RELEASE

2/2011 — Bulletin of Catlin Re Switzerland

CATLIN
Underwriting Ambition

Where To Go

The role of reinsurance in uncertain times

Editorial

Dear Reader

First of all I would like to thank you for the manifold feedback you shared with us regarding the launch of RELEASE in May 2011. Your interest in Catlin Re Switzerland is an encouragement and an obligation to the quality of our future editions.

In the second edition of RELEASE we share with you our views on how to best navigate today's environment of economic uncertainty. Martin Hochstrasser, Underwriting Director for our global Credit & Surety business, analyses the implications of the European sovereign debt crisis for insurers and explores potential remedies, which reinsurers may suggest to clients.

We also would like to seize this opportunity and continue to introduce Catlin Re to you. We start off with our Italian team which joined Catlin one year before we received our reinsurance licence and whose early success served as a blueprint for our market approach.

Finally, in the past months since the first edition of RELEASE, Catlin Re Switzerland has made great progress in building and strengthening the company's foundations. We have continued to grow our team, finalized the recruitment of key underwriting and staff functions. In addition, we have defined the positioning of our brand and started to raise awareness and recognition of it.

Most importantly, we have continued to forge relationships and to position Catlin Re Switzerland with its clients and other stakeholders. For example, we joined a number of international trade associations, such as APREF, the French association of reinsurance professionals, ICISA, the International Trade and Surety association, and PASA, the Latin American Credit and Surety association.

We look forward to your continued feedback on RELEASE.

Yours sincerely

Peter Schmidt
Chief Executive Officer

Navigating Economic Uncertainty

The global economic outlook has darkened. Against this back-drop, insurers face renewed uncertainty as both sides of the balance sheet might come under pressure. However, in stormy sea, reinsurance might help to sail into calmer water.

A darkening economic outlook
Since summer this year, the spectre of a 'double dip', i.e. a renewed recession following the economic downturn in 2009 has reemerged as a plausible scenario. What is behind this massive change in sentiment as compared to earlier in 2009? This time, excessive levels of government debt and their potential impact on the banking sector are spooking consumers and investors alike. More fundamentally, what we witness today can be viewed as the long predicted correction process of economic imbalances (primarily US spending versus Chinese saving) as well as unsustainable public welfare systems and bloated government sectors in Europe. Including Japan, which faces tremendous demographic challenges, the prospects for almost two thirds of the world economy are noticeably less optimistic than 12 months ago. However, whether a technical recession, i.e. two consecutive quarters of negative growth occurs or not is, in our opinion, not that relevant. We believe that US and European consumers and investors have already anticipated a long period of low growth.

Emerging markets' dependence on the fortunes of the 'Western' economies keeps decreasing as intra-regional trade links and domestic consumption grow in importance.

Is there some calmer sea ahead? Yes, we think there are positive signs: The US could emerge from the current economic stagnation faster than Europe (as regularly in economic history), supported by a declining dependency on oil as domestic shale gas reservoirs are exploited as well as reduced costs of war (Iraq/Afghanistan). These developments would provide relief to current accounts and fiscal balances, potentially ushering in an economic recovery as from 2014, around mid-term of the next presidential term. Also, the increasing weight of emerging markets in the global economy warrants some optimism. These countries, China and India in particular, have proven stabilizing forces during the 2008/2009 global economic downturn.

Challenges faced by our clients

This uncertain economic environment presents insurers with a multitude of challenges. Main P&C insurance lines such as Property and Motor as well as Engineering and Marine will face stagnating or even declining premium income due to the devaluation of assets and lower economic growth. However, some Specialty lines such as Fidelity, Crime, D&O may benefit from higher rates as the risk of Fraud and Lawsuits potentially increases. In short-term credit insurance, too, premium rates may go up and terms and conditions improve. Lower premium income would have to be expected in particular from construction contract bonds as private projects are suspended and public spending is unlikely to fill the gap in view of the imperative of fiscal austerity.
In addition to anaemic business growth, record-low interest rates will take their toll on insurers, especially life insurers which have engaged in long-term yield guarantees to policyholders. Also, non-life insurers with long-tail casualty exposure will feel the pinch as reinvestment opportunities deteriorate.

The most immediate threat, of course, is a Greek default. For insurers, it would be manageable provided that the contagion does not spread to Spain or, worse, Italy and causes a serious banking crisis (as insurers are heavily exposed to bank securities). In general, widening spreads on certain governments' bonds, in conjunction with massive setbacks on stock markets since July will adversely affect insurers' asset portfolios. However, as most insurers already run very low equity ratios, the current market environment may provide attractive opportunities for building positions in dividend rich stocks, the insurer's own capital position and the regulatory framework permitting. Further, in order to mitigate counterparty risk, the diversification of bank deposits and the ability to unconditionally draw on bank lines at any time are of key importance. Smart insurers may also raise subordinated debt now and profit from the low interest rate environment whilst avoiding the dilution of existing shareholders.

Interest rates have reached historical lows and this state will not change soon - quite a challenge for an industry which collectively has to invest US$ 23 trillion.

Compared to top line growth and asset valuations, the impact of an economic downturn on claims expenses is even more difficult to gauge: On the one hand, all other things equal, claims should mirror the downward or stagnating trend of premiums. Also, in general, a lower level of economic activity is expected to translate into lower claims costs. On the other hand, fraudulent claims tend to increase in times of economic distress. In any case, as from 2008 onwards average underwriting results in the world's largest non-life markets turned negative, a development which does not only reflect a challenging economic environment but also a general trend of softening rates.

Helping clients to navigate economic uncertainty

This leads us to capital, the insurance industry's primary 'raw material'. As a source of capital reinsurance is in competition with other instruments such as a straight forward rights issue, subordinated debt and securitization. All of these alternatives face their own competitive challenges. For example, if, as currently, banks are in need for additional capital, investors could be less inclined to invest in insurers. In addition, the insurance industry suffers from 'collateral damage' as a result of the collective stigmatization of the financial sector.

In a recessionary environment ceding companies attach particular importance to their reinsurers' flexibility. As far as proportional markets are concerned, insurers with an unimpaired capital base will be tempted to buy less automatic reinsurance cover than before in order to improve cost-efficiency. They are likely to rely more on their core reinsurers for facultative capacity or special treaty limits. Reinsurers who can accommodate these preferences and offer fast response times will be able to distinguish themselves from competition. On the other hand, insurers with capital constraints can be supported by (re)introducing proportional cessions with profit sharing mechanisms. This would make such a solution attractive compared to raising equity.

In non-proportional reinsurance, key success factors include capacity, the ability to price various lines of business and on-time delivery of quotes. Further, clients will expect that in addition to Cat programs, Per Risk programs can be offered. In some instances Stop Loss covers instead of proportional covers may be in demand in response to a recessionary environment.

Reinsurance is available in a number of forms and is annually adjustable if needed. This is a clear advantage over alternative sources of capital such as hybrid equity and subordinated debt.

The bottom-line is clear: Clients are most likely to favor those reinsurers who remain committed to them when the going gets rough, too, offering the whole range of reinsurance solutions across the economic cycle. ■

Martin Hochstrasser, Underwriting Director

Carving Out A Reputation

Catlin Re Switzerland profits from the strength of the Group's brand. However, acquiring a name for itself has been a key task in the past months.

As a new player in the reinsurance industry, positioning Catlin Re Switzerland as well as building awareness and recognition for the company has been key for Peter Schmidt and his team from the very beginning. As part of these efforts, they gave interviews to the trade media, published articles, delivered presentations at industry events and took measures to strengthen the firm's client and community relations.

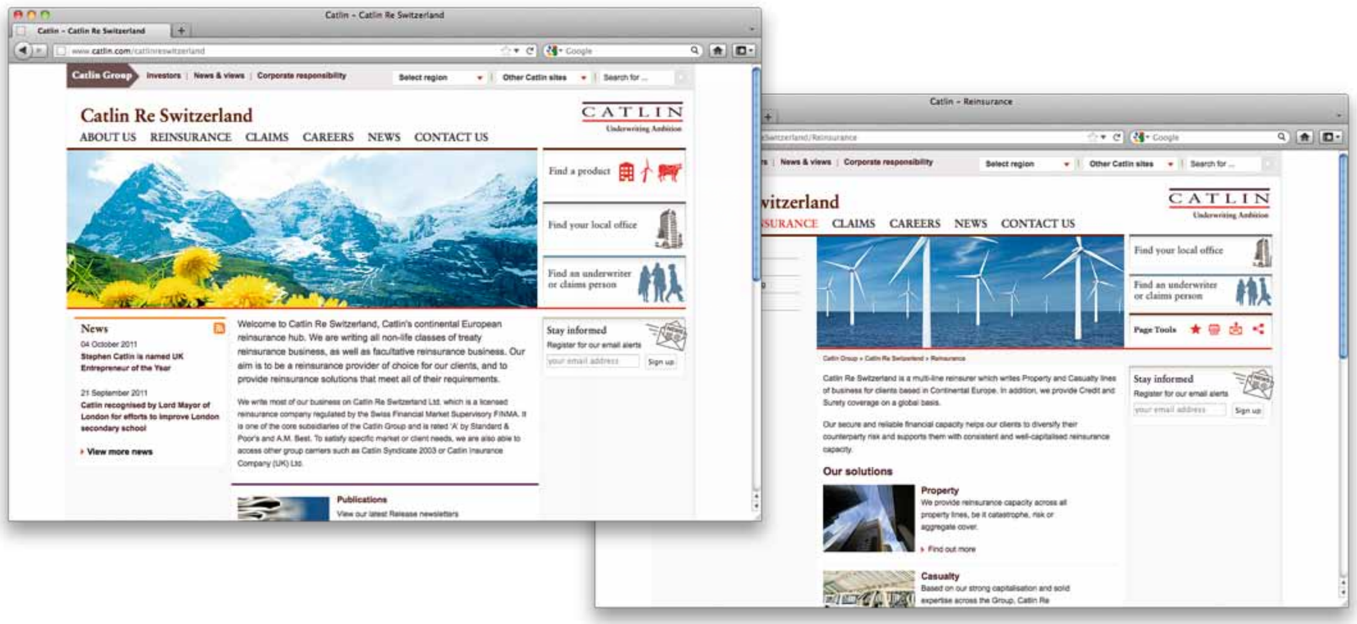
"Catlin Re Switzerland is placed within our clients' markets, responds flexibly and with agility to their needs and nourishes trusted, long-term relationships", summarises Peter Schmidt the company's core values. "Our market success in the first ten months since we received our license is testimony to the quality of our team, but it also proves the validity of our positioning."

To emphasize this positioning, Catlin Re attended a number of conferences where Peter Schmidt presented the company's market approach. "Continental Europe is a busy marketplace. Since 2004 more than 20 reinsurers established a presence in Zurich. Obviously, there is some debate if the market warrants such an increase in players and capacity."

"However, let's consider why clients turn to us", continues Peter Schmidt. "Large reinsurers provide strong financial security, but tend to focus on the equally large primary players. The smaller reinsurers serve the niche segment with specialized solutions. We, the mid-sized reinsurers, further diversify our clients' reinsurance protection. They don't have to compromise on security, rating or expertise, but benefit from a responsive, lean and agile partner, committed to the industry's credo of 'following-the-fortunes'." ■

Save the date:
Catlin Re Switzerland will host its first client event on **31 MAY 2012 in ZURICH.** Invitations to the event will be sent out soon.

Visit us on: **www.catlinreswitzerland.com**



A Blueprint For Expansion

Catlin Re's Italian underwriting team, led by Antonio Fiengo, started with Catlin more than one year before their colleagues in Zurich followed suit in late 2010. The ingredients of the Italian team's market success were to become part of Catlin Re's identity.

The Italian Team: (f. l. t. r.) Claudio Rossi, Marco Marchionne, Maura Alberici, Valentina Ercoli, Antonio Fiengo, Mauro Zappaterreno, Maria Elena Saccotelli

"Our operations in Italy are a role model for our market approach", says Peter Schmidt. The start of Catlin Italy was outstanding. In its first year, the premium volume underwritten by the Rome based team of seven surpassed expectations. In its first full renewals from January 2011, the team, which writes treaty and facultative reinsurance for all P&C lines, more than doubled the premium volume. "Our initial success aside, we actually pursue a gradual and steady growth path, in-line with Catlin Re Switzerland's market approach", says Antonio Fiengo, Branch Manager Catlin Italy.

The strategy of the team fully resonates with the market approach followed by Catlin Re Switzerland. "We aim to be a one-stop-shop for our clients", summarizes Antonio Fiengo his positioning. "We see ourselves as the best alternative to the large reinsurers."

"The market is eager for a vital segment of mid-sized reinsurers", continues Antonio Fiengo. "Our assets are clear: We care about the domestic market. We know it inside out and we are a part of it. We are flexible and responsive to our clients needs and we have the knowledge and the skills to serve our clients either with solutions tailored right to their needs or with competitive, off-the-shelf products. It is this flexibility that our clients value."

Apart from the underwriting values, the strength of the Catlin brand and the security of the Group's balance sheet, it is the team, which, according to Antonio Fiengo, makes the difference. "Our team works together seamlessly. We have a healthy mixture of underwriters with 20 to 30 years of experience and younger colleagues. Where we lack knowledge or resources, we call on Catlin Re in Switzerland or weave in experience from the Group. Thus, we combine the advantages of a small and nimble organisation with the strength of a large and established corporation."

For the upcoming year-end renewals Antonio Fiengo expects an upward pressure on prices from reinsurers, while growth will be moderate. Due to the public debt crisis, Italy has to install austerity measures, which impede upon the private consumption and dampen growth expectations. This will have consequences for the insurance markets. "I expect non-life premiums to increase in-line with inflation, while growth and profitability will stay unchanged for the immediate future", concludes Antonio Fiengo. "However, I am bullish on Italy's long-term insurance outlook, because our insurance penetration is still a percentage point lower than in our neighbouring countries, hence there is an untapped potential to close this gap." ■

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