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Insurance Linked Securities Panel

WRMA 12th Annual Meeting

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Insurance Linked Security Market: Liquidity and Size – Nat Cat Risk

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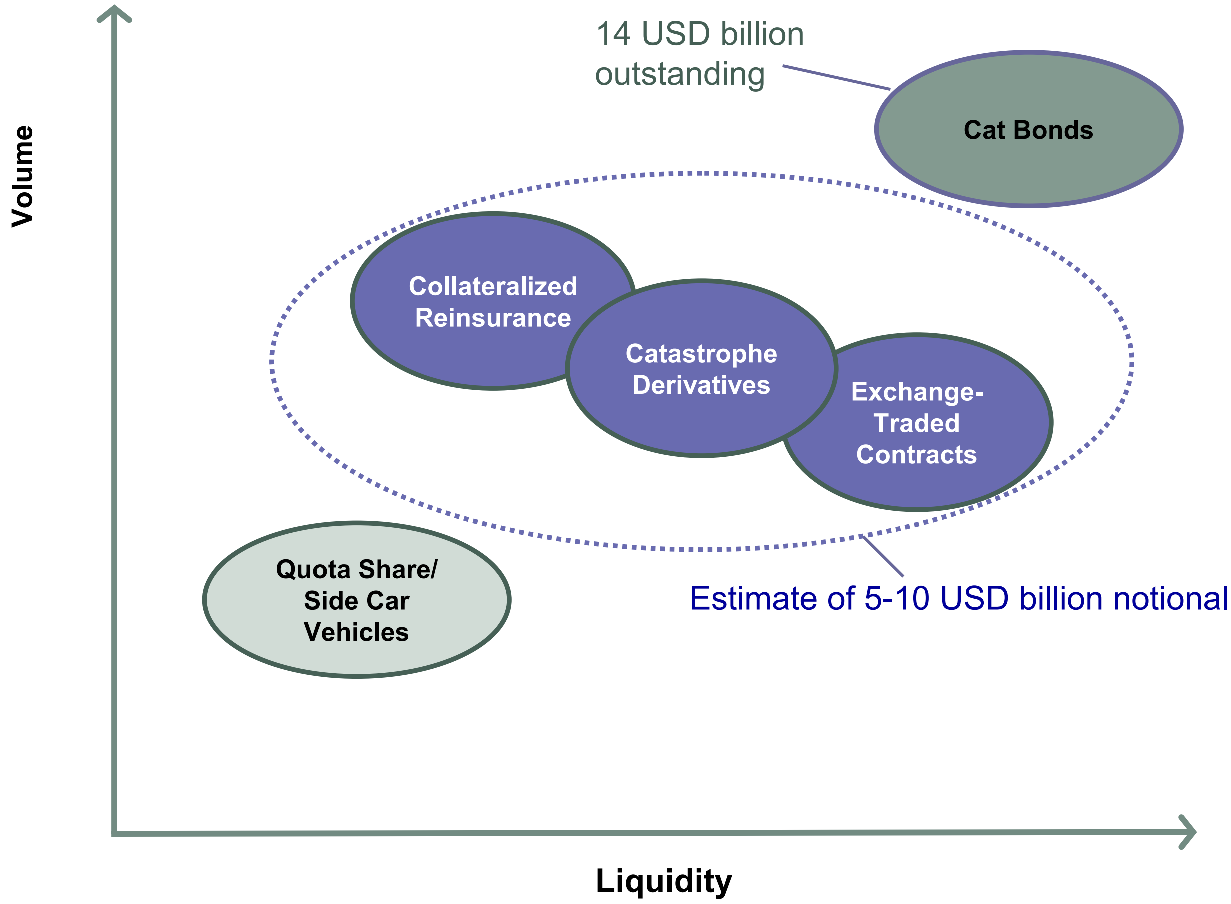
Total ILS capacity being provided directly by the capital markets in varying formats is estimated around $50 billion of which approximately $25 billion represents ***natural catastrophe risk.***



As of May 2010
Source: Swiss Re Capital Markets

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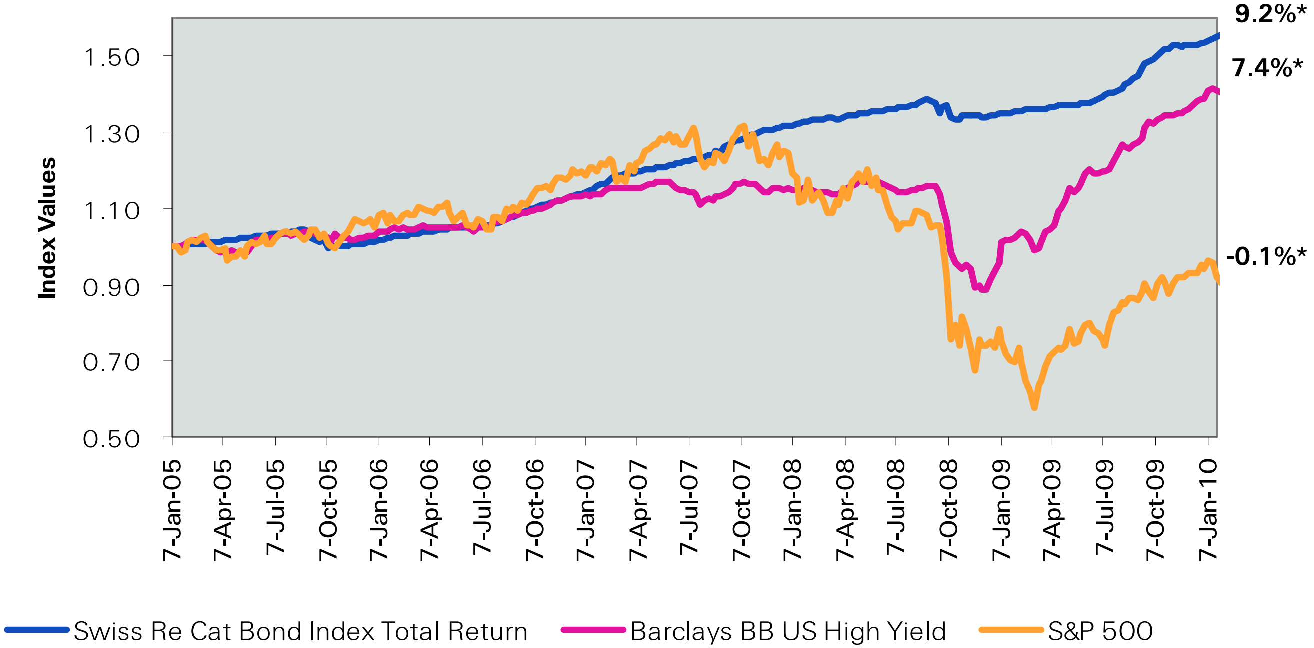
Relative Cat Bond Returns

Cat bonds have exhibited relative safety and high returns compared to comparable investments due to the nature and integrity of the structures

High Yield Performance from 1 January 2005 – 26 March 2010



** Compound Annual Growth Rate*

"Swiss Re Global Cat Bond Index Total Return, calculated by Swiss Re Capital Markets, is a market value-weighted basket of nat cat bonds tracked by Swiss Re Capital Markets, calculated on a weekly basis; past performance is no guarantee of future results. Underlying data for Swiss Re Global Cat Bond Index Total Return is based on indicative prices only.

Underlying data for Barclays Capital High Yield Corporate Index is provided by Barclays Capital, a division of Barclays Bank Plc.

Underlying data for S&P 500 Index is provided by Standard & Poor's, a division of the McGraw-Hill Companies, Inc.

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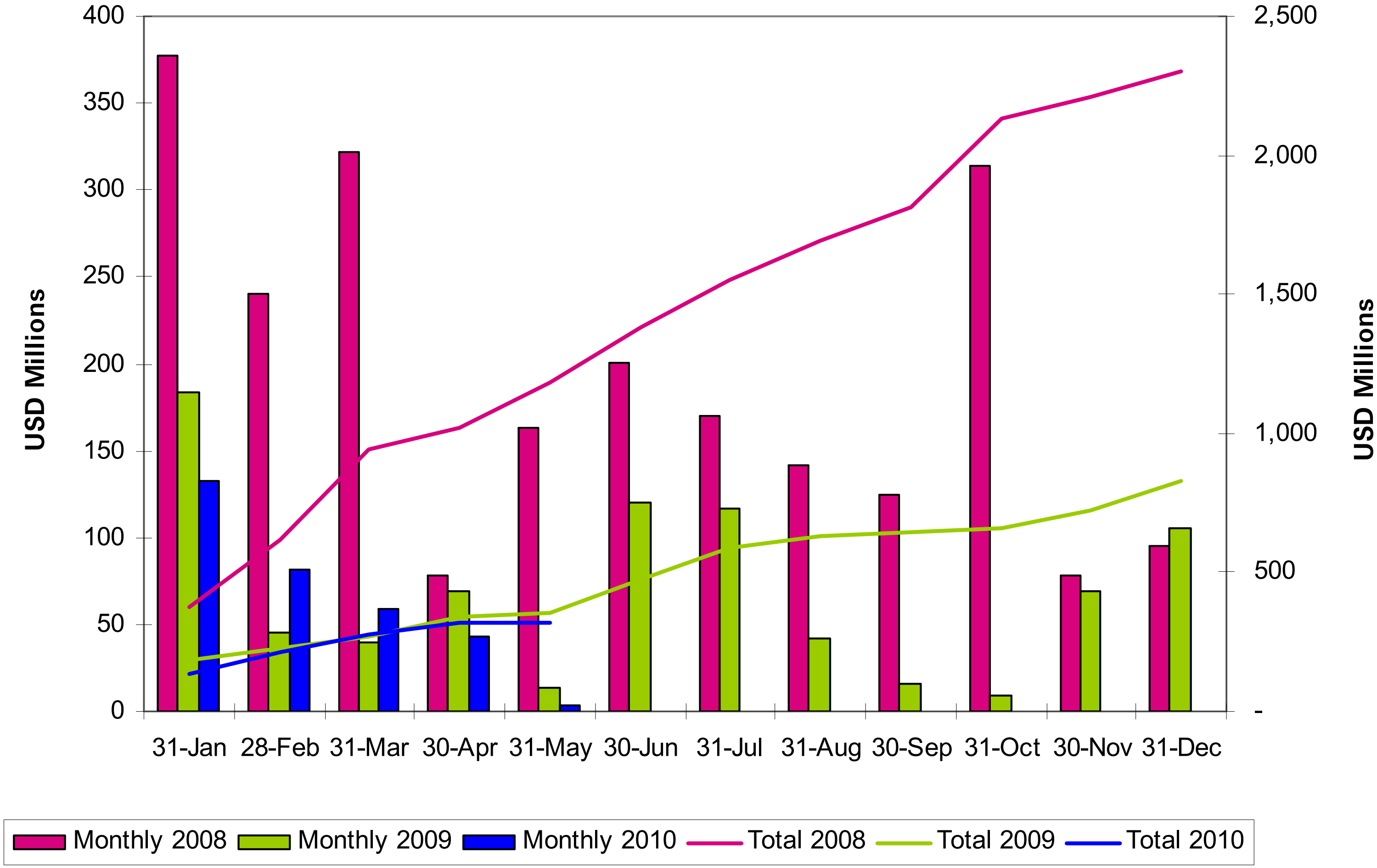
Swiss Re Cat Bond Trading Volume



Source: Swiss Re Capital Markets

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ILWs/Catastrophe Derivatives: What are they?

Buyers

- Typical buyers include: Insurers and reinsurers; governmental agencies, corporations
- Purpose: To hedge portions of their risk or to balance their portfolios

Protection

Risk

Sellers

- Typical sellers include: Insurers, reinsurers, hedge funds, and money managers
- Purpose: To take on more risk or to diversify their portfolios

- **Industry Loss Warranties (ILWs)** are reinsurance contracts whose payouts are linked to a predetermined trigger of estimated industry losses. A second trigger tied to the insured actual losses of the protection buyer allows to receive reinsurance treatment

- **Catastrophe derivatives** remove this second trigger. These derivatives can be used by hedge funds, money managers and other investors familiar with trading in derivative instruments to gain exposure to, or hedge, natural catastrophe risks.

- **Exchange-Traded**/Cleared products (IFEX, CHI, EUREX) offer an alternative platform to buy/sell cat risk

- **Other indices/triggers** are available, such as PARADEX, pure parametric (e.g. EQ Intensity/Magnitude, Wind speed, Saffir-Simpson Scale, ...)

- Recent important developments:

  - **Standardization of documentation:** The ISDA working group has finalized the first standard ISDA catastrophe swap document – The U.S. Wind Event Confirmation (May 2009)

  - **PERILS** - a new European Market Loss Index – became operational in 2009 and should improve the tradability of European Wind in an index format (to replace Swiss Re Sigma or Munich Re Nat Cat indices)

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