

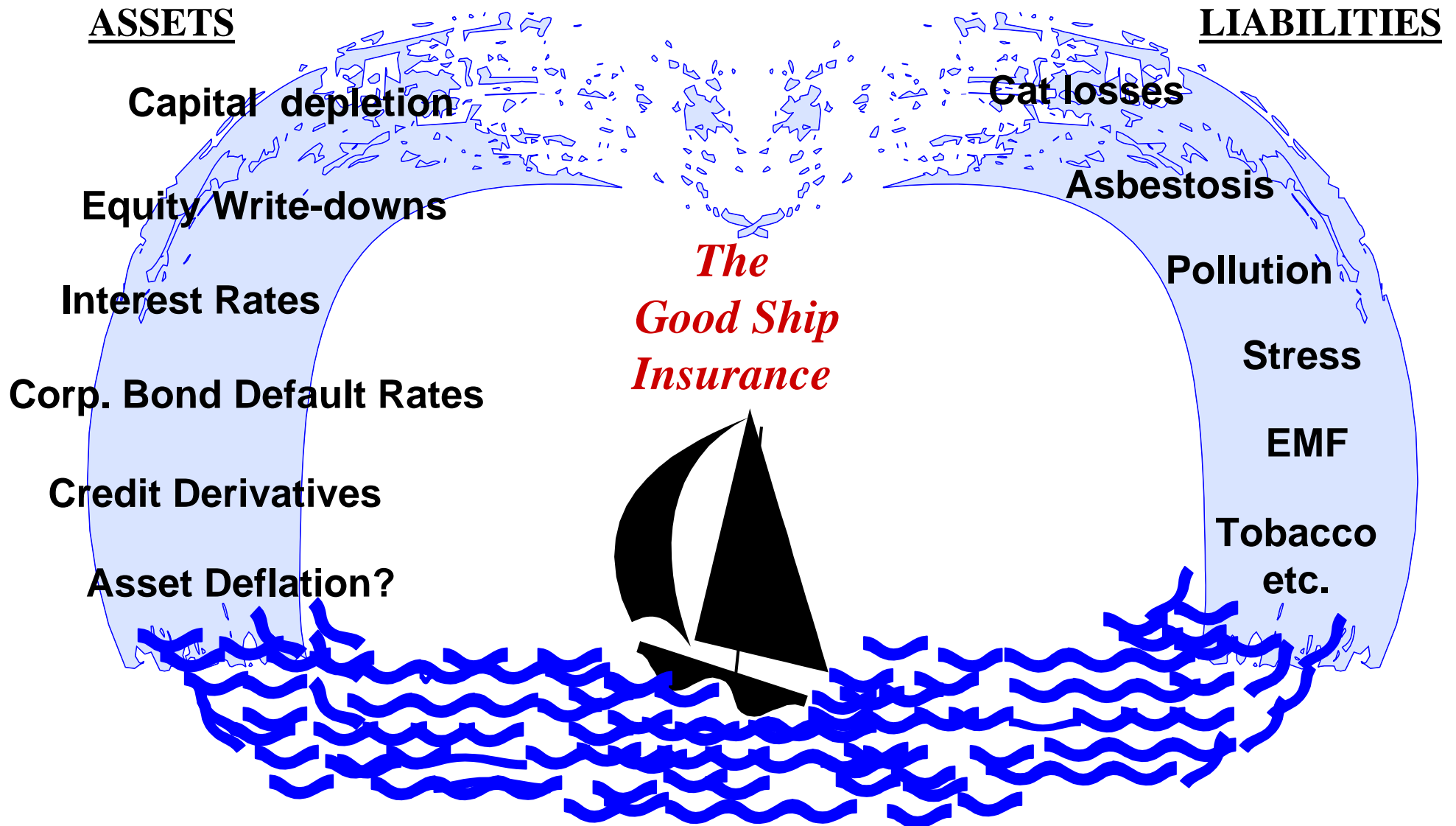
---

# ***The President's Workshop***

***Dennis Mahoney***  
***Chairman, Aon Global***

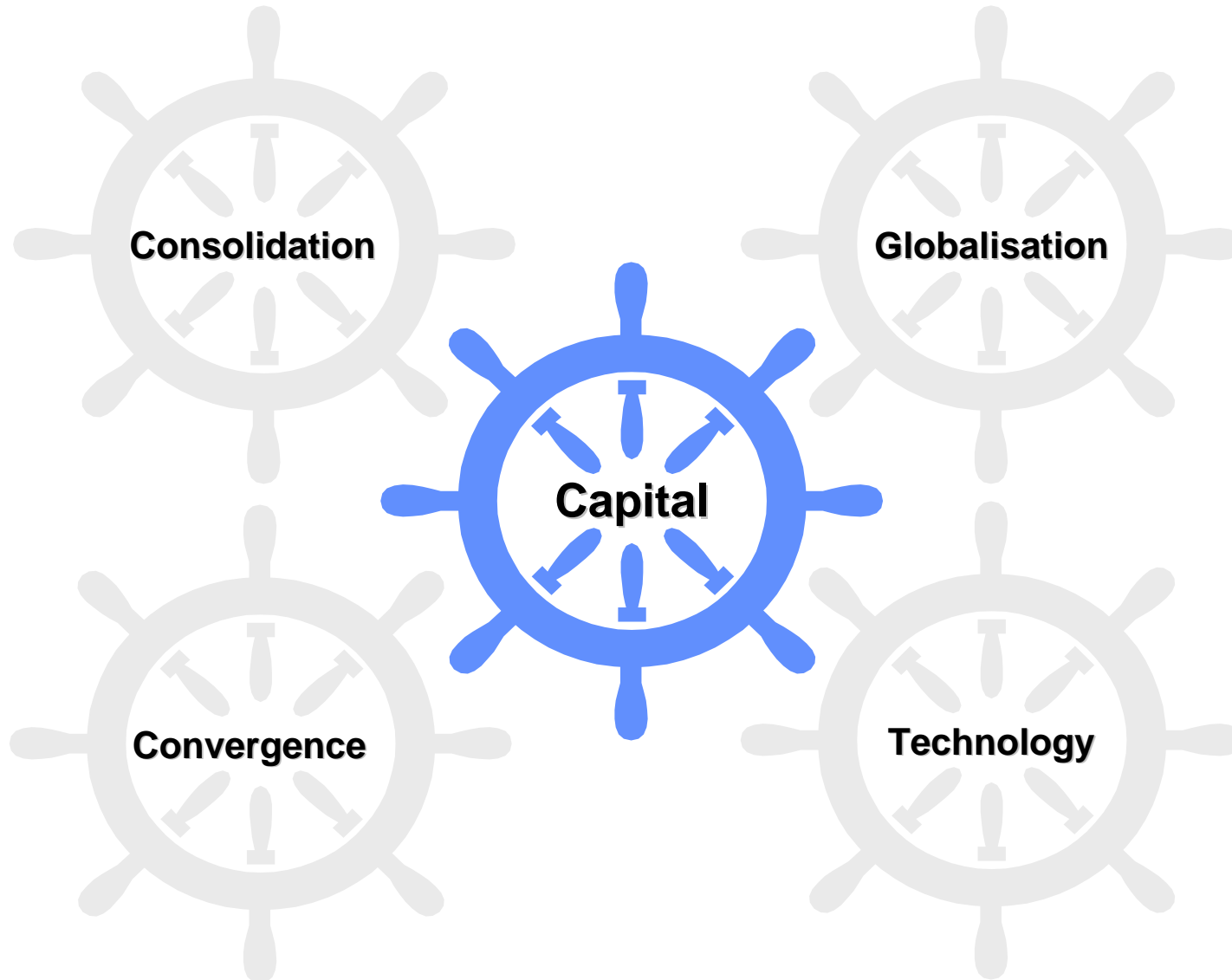
***International Union of Marine Insurance***  
***Copenhagen, 12 September 2007***

# “Perfect Storm I” (2001)



# The five key driving forces

---



*from IUMI 2000 presentation*

# Captives and self-insurance

---

- **Growth of captives**

- ◆ Global captive figures

- Number of captives ~ 4,900

- Written annual premiums ~ estimate \$60+ billion

- Capital & surplus ~ approx. \$150 billion

- For comparison AIG \$104 bn, Allianz €50 bn, Munich Re €26 bn, Swiss Re \$CHF30 bn, ACE \$14 bn, XL \$10 bn

- **Impact of growth in self-insurance**

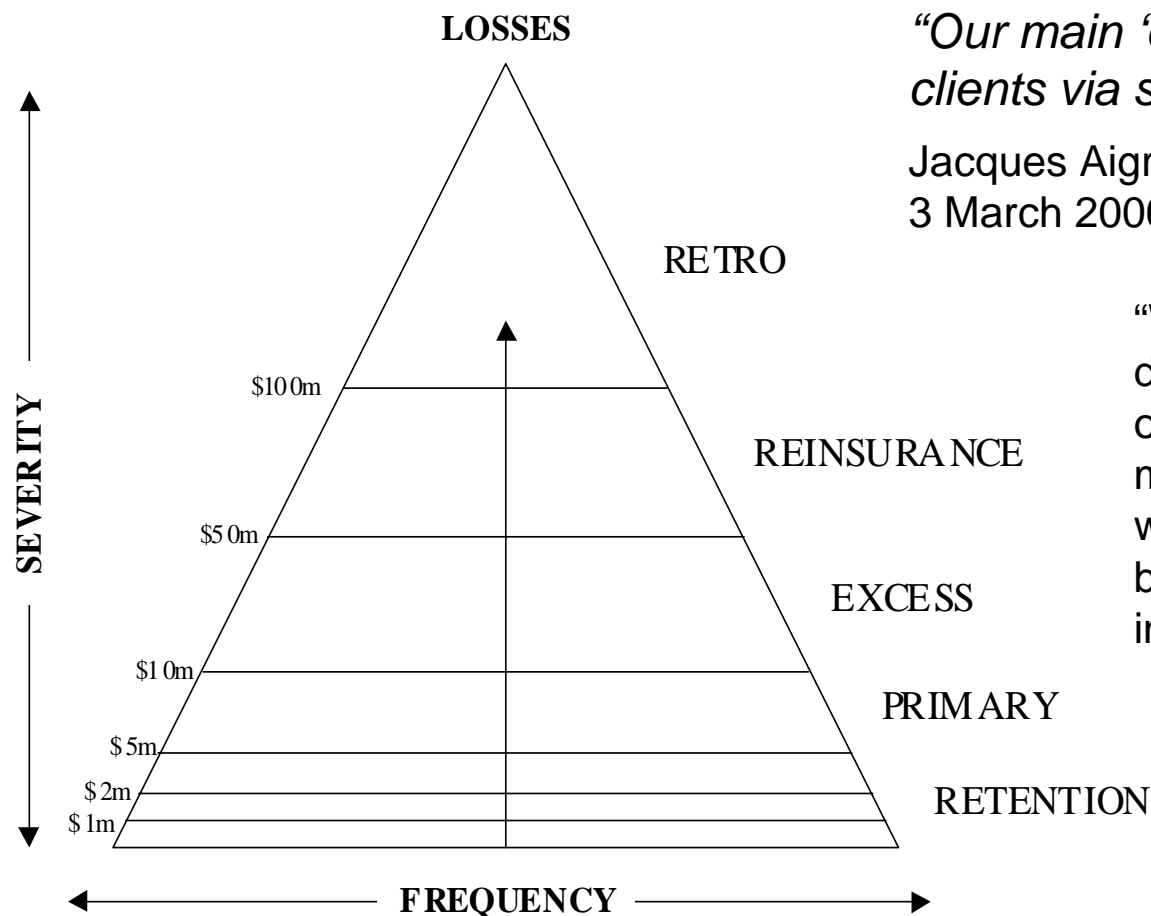
- ◆ “One-way ratchet”

- Self-insurance increases during hard market, but does not decrease to same extent in soft market

- ◆ “Self-selection”

- Tends to be the “better accounts” that self-insure the most

# Growth in risk retention leads to increased volatility



*"Our main 'competitors' are our clients via self-reinsurance"*

Jacques Aigrain, CEO Swiss Re  
3 March 2006

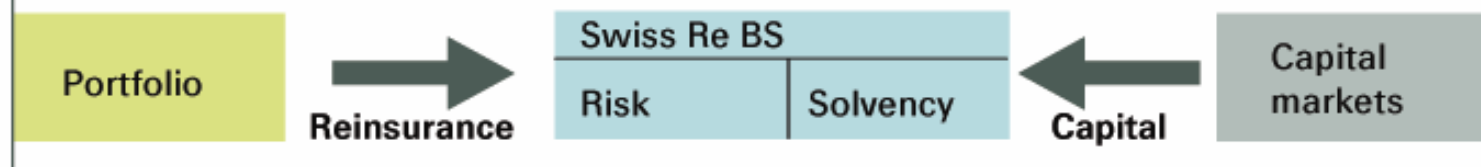
*"We used to operate on quite a low deductible, but now it's quite high in order to keep our premiums to a minimum and to be affordable. Also, we believe we're managing our risks better so we can afford to keep more in-house."*

*UK Biennial Risk Management and Risk Financing Survey 2003*

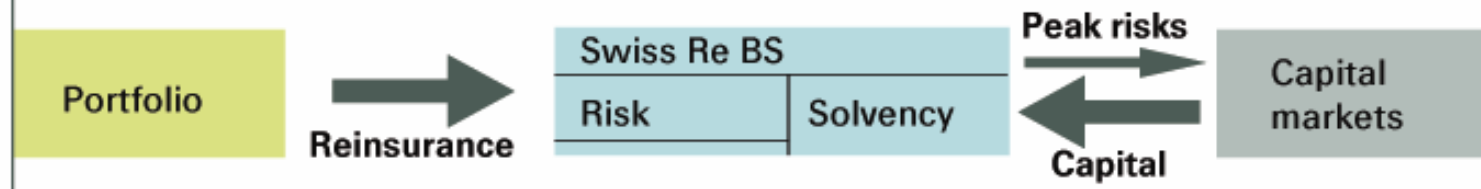


# Insurance-linked securities may lead to a change in business model

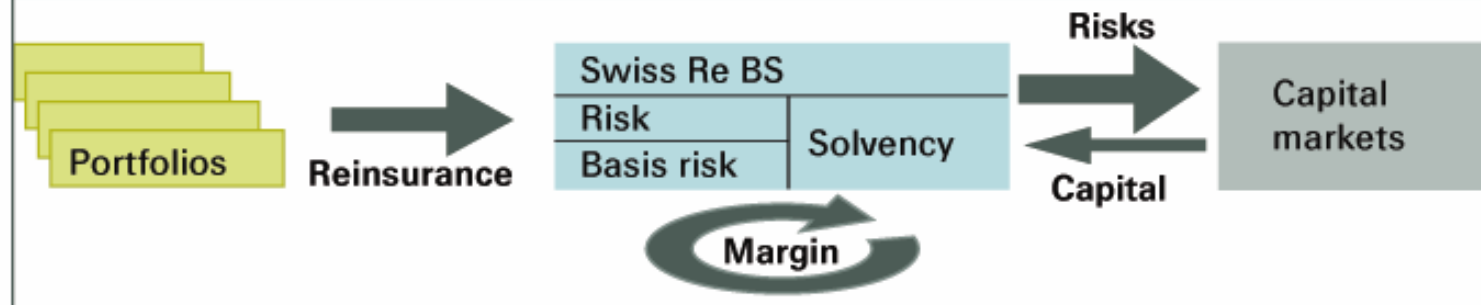
## Historic approach towards risks: «buy and hold»



## Current approach toward risk: «securitise peak risk»



## Ambition: «accelerate the balance sheet»





# Accelerate the balance sheet: Changing business model

## Buy, structure and sell

### Growth

Cash redeployed to support new transactions

### Margins and return on capital

Improve as capital turnover is accelerated

### Volatility

Could increase for retained portions but return more than adequate for risk and in extreme scenarios volatility is limited

### Sustainability

Scaleable financing system for insurance risk

**By 2015 estimated  
securitisation cover**

30% Swiss Re  
revenues

5% insurance  
industry premiums

# Munich Re and Risk Trading approach

---

## Active use of capital markets

- Managing our own risks
  - ◆ Improve our risk/return profile and save costs
- Managing our clients' risks
  - ◆ Fee and risk-based income
- Risk warehousing
  - ◆ Risk-based, investment and arbitrage income
- Restructuring and reselling
  - ◆ Fee and arbitrage income

*Adapted from presentation given by Marcel Grandi, Senior Manager - Structuring, Risk Trading Unit at Insurance Day Summit, 23 May 2007*



# Hannover Re's approach to securitisation

---

- Continue to use capital markets transactions as an important tool to manage risk
- Continue to invest in Insurance-linked Securities (if better priced than traditional products)
- Transform traditional (re)insurance risks into capital market products, i.e. bridge the needs of our R/I clients to the needs of capital market investors by:
  - ◆ structuring of transactions
  - ◆ considering (limited) basis risk
  - ◆ considering placement guarantee (versus investment bankers' best efforts)
  - ◆ pooling R/I risks
  - ◆ endeavouring to open up long-tail business for ILS, by retaining the tail risks and the loss reserve development risk

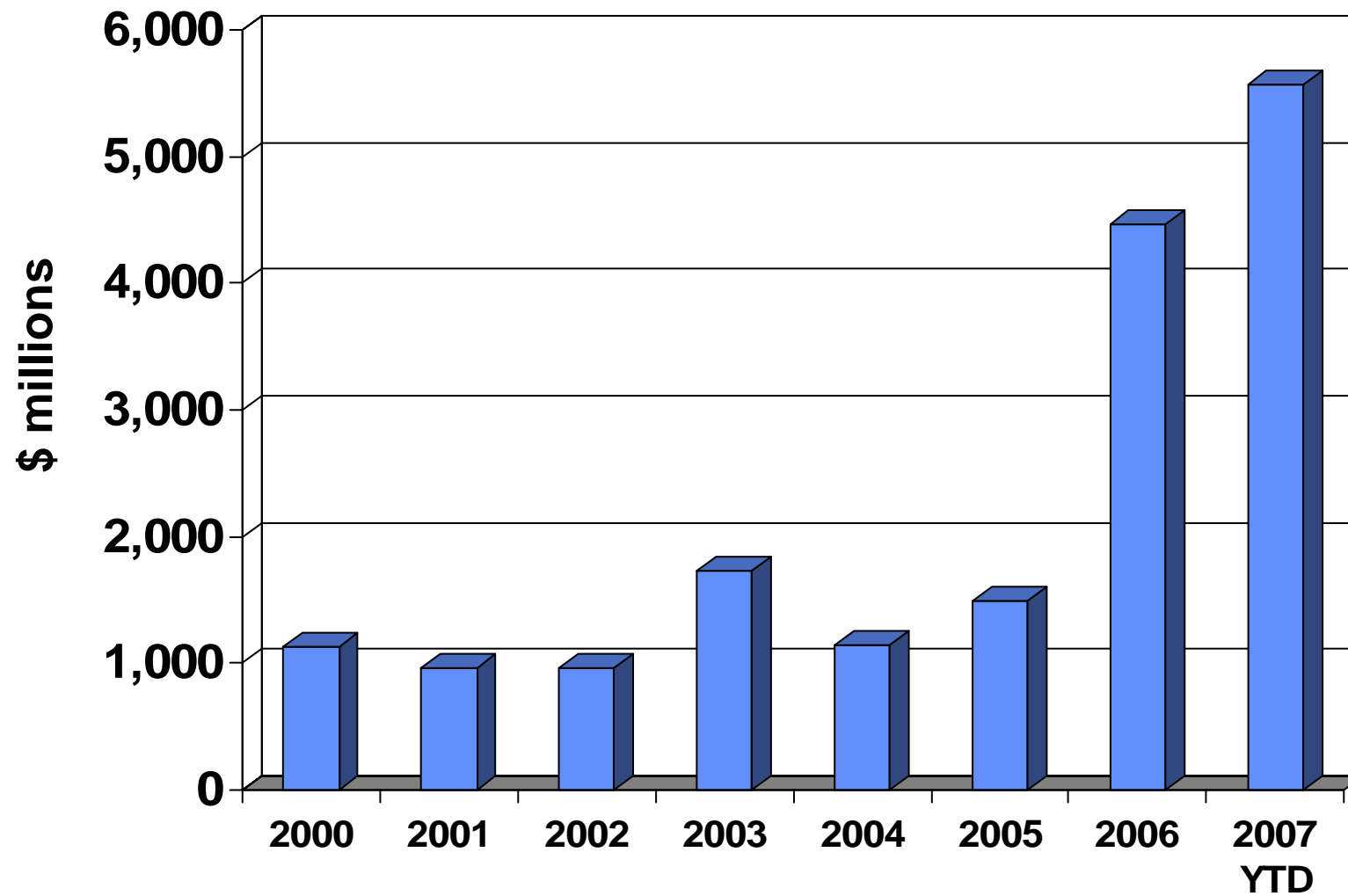
*From: International Investors meeting presentation, 29 June 2007*

## Axa securitisation activity

---

- Securitisation of French domestic motor book in 2005
  - ◆ 2.9 million individual motor insurance policies
  - ◆ Euro 1.1 billion of premiums
- Issued cat bond against mortality risk in France, US and Japan in 2006
- Securitisation of pan-European motor book in 2007
  - ◆ over 6 million individual motor policies - Spain, Germany, Italy, Belgium
  - ◆ Euro 2.6 billion of premiums
  - ◆ positive impact on required capital, increasing volatility but driving profitability up even more
- Securitisation “will allow insurance companies to benefit from and enjoy the same ability to manage their equity as banks”  
Henri de Castries, Chairman, Axa

## Catastrophe note/loan issuance



Source: Aon Capital Markets