with Aon experiencing a one-notch downgrade to 'BBB+' from 'A-' and, for the significant majority of interactively rated brokers, an outlook change to negative from stable. Investigations into bid-rigging activity at the insurance companies have generally found that such activities appear to have been limited to a few individuals at certain companies—ACE Ltd., American International Group Inc. (AIG), and Zurich Financial Services—who engaged in excess casualty underwriting and were dealing with the global brokerage unit at Marsh. Accordingly, Standard & Poor's believes that the adverse financial and competitive impact to the insurance companies from settlements with the New York attorney general and state regulators is not likely to be significant enough to warrant rating actions.

Finite Reinsurance Probes

Unlike the broker investigations, the financial impact of which is localized and somewhat quantifiable through Standard & Poor's ratings process, the impact of the ongoing finite reinsurance investigations by the SEC, New York State prosecutors, insurance regulators, and most recently the FBI, will be far-ranging in scope. Financial reinsurance, in the extreme, is a type of financial leverage packaged in the form of a reinsurance contract, thereby acting as an accounting mechanism to bolster earnings and capitalization, when in fact the economics of these transactions indicate that appropriate risk transfer and loss absorption have not taken place. Although the existence of these

Table 1: Broker Subpoenas By Government Entity

Government Entity	No. Of Subpoenas As At July 20, 2005
New York Attorney General's Office	8
Connecticut Attorney General's Office	15
California Attorney General's Office	1
North Carolina Insurance Regulator	1
Illinois Department of Insurance	1
Florida Attorney General's Office	11
Minnesota Attorney General's Office	2

Table 2: Finite Reinsurance Subpoenas By Government Entity

Government Entity	No. Of Subpoenas As At July 20, 2005
SEC	21
U.S. Attorney's Office	2
New York Attorney General's Office	14
New York Department of Insurance	1
Connecticut Attorney General's Office	19
Minnesota Attorney General's Office	1
U.S. Department of Justice	1
Florida Regulator	18
North Carolina Insurance Regulator	1
Georgia Insurance Commissioner	2
Ohio Attorney General's Office	1
Delaware	1
Federal Bureau of Investigation	1
U.S. Attorney Office for Southern District New York	11

"Although Standard & Poor's rating outlook for the global reinsurance sector and most primary insurance markets is stable, it is clear that the entire industry is facing a degree of uncertainty from the ongoing broker and finite reinsurance investigations."

transactions and the lack of definitive accounting guidance for addressing them was known for some time, the use of finite reinsurance in a distorted manner, as highlighted by subsequent restatements by AIG, has caused an increase in the number of subpoenas, not to mention increased uncertainty throughout the insurance and reinsurance industry.

Regulators, most recently the NAIC and the IASB, have implemented enhanced disclosure requirements for these agreements. In addition, the NAIC has raised the issue of bifurcation. Bifurcation calls for the splitting of a reinsurance agreement between deposit premium accounting for the financing aspect of the agreements and reinsurance accounting for the portion of the agreement applying to risk transfer. This concept diverges from the current practice of identifying whether an insurance contract has an appropriate degree of risk transfer warranting reinsurance accounting, or in the absence of sufficient risk transfer, deposit accounting.

Standard & Poor's has always focused on determining the appropriateness of the accounting of finite reinsurance and, when necessary, we have adjusted our view of an insurer's income and capitalization when it was believed that such accounting did not reflect economic reality. In March 2005, Standard & Poor's formally codified procedures for identifying a greater number of these difficult-to-detect transactions for which the accounting does not reflect economic reality.

It is probably too early to call the death of finite reinsurance as a product, however. Although demand for this type of product has mostly dried up in the U.S., barring any revolutionary legislation banning alternative risk contracts, many market players believe that primary insurers in some small pockets of the U.S. and in other regions outside the U.S. are likely to remain interested in purchasing alternative risk products. These contracts are expected to contain substantially more risk transfer than what was seen in the past.

Greater Transparency Likely

Although Standard & Poor's rating outlook for the global reinsurance sector and most primary insurance markets is stable, it is clear that the entire industry is facing a degree of uncertainty from the ongoing broker and finite reinsurance investigations. However, we believe that, over the long term, improved corporate governance resulting from the industry's response to these investigations, in combination with the implementation of governance initiatives like Sarbanes-Oxley, will diminish these industrywide uncertainties and holds out the prospect of a better run, more transparent industry globally.

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Enterprise Risk Management Initiative To Enhance Insurance Analysis

Following feedback from clients at last year's Rendezvous, Standard & Poor's Ratings Services has embarked on an initiative that will enhance its analysis of insurers' risk management. There are two distinct steps involved: first, to determine the quality of insurers' risk management practices; and second, for those with strong risk management practices, to evaluate the models used to quantify risk and capital requirements.

This initiative will deliver an advanced analytical framework that will provide a more thorough understanding of an insurer's risks and how well those risks are managed. This analysis will be integrated into Standard & Poor's existing credit methodology for evaluating insurers. Those insurers with robust processes that are well integrated into the daily functions of the enterprise would be scored highly, while those with weaker risk management capabilities, or poorly integrated risk management frameworks, would be scored lower. The conclusions reached will create a meaningful, more objective input into Standard & Poor's assessment of an insurer's risk tolerances, which is currently more qualitative in nature.

The Current State Of Insurers' Risk Management

Insurers' risk management practices are evolving quickly. This is partly due to good business practice and partly regulatory incentives, particularly in Europe via Solvency II. Historically, risk management within insurance groups has been disjointed. Now, risk management is emerging as a discipline in its own right—often referred to as enterprise risk management (ERM)—and is being centralized, and its importance is evidenced by the emergence of influential chief risk officers. The need to manage risk more coherently, comprehensively, and economically through effective risk management is more critical than ever. Insurance groups are progressively realizing that an effective ERM framework is critical to protecting and growing stakeholder value.

In the past few years, companies have been developing powerful holistic models to link their diverse risks together. This enables the setting of meaningful and consistent risk policies across an insurance group, which assist in the assessment of risk capital needs, risk-adjusted performance measurement, policy/product pricing and design, reinsurance purchasing, and asset allocation.

Such models are powerful and forward-looking (dynamic), but they suffer from complexity, a lack of market standards, and highly subjective assumptions (especially regarding the benefits of diversification of risk). Few insurers have had such models in place for more than three years, although some claim that risk diversification reduces their economic capital requirements by 40%. Standard & Poor's has maintained a skeptical stance toward the results of these models.

Standard & Poor's Analysis

Risk management is at the heart of Standard & Poor's analysis. In each category of analysis used to evaluate insurers, Standard & Poor's assesses risk and how risks are managed. However, this approach reflects insurers' disjointed approach to risk management until recently. Standard & Poor's currently only gives qualitative credit to risk management practices and

> ***"Standard & Poor's is enhancing its analytical framework as it relates to risk management. For groups with robust risk management frameworks, Standard & Poor's will ultimately evaluate the ERM models used by insurers and will incorporate their results into its own quantitative analysis. Standard & Poor's does not plan to implement ERM models of its own."***

models in its rating process. No quantitative recognition is given, for example, via Standard & Poor's capital adequacy analysis. Standard & Poor's has a suite of well-established risk-based capital adequacy models. These models are static rather than dynamic and do not recognize business or geographical diversification benefits, but do offer the relative simplicity, transparency, and consistency that ERM models lack. Integrating a dynamic view of capital into the rating process will both complement and enhance our existing view of capital adequacy, as well as providing a prospective view. Our Advanced Analytics Group already provides a complementary process of tailored, dynamic evaluation of the credit, market, product, asset-liability management, and operational risks to enhance our views of the capital needs of institutional spread management business units of more than 20 insurance groups. This analysis is an integral part of those insurers' credit assessment.

Enterprise Risk Management Initiative

Standard & Poor's is enhancing its analytical framework as it relates to risk management. For groups with robust risk management frameworks, Standard & Poor's will ultimately evaluate the ERM models used by insurers and will incorporate their results into its own quantitative analysis. Standard & Poor's does not plan to implement ERM models of its own.

Standard & Poor's will be interviewing leading insurers over the remainder of 2005 with a view to enhancing its criteria and processes during 2006. This process will first focus on risk management practices and how these practices are embedded in the day-to-day operational management of insurers. Second, to the extent that models are used as part of risk management, Standard & Poor's will focus on the models themselves. From this process, Standard & Poor's will explore a roadmap for developing techniques that incorporate quantitative results from insurer models into its own quantitative, interactive analysis.

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International Financial Reporting Standard 4 For Insurance: Threat Overstated, But Phase II Looms

Despite continued opposition and lobbying from certain insurance groups and some regulators in the run-up to its publication, IFRS 4 *Insurance Contracts* looks set to have a more limited impact on insurers' reported equity and profitability than was previously envisioned in Europe for 2005 reporting.

This is due in part to the fact that the original "threat" was overstated and partly because the final standard is very much a compromise, having been watered down substantially as it approached publication. As such, it leaves insurers with room for maneuver. Any changes in ratings as a direct consequence of IFRS 4 and related standards are likely to be minimal. Although distant, discussions regarding the Phase II standard are under way, but there is little clarity as yet on what it might involve.

This article provides an update on the impact of IFRS 4 on Europe's insurers and covers some of the high-level debate surrounding Phase II. This is the third in a series of articles published by Standard & Poor's Ratings Services on IFRS for insurers[1].

Most major European insurance groups have provided some commentary on the likely impact of IFRS 4, either publicly or in communications with Standard & Poor's. The level of public disclosure has varied, however, with some merely claiming that the impact is immaterial, while others have provided detailed disclosure of its pro forma impact on reported equity and profitability on their 2004 financial statements. Most insurers have reported a restated equity impact of less than 5%. The life insurer Skandia Insurance Co. Ltd. (Skandia; A/Negative/--) is the glaring exception since it reported a 20% reduction in year-end 2004 equity. However, for the reasons outlined below, the ratings on Skandia are unchanged as a result. IFRS 4 generally has greater implications for life insurers than for non-life players.

Life Insurers

The greatest impact on life insurers is expected to arise from the redefinition of certain insurance contracts as financial instruments. In the case of Skandia, approximately 50% of its business fails to qualify as insurance under IFRS 4 because of the lack of significant insurance risk in much of its unit-linked business. However, Skandia has gone further and has decided to "unbundle" all of its unit-linked business into its investment and insurance components. This is expected to result in approximately 95% of its liabilities being reported as deposits from 2005 rather than insurance liabilities, thereby radically changing the composition of its balance sheet and income statement.

Skandia's reported revenues will likely be reduced by a dramatic 75% because, for its unit-linked business, revenues will only include the various policy, mortality, investment, and expense charges levied rather than the full premium revenues previously recognized. As long as Skandia continues to grow its revenues, IFRS 4 will also depress its earnings, largely because it will have to defer income previously recognized in full under Swedish GAAP. Despite the significant changes to its reported equity and profitability, Standard & Poor's has not changed its ratings or outlook on Skandia as its view of Skandia's underlying cash flows, economic earnings, and capital are unchanged. At the time of Skandia's initial disclosure of the impact of IFRS 4 in February 2005, Standard & Poor's expressed the view that although this represented a material reduction in reported equity, capital adequacy was not a rating constraint for Skandia. We went on to say that we would continue to adjust Skandia's reported figures in our capital and leverage analysis, use embedded-value results as our preferred measure of economic earnings, and maintain our focus on the underlying cash flow of the business. Skandia is expected to be an isolated example because of its concentration on European unit-linked business. IFRS 4 arguably portrays Skandia's business in a manner closer to economic reality and certainly closer to the way a bank or asset manager would report.

For groups such as Aviva, which have more diversity in their life products, the impact is less significant. Only 14% of Aviva's business is classified as deposits under IFRS 4. If the group continues to grow its revenues,

1. "International Accounting Standards: Threat Or Opportunity?" was published Sept. 8, 2003, and "International Financial Reporting Standards For Insurance: Threat Or Opportunity Deferred?" was published March 22, 2004, on RatingsDirect and ClassicDirect, Standard & Poor's Web-based credit analysis systems.

> *"IFRS 4, followed by the Phase II standard, Solvency II, and Basel II, not to mention investigations of financial reinsurance transactions, will progressively narrow the opportunities for so-called 'finite reinsurers' over time."*

however, this will depress earnings as it will not be able to defer acquisition costs to the same extent as it did under U.K. GAAP. The impact of IFRS 4 is likely to be greatest in countries such as France, Spain, and Italy, where the bancassurance model prevails and many life insurance savings products provide little insurance protection. However, this will only apply to insurers that previously deferred acquisition costs. Many banks and their life insurance subsidiaries in this region chose not to defer. U.K. banks that previously recognized the embedded value of this life insurance business in their equity will cease to do so following this redefinition as financial instruments. Standard & Poor's already deducts embedded value when calculating core capital for these groups.

Another issue for life insurers is that "mezzanine reserves", such as the Fund for Future Appropriations in the U.K. and the RfB (*Rückstellung für Beitragsrückerstattung* or policyholder bonus reserve) in Germany, will not be permitted under IFRS. Such reserves need to be disclosed either as equity or liabilities, or a combination thereof. Economically, such reserves or parts of these reserves are available to absorb risk, particularly asset risk. No significant changes are expected in Standard & Poor's total adjusted capital calculations resulting from these restatements of equity.

Regarding the much discussed asset-liability accounting mismatch, the basic problem remains in IFRS 4, whereby investments are expected to be largely valued at fair value, and liabilities at amortized cost. However, the original proposals in Exposure Draft 5 (ED5; that is, the draft standard that became IFRS 4) were watered down in IFRS 4 through the introduction of "shadow accounting" and the ability to use current market interest rates to value certain insurance liabilities. Standard & Poor's expects most companies to use these features to dampen reported volatility.

Finally, although there is a requirement to identify and separate embedded derivatives and account for them at fair value, this will apply in practice to relatively few products (mainly where there are minimum equity or equity-linked returns on surrender or maturity). Unfortunately, this requirement will not apply to guaranteed annuity options or guaranteed minimum death benefits, both of which have proved problematical for the industry in recent years.

The level of opacity that already exists in insurers' financial statements, which will not cease to exist under IFRS 4, has prompted leading European insurers to form the CFO Forum, which has published guidelines for supplementary European Embedded Value (EEV) financial information. Leading insurers are expected to publish supplementary information in their 2005 financial statements under EEV (Aviva has led the pack and published for 2004). Standard & Poor's analysis of European life insurance company earnings has focused on embedded value (where available) for some time, and it welcomes the greater consistency and information value that EEV reporting may provide.

Non-Life Insurers

The impact on the non-life side is less significant, which partly reflects that there is already a reasonable amount of global consistency and disclosure in this area today. The largest adjustments to equity are expected to result from the elimination of equalization/catastrophe reserves and the revaluation of investments.

Equalization/catastrophe reserves do not qualify as a liability under IFRS as they relate to future rather than past events. Consequently, they will become a part of equity going forward. Standard & Poor's already treats these reserves as equity in its capital and earnings analysis.

IAS 39 *Financial Instruments: Recognition and Measurement* will have a significant impact on groups that were not already using fair-value measures. For example, Corporación Mapfre S.A.'s 2004 reported equity increases by 13%, largely because of restated investment values. No changes in total adjusted capital are expected to result for such groups, as investments are already carried at fair value in Standard & Poor's capital adequacy model.

Both of the above changes result in more reported volatility. However, this volatility reflects the underlying economics that could have been masked under the old regime. Hence, Standard & Poor's views these changes positively.

Reinsurers

IFRS 4 may have a significant impact on certain reinsurers. The standard will require enhanced disclosure of reinsurance transactions that result in the recognition of gains at inception. While IFRS 4 was watered down from the ED5 proposal to eliminate any such gains, such disclosure may affect the appeal of these reinsurance transactions. IFRS 4, followed by the Phase II standard, Solvency II, and Basel II, not to mention investigations into financial reinsurance transactions, will progressively narrow the opportunities for so-called "finite reinsurers" over time. However, in the financial statements of the ceding insurer, the increased disclosure of financial reinsurance transactions is welcome.

All Insurers

Some of the larger IFRS-related adjustments disclosed by insurers have not resulted from IFRS 4 or IAS 39, but rather from the application of other standards.

Royal & Sun Alliance Insurance Group PLC (core operating entities are rated A-/Stable/--) reported a 13% reduction in equity as the net result of IFRS implementation. However, the need to recognize the pension scheme deficit on its balance sheet under IAS 19 *Employee Benefits* represented 22% of reported equity, but was offset by other changes having a net 9% positive impact. Standard & Poor's does not propose to make adjustments to add back such deficits to total adjusted capital[2]. The impact of the pension scheme deficit is already reflected in the ratings on the group.

2 See "IFRS Fosters Consistency In Assessing Bank And Insurer Postretirement Benefit Obligations," published May 31, 2005, on RatingsDirect and ClassicDirect, Standard & Poor's Web-based credit analysis sytems.

Other companies will find that total assets and debt on their balance sheet is inflated by newly consolidated operations, such as special-purpose vehicles, mutual fund holdings, and private equity interests that were previously held off balance sheet. Where debt is inflated in this way, Standard & Poor's may adjust reported debt leverage and interest and fixed-charge coverage based on the merits of each case.

Disclosure

Of greater concern to most companies is not the restated primary financial statements (that is, the profit and loss account and the balance sheet), but rather the increased level of footnote disclosure. It remains to be seen whether the spirit of IFRS 4 will be interpreted similarly in different countries. However, in the U.K., where the term "true and fair view" has historically been interpreted more onerously than elsewhere in Europe, the level of disclosure is expected to result in financial statements that are up to double the size!

Nevertheless, most of the incremental benefit to investors and analysts arising from IFRS 4 will reside in these footnotes, which will include disclosure of key assumptions and sensitivity analysis. Standard & Poor's views the incremental disclosures as a significant improvement over past reporting practices.

Phase II

IFRS 4 is a standard littered with compromise. Companies, regulators, analysts, and the IASB would all like to see the Phase II standard implemented as soon as possible. However, it remains a distant prospect. The increased level of consultation that the industry has demanded and that has been accepted by the IASB will likely result in at least a three-year delay to the implementation of Phase II, until 2010. An interesting consequence of this is that it raises the possibility that the U.S. insurance industry may adopt this standard at the same time as Europe, as the FASB and the IASB increasingly converge their standards. Leading U.S. insurers are highly engaged in the IFRS debate.

Phase II development is in its very early stages. The IASB has made a public commitment to consider insurance accounting from first principles. However, the board is yet to show its hand as to whether it is willing to deviate far from the fair-value accounting framework first envisioned in its Draft Statement of Principles (DSOP) in 1999. Most of the discussion so far has been on the non-life side. It seems, for example, that the application of risk margins and discounting (key features of the DSOP) to loss reserves is inevitable as part of the Phase II standard, as the theoretical arguments are difficult to dispute.

The IASB is still very much in information-gathering mode at present, and the board members are giving very little away about the direction the board will take. There are plans to issue a discussion paper by the end of the year, but even this is looking increasingly ambitious. This will mark the point at which the FASB gets involved in the project in a more meaningful way.

On the life side, the principle of lock-in used in U.S. GAAP and in some other territories is unlikely to be acceptable. At a more basic level, the industry is having difficulty in making its case on two fundamental points. First, and most significantly, should the accounting framework reflect the renewability of life insurance premiums? Second, should the liabilities be established as a minimum at their surrender value (the so-called "deposit floor" issue)? Failure to recognize the underlying and well-documented behavior of policyholders to renew would render the end product irrelevant, leaving the supplementary information as the primary basis for most users' evaluation. It is worth noting that the EEV initiative is expected to be very well established by 2010. Consequently, it will be difficult to dislodge EEV by that time if the Phase II solution does not recognize the fundamentals of life insurance business.

Limited Ratings Impact Expected From IFRS 4 And Associated Standards

Implementation of IFRS 4 and associated standards is expected to have a limited impact on most insurers' reported equity and earnings. While more restricted under the new standards, insurance groups retain considerable room for maneuver. Standard & Poor's will continue to make appropriate adjustments to reported equity and earnings in its analysis to achieve greater consistency. However, the impact on ratings is expected to be limited. The new standards will produce some valuable disclosures for investors and analysts to digest. IFRS 4 also adds some welcome consistency in non-life insurance, although it introduces some unwelcome volatility in life insurance. Phase II is under way, but its implementation is unlikely before 2010. Standard setters may need to sacrifice some theoretical purity to avoid the irrelevance of the outcome.

"Standard & Poor's will continue to make appropriate adjustments to reported equity and earnings in its analysis to achieve greater consistency. However, the impact on ratings is expected to be limited."

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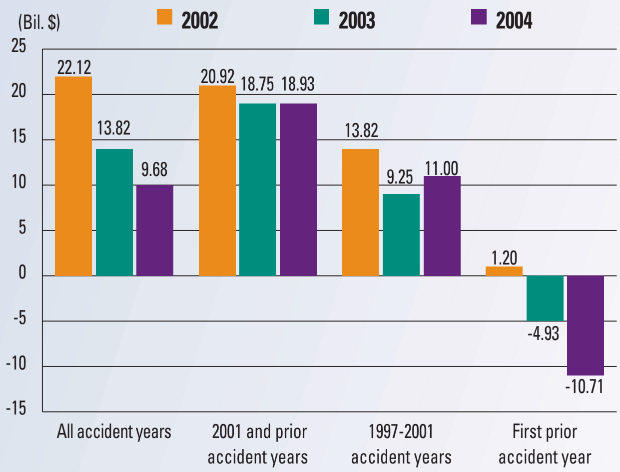
Amid Record Profits, Loss Reserving Remains A Sticky Issue For U.S. Property/Casualty Insurers

Reserving continues to be an issue for the global reinsurance industry. In this article, Standard & Poor's Ratings Services assesses trends in the U.S. property/casualty industry, which has been the source of these reserving issues in recent years.

Chart 1: U.S. Property/Casualty Industry Reserve Development
Results By Time Period



The overall property/casualty industry experienced $10 billion in adverse reserve developments in 2004, which was heavily influenced by $11 billion in reserve releases from the first prior accident year (2003). The reserve releases in 2004 from the 2003 accident year are $5 billion for personal lines and $6 billion for commercial lines. Note: First prior accident year means the most recent prior accident year in a given calendar year.
Industry figures exclude AIG's recently restated financial results.

U.S. property/casualty insurers boosted reserves for old business by $10 billion in 2004. This was the sixth consecutive year of reserve increases, following $14 billion in 2003 and $22 billion in 2002 *(see chart 1)*. The $10 billion hit in 2004 consisted of $21 billion in reserve additions for 2002 and prior accident years, less $11 billion in reserve reductions for the 2003 accident year. Cumulatively, $60 billion has been added to the industry's reserves for the 2001 and prior accident years, suggesting that the industry's surplus was overstated by about 20% at year-end 2001. If the industry had the ability (or willingness) to set reserves at an appropriate level at that time, it would have reported a combined ratio of 136% rather than the 116% actually reported.

The especially problematic accident years of 1997-2001 defy the actuarial norm that as old business seasons, its claims cost characteristics become better known. Ordinarily, one would expect the magnitude of reserve additions for a given accident year to diminish over time, but as chart 1 shows, insurers added more to 1997-2001 reserves in 2004 ($11 billion) than they did in the previous year ($9 billion). The phenomenon casts doubt on the staying power of the reserve reductions posted for the more recent 2002 and 2003 accident years. In 2004, insurers gave back $1.2 billion of the initial $5 billion reserve release for the 2002 accident year. It remains to be seen if the $11 billion release of 2003 accident-year reserves will hold.

Despite nagging drains on reserves from asbestos and environmental losses, these claims were not to

Table 1: 2004 Adverse Reserve Development For 10 Groups Weighted Heavily Toward Commercial Lines

Insurance Group	Rating[1]	Net Reserve Additions Or Reductions 2004 (Mil. $)
St. Paul Travelers	A+	2,165
Zurich U.S.	A+	1,817
GE Insurance Solutions	A	1,293
Farmers	A+	700
ACE	A+	691
Nationwide	A+	534
American Re	A	533
Swiss Re America	AA	432
Liberty Mutual	A	363
W.R. Berkley Corp.	A+	284

1. Operating company financial strength rating as at June 9, 2005.

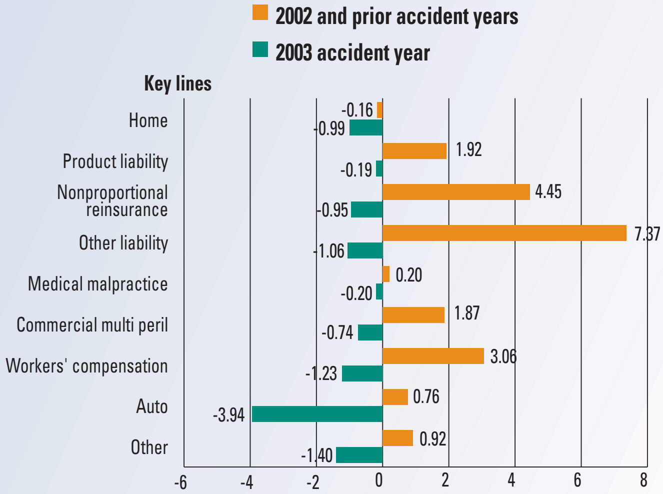
blame for most of the industry's reserve development in 2004. Asbestos and environmental reserves are generally attributable to years prior to 1997, and reserves for these earlier years rose $8 billion in 2004 compared with $10 billion added in 2003. More than one-half of the $19 billion reserve addition for all years prior to 2002 emanated from the 1997-2001 period.

These figures also reveal a widening gulf between the industry's collective pessimism about the ultimate cost of settling old liability claims and the nearly euphoric view of the underlying profitability of recently written business. Chart 2 illustrates that reserve additions were needed in nearly all major lines of business for the 2002 and prior accident years, but at the same time, reserves were reduced in those same lines for the 2003 accident year. Even in the highly unpredictable general liability business, which required a further $7.4 billion reserve boost for 2002 and prior years, insurers felt comfortable reducing reserves for 2003 business by more than $1 billion. As was the case in 2003, auto insurance provided the greatest contribution to reserve reduction in 2004 (nearly $5 billion of the overall $11 billion). Curiously, even in this profitable business line, reserves were boosted modestly for business put on the books before 2003. Unlike in 2003, when only personal lines reserves were significantly reduced, reserve reductions were taken for virtually all of the commercial lines for the most recent accident year.

Charts 3-5 *(see pages 60-61)* show the 10-year trend of reserve development and the dramatically different experience between personal and commercial

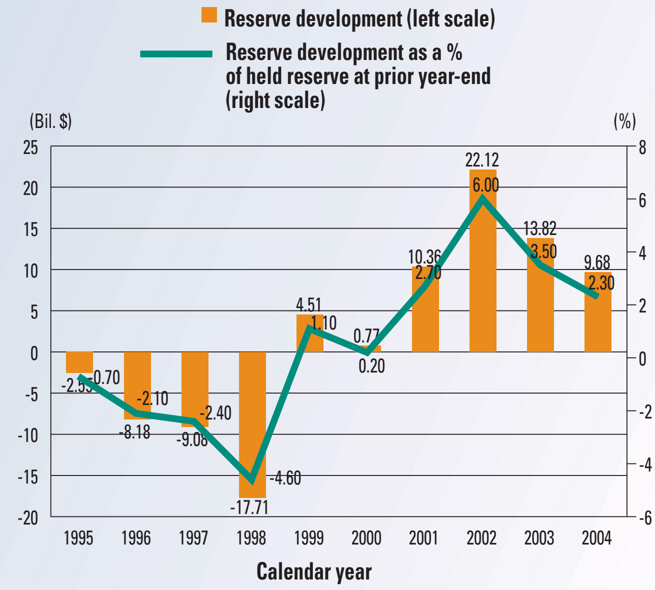
Chart 2: U.S. Property/Casualty Industry Reserve Development

By Major Business Lines



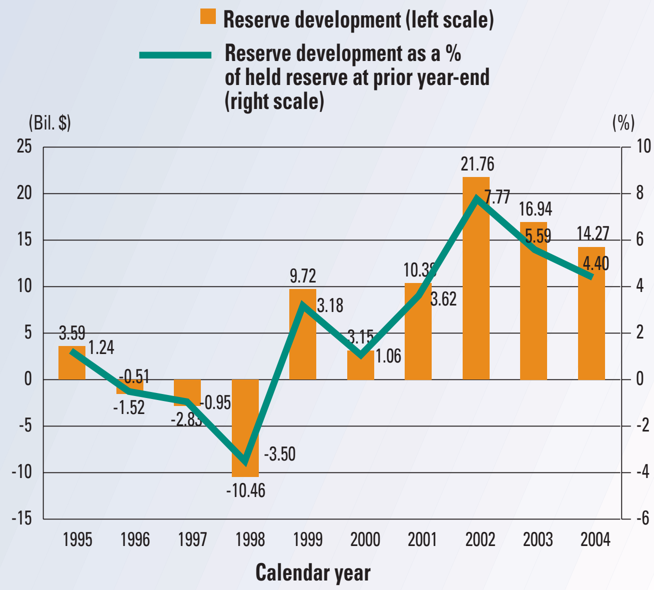
Industry figures exclude AIG's recently restated financial results.

Chart 3: U.S. Property/Casualty Industry Reserve Development
1995-2004



Industry figures exclude AIG's recently restated financial results.

Chart 4: U.S. Commercial Lines Reserve Development
1995-2004



Industry figures exclude AIG's recently restated financial results.

lines. Despite the reliability of personal lines to produce reserve releases to offset the poorer performance in commercial lines, the dollar amount of personal lines releases has remained below historical averages. In the 2001 calendar year, personal lines produced negligible releases and even required a small net addition in 2002.

Despite favorable reserve development in commercial lines for the 2003 accident year, older accident years continue to drain insurers' capital. Looking across all prior accident years, reserves were increased for all of the major commercial lines. For general liability (which includes directors' and officers' liability insurance) and product liability, reserve additions posted in 2004 exceeded those in 2003, as illustrated in chart 6. For the remaining major commercial lines—reinsurance, medical malpractice, workers' compensation, commercial package policies, and commercial auto—reserve additions were lower than in 2003. For medical malpractice, reserve additions were effectively zero in 2004, and for other smaller commercial lines as a whole, a modest reserve release was recorded.

Last year, the impact of reserve movements affected different companies in different ways. Those weighted heavily toward commercial lines experienced the largest adverse development *(see table 1 on page 59)*, whereas personal lines companies recorded the most favorable development *(see table 2 on page 62)*.

Actuarial Disclosures

In a previous article[1], we called for better disclosure of reserve variability to be expected from insurers' reserve estimates and an overall improvement to the quality of actuarial disclosure available to regulators, analysts, and investors to help assess reserve risk. The article highlighted our declining confidence in the traditional reasonable-provision standard for stated reserves in annual statements, favoring instead a range of possible reserve estimates.

Starting with the 2005 financial year, the NAIC will require insurers to report estimated reserve ranges on a strictly confidential basis. Although this is a step in the right direction, public disclosure would be far better. Already implemented is a requirement that with the actuarial opinion for the 2004 financial year, NAIC now requires property/casualty insurance companies to disclose a specific dollar amount as to what the company considers a material adverse deviation from the recorded reserves. The deviation standards reported in 2004 actuarial opinions are shown for selected insurers in table 3 *(see pages 62-63)*.

1. The commentary, "Insurance Actuaries—A Crisis of Credibility," was published Nov. 19, 2003, on RatingsDirect and ClassicDirect, Standard & Poor's Web-based credit analysis systems.

For each selected company, the disclosed materiality (% of surplus) in the 2004 actuarial opinion is compared with the prior two years. Several of the 20 insurers listed exceeded the 2004 stated thresholds of the materiality standard calculated on an average (2002-2004) basis. The standard of materiality as disclosed in the actuarial opinion is not uniquely defined across all property/casualty companies; instead, it depends on company-specific exposures or their business mix. In addition, no specific action is required on the part of insurers or regulators in instances where the threshold is exceeded.

Reserving difficulties continue to haunt property/casualty insurers, and the latest data do not suggest any discontinuation of the cycle of releasing reserves in bad underwriting years and boosting reserves in good ones. Although insurance executives have ultimate controls in setting reserves each year, newly heightened regulatory sensitivities about managing earnings will limit their flexibility and, ultimately, will cause more volatility in earnings and capital. Our belief is that enhanced public disclosure is needed to allow analysts and regulators to better judge reserve adequacy, capital adequacy, and earnings potential.

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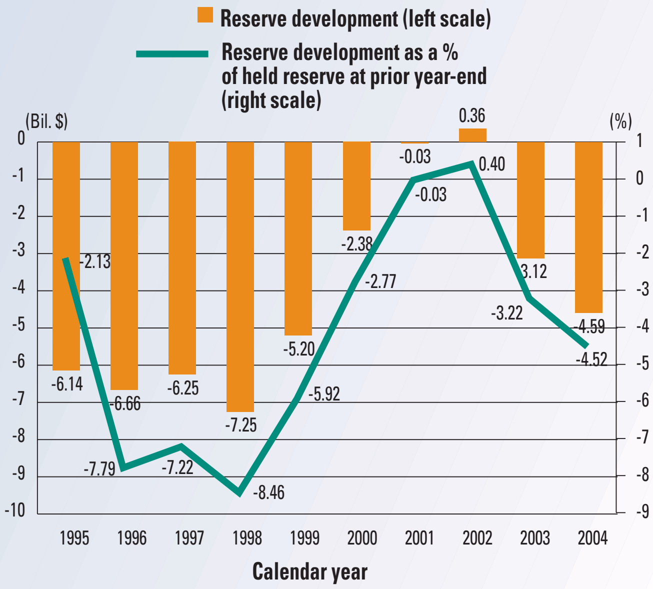
Chart 5: U.S. Personal Lines Reserve Development

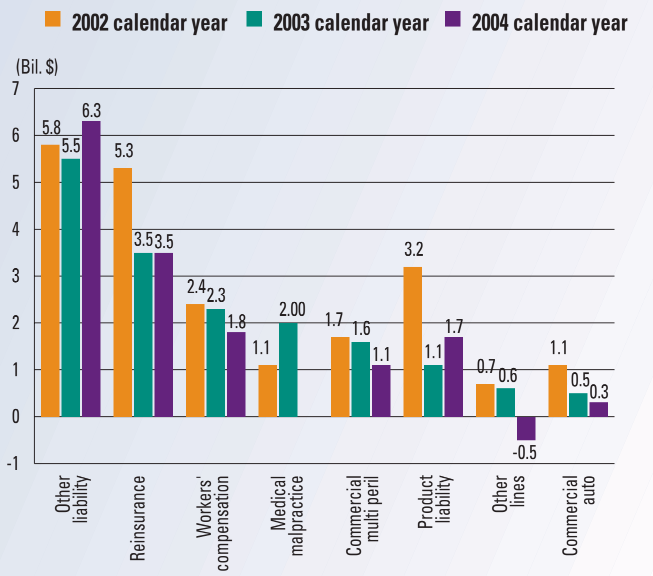
1995-2004



Industry figures exclude AIG's recently restated financial results.

Chart 6: U.S. Commercial Lines Reserve Development

Results By Major Business Lines



Industry figures exclude AIG's recently restated financial results.

Table 2: 2004 Adverse Reserve Development For Five Groups Weighted Heavily Toward Personal Lines

Insurance Group	Rating[1]	Net Reserve Additions Or Reductions 2004 (Mil. $)
State Farm	AA	-1,625
Berkshire Hathway	AAA	-363
Allstate	AA	-287
Progressive	A+[2]	-109
SAFECO	A+	-68

1. Operating company financial strength rating as at June 9, 2005.
2. Holding company rating as at June 9, 2005.

Table 3: Materiality Disclosures From Year-End 2004 Actuarial Opinion For Selected Companies

Names Of Individual Companies	Loss And Loss Adjustment Expense Reserves At Year-End 2004 (Mil. $)	Statutory Surplus At Year-End 2004 (Mil. $)	Disclosed Materiality In 2004 Actuarial Opinion (Mil. $)	Disclosed Materiality As A % Of Loss Reserves (%)
American Re-Insurance Co.	6,071.0	3,305.0	610.0	10.0
Zurich American Insurance Co.	12,145.0	4,925.0	490.0	4.0
Converium Reinsurance (North America) Inc.	1,770.0	349.0	25.0	1.4
Employers Reinsurance Corp.	7,340.0	5,513.0	551.0	7.5
American Home Assurance Co.	8,266.0	4,316.0	863.0	10.4
Transatlantic Reinsurance Co.	4,415.0	1,944.0	486.0	11.0
Swiss Reinsurance America Corp.	4,503.0	2,648.0	265.0	5.9
XL Reinsurance America Inc.	1,193.0	1,775.0	444.0	37.2
Continental Casualty Co.	16,479.0	6,815.0	1,704.0	10.3
St. Paul Fire & Marine Insurance Co.	10,401.0	5,509.0	347.0	3.3
General Reinsurance Corp.	10,086.0	7,159.0	10.0	0.1
National Union Fire Insurance Co. of Pittsburgh, PA	8,659.0	8,554.0	1,711.0	19.8
Everest Reinsurance Co.	4,444.0	2,093.0	314.0	7.1
Liberty Mutual Insurance Co.	10,603.0	7,427.0	1,060.0	10.0
Federal Insurance Co.	9,940.0	7,765.0	1,553.0	15.6
Lexington Insurance Co.	4,390.0	2,444.0	489.0	11.1
Hartford Fire Insurance Co.	5,628.0	9,754.0	457.0	8.1
Travelers Indemnity Co.	6,069.0	4,639.0	464.0	7.6
OneBeacon Insurance Co.	1,381.0	1,361.0	207.0	15.0
SAFECO Insurance Co. of America	1,590.0	1,043.0	50.0	3.1

Disclosed Materiality As A % Of Statutory Surplus (%)	One-Year Reserve Development As A % Of 2003 Surplus (%)	One-Year Reserve Development As A % Of 2002 Surplus (%)	One-Year Reserve Development As A % Of 2001 Surplus (%)	Average One-Year Development (2002-2004) (%)
18.5	16.6	24.5	84.0	41.7
9.9	49.4	36.5	29.9	38.6
7.2	48.8	3.6	21.5	24.6
10.0	20.5	8.0	38.8	22.4
20.0	16.1	14.3	27.1	19.2
25.0	16.8	19.3	21.0	19.0
10.0	17.2	37.7	(4.3)	16.9
25.0	2.4	25.3	22.4	16.7
25.0	4.2	45.6	(3.6)	15.4
6.3	24.2	8.2	5.5	12.6
0.1	12.1	9.8	10.4	10.8
20.0	8.9	7.5	15.8	10.7
15.0	9.1	13.0	6.8	9.6
14.3	3.7	11.5	8.6	7.9
20.0	3.1	6.7	11.5	7.1
20.0	3.4	8.4	9.1	7.0
4.7	1.1	16.1	2.1	6.4
10.0	(1.0)	(1.8)	21.2	6.1
15.2	1.0	3.4	4.1	2.8
4.8	(2.8)	7.4	3.1	2.6

Insurer Financial Strength Ratings

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

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

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

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

Insurer Financial Strength Ratings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurer Financial Enhancement Ratings

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

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

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