International Update

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December 12, 2002 News of the International Insurance Market from A.M. Best Company

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Swiss Re Forecasts Strong, But Tough, 2003 for Industry

NEW YORK — Pricing for insurance will continue to harden throughout 2003, but that will be little comfort to insurers and reinsurers that don't address other problems that have surfaced throughout 2002, a panel of experts from Swiss Reinsurance Co. said during the reinsurer's annual year-end economic and insurance industry review and outlook presentation in New York.

Kurt Karl, chief economist with Swiss Re Economic Research and Consulting, said the overall global economic outlook is improving, although the pace of improvement is slower in Europe than in the United States. Canada is outperforming most other countries, Karl said. "But Japan, unfortunately, is ever doubtful," he said.

In the U.S. economy, business investment is improving and will be a key driver in next year's economy, said Karl. "We've seen very low long-term interest rates, which is very good for mortgage rates and the consumer, but we see that changing in the next 18 months," he said. Inflation is still moderate in the United States, and the Federal Reserve has been "on hold" in terms of interest-rate action, but Karl said he expects the Fed to raise interest rates in the second half of next year.

While current economic conditions are promising for the consumer, the insurance industry will see continued dampening of its earnings statements. "For insurance companies, it's not an easy time to make money in investments," said Karl. "Canada is doing much better. Japan is going in one direction, and it's not up."

"We are looking for 3% growth in the U.S. economy next year," said Karl. "There are some things that could go wrong with the outlook—if consumers or the corporate sector retrench, we could see 2% growth. And we all know there's some potential for action in the Middle East, so oil prices could go up. The risk of a double-dip recession is receding, and the risk of deflation is low."

Thomas Holzheu, senior economist with Swiss Re Economic Research and Consulting, said low interest rates and continuing anemic performance in the world's equity markets will keep returns on invested assets down for property/casualty insurers. "Now we are at the phase where interest rates probably have bottomed out and will begin to go back up," he said. "Profitable underwriting is important, because for the next couple of years investment returns won't be sufficient."

In 2002, the global property/casualty industry had a combined ratio—losses and expenses as a percentage of premiums—of 110.2, with returns on investment of 7.2%, said Holzheu. "In 2002, at a current investment yield of 5.2%, you need a combined ratio of 100 to achieve profitability," he said.

Also, the property/casualty market still is recovering from a disastrous 2001, during which the industry's global capital declined by $205 billion. "The market response was that we've seen about $22 billion in new capital come in—29% of that in Bermuda, most of the rest in traditional market players," said Holzheu. "Even if all of these players are more or less successful, they will not offset 2001 losses. We are still down $180 billion, or 22% of total capital, in nonlife globally."

Holzheu said he expects a strong recovery of underwriting cash flow next year. The industry has seen negative underwriting cash flow since 1995, but "we expect it to become positive in 2003," he said. "We forecast a strong recovery of underwriting income, moderate recovery of investment result, and a steady improvement of net income."

Improved financial performance will hinge on how well insurers and reinsurers adjust to rapidly changing market conditions, added Andreas Beerli, chief executive officer of Swiss Re Americas. "The consequence of weak investment markets for property/casualty insurers and reinsurers is that underwriting has to be better," he said. "We also have new correlations between separate lines of business we never anticipated and new correlations between countries and economies."

In the wake of Sept. 11 and subsequent corporate scandals such as Enron Corp and WorldCom Inc., insurers and reinsurers have found that the language in their contracts must be much sharper—an issue Swiss Re knows well, as it is in the midst of a multibillion-dollar legal battle with the leaseholder of the destroyed World Trade Center, a battle that rests largely on contract language (BestWire, Sept. 27, 2002). "We used to have unclear terms and conditions," he said. "The industry has to develop a clearer understanding of what conditions it will write. Some lines disappeared, others have changed."

There is also the much-touted flight to quality, which means the bigger, more highly rated companies will have more influence in how the markets move, said Beerli. The major changes Beerli said insurers and reinsurers have to take note of include:

— Investment strategy is becoming more conservative;

— Terrorism raises challenges concerning concentration of exposure and knowing what exposures an insurer has, and where;

— Pharmaceutical-product liabilities are seeing increasing severity and frequency of cases;

— As global economies rely more in information networks, they are seen as vulnerable to insured losses; and

— Corporate governance is an area that demands reorganized and reoriented internal controls.

"In sum, we need to price adequately, improve terms and conditions by naming the covered perils, and cover only those we named in contracts," said Beerli. "We can't rely on investment income; we have to earn money on underwriting. We have to control exposures and manage risks, assess correlations between lines of business, assets and liabilities."

Chris Stroup, CEO of Swiss Re Life & Health America, said the life insurance and reinsurance markets also are changing rapidly. In the U.S. life insurance market, for instance, Swiss Re expects an increase in purchases of critical-illness and long-term-disability protection.

But while the life industry in the United States has impressive depth in mortality data, "which is concentrated among five or six enterprises," it is possible that tax subsidies enjoyed by U.S. insurers will be phased out. "It is not clear to me how competitive U.S. life insurers would be without that," said Stroup.

There is also a "scarcity of intellectual capital" in the U.S. life industry he said. The market is understaffed in underwriters, actuaries and accountants, and management professionals. Distribution channels in the United States also tend to be underutilized, he said.

The bundling of financial services in the United States hasn't reached the critical mass anticipated two years ago, said Stroup, partly because technology permits the segmentation of financial services. Asset management is provided mostly by fund managers, life insurers are product manufacturers, and reinsurers and capital markets have assumed the role as risk-takers. Between 1990 and 2001, life insurers saw profit growth averaging 8.8%, while mutual funds and asset dealers and managers saw average growth in profits of more than 18%.

The good news is for life reinsurers in the United States—especially Swiss Re, the market leader with 28% of the U.S. market. "There was $11.6 trillion in life insurance purchased by U.S. consumers in 2001, almost 60% of that ceded to the secondary market," said Stroup. "Cession rates increased from 15% in 1993 to 58% in 2001. The reinsurance market grew at a compound rate of 24%, compared to a primary market growth rate of 5%."

Among the reasons, he said, is that the cost of life reinsurance have gone down. Life reinsurers also have a "comparative advantage" over primary insurers, since their diversification reduces the cost of risk. Life reinsurers also have superior knowledge in the field of mortality and better investment returns.

But there is a limit even to that strong position, said Stroup. "Cession rate increases must level out—I don't think it can go above 75%," he said. "What it will take to survive and thrive is capital and commitment. Primary insurers will look at reinsurers more strategically, which might be tough for smaller reinsurers who are more thinly capitalized."

Swiss Re, which acquired Lincoln Re for $2 billion in 2001, is on the fence about acquisitions. "There may be further consolidation in the U.S. life reinsurance industry, but I couldn't say there's another big acquisition for us," said Stroup. "We will be consolidating our Lincoln Re acquisition. But if the right property was available, we certainly would consider it seriously."

The Lincoln Re acquisition combined the No. 3 and No. 1 U.S. life reinsurers, respectively, and boosted Swiss Re's market share to 28% from 18% (BestWire, Dec. 10, 2002).

The financial strength of Swiss Re Group is rated A++ (Superior) by A.M. Best Co. (Published: BestWire - 12/10/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Forecast: 2003 Hurricane Season Might Be Heavier Than Average

FORT COLLINS, Col. — Storm researchers are predicting twice as many Atlantic hurricanes in 2003 as in 2002.

Tropical storm researcher William Gray and his forecast team at Colorado State University predict the Atlantic basin will see 12 named tropical storms between June 1, 2003, and Nov. 30, 2003, with eight becoming hurricanes and three anticipated to evolve into intense hurricanes with sustained winds of 111 mph or greater.

This projection differs considerably from 2002, which saw 12 named storms but only four hurricanes and two intense hurricanes, the university said. The long-term average is 9.6 tropical storms, 5.9 hurricanes and 2.3 intense hurricanes a year.

"Information we have obtained and analyzed through November indicates that 2003 will be an active Atlantic hurricane season with above-average activity," Gray said in a statement. "We expect Atlantic basin tropical cyclone activity to be about 140% of average this upcoming year."

Gray's prediction of increased activity in the Atlantic in large part reflects a predicted end of El Nino conditions and an expected warming of sea surface temperatures in the north and tropical Atlantic. Moderate El Nino conditions and cool temperatures in the tropical Atlantic inhibited hurricane activity in 2002, Gray said.

Gray also predicted an increased probability of at least one intense hurricane making landfall in the United States in 2003, "a probability 30% higher than in the average season," he said.

In a breakdown of the forecast, Gray predicts a 68% chance of a major hurricane hitting somewhere along the U.S. coastline in 2003; a 48% probability of impact along the U.S. east coast, including the Florida Peninsula; and a 38% chance for the Gulf coast, from the Florida Panhandle west to Brownsville, Texas, he said.

Gray said the past eight years have produced 106 named storms, including 62 hurricanes and 29 major hurricanes in the Atlantic basin, with only four of the 29 major hurricanes—Opal, Bret, Fran and Lili—reaching the U.S. coastline. While historically, one in three major hurricanes on average has come ashore in the United States, a record 21 consecutive Atlantic basin hurricanes failed to reach the U.S. coast before Lili made landfall in October 2002, Gray said.

The United States has been lucky over the past eight years, but with such large coastal population growth in recent decades, it is inevitable there will be hurricane-caused destruction in coming years on a scale many times greater than the past, Gray warned. Major hurricanes represent only a quarter of all named storms but cause 85% of all tropical cyclone-related destruction, he said.

The 1995-2002 seasons were the most active consecutive hurricane seasons on record, but Gray and his team believe there will be increased storm activity similar to the 1940s and 1950s, based on a new forecasting system that uses 51 years of statistical data and is expected to improve long-range forecasting, he said.

In late October, towns and villages along Mexico's western coast were hit by Hurricane Kenna, with estimated damage of as much as $50 million, according to Mexican officials. Kenna was a Category 5 storm with winds as intense as 160 mph before it made landfall (BestWire, Oct. 28, 2002).

Kenna followed Hurricane Isidore, which in September caused $740 million in damage in the Yucatan Peninsula. Isidore than crossed the Gulf of Mexico to Louisiana, where as a tropical storm it caused an estimated $100 million in insured losses (BestWire, Sept. 30, 2002).

Also in October, Lili struck Louisiana and Mississippi with insured losses reaching as high as $335 million. Lili reached Category 4 before landfall but dropped to a Category 2 storm as it reached the coast (BestWire, Oct. 17, 2002). (Published: BestWire - 12/06/2002).

By John Hillman, associate editor, BestWeek: John.Hillman@ambest.com

Study: Global Premium Income Growth Was Nearly Stagnant in 2001

NEW YORK — Global insurance markets recorded a 1% growth in premium income for 2001 compared with 2000, the lowest growth rate since the beginning of the 1980s, according to a study by Swiss Reinsurance Co.

The global insurance industry attracted $2.4 trillion in premium income in 2001. The premium total for 2000 was also $2.4 trillion. Of that total, $1.439 trillion is attributed to life insurance and $969 billion to the nonlife sector, according to the Sigma study.

The 1% figure is an inflation-adjusted growth rate, said Thomas Holzheu, a senior economist and deputy head of the New York office of Swiss Re's economic research and consulting unit.

"In U.S. dollars, the volume basically stayed flat. Global premium volume only growing 1% can be attributed to the life insurance business being weak," Holzheu said.

Weak demand for variable annuity products in the United States contributed to the low growth, and the same trend of weak demand for equity-linked life products can be seen in large life insurance markets such as the United Kingdom and Germany, Holzheu said.

The decline in the sale of these policies was offset only partially by increased demand for life insurance with guaranteed returns and pension provisions, according to Swiss Re's analysis of 2001, which covers developments in individual regions and provides detailed premium information from 89 key countries.

For 2002, Holzheu said he expects premium volume to have increased, though not at the same levels seen during the 1990s. The stock-market losses experienced since the middle of 2000 have dampened not only growth in premium, but also the profitability and capital bases of some life insurers.

Any benefits from increased premiums will be offset by the continuing general trend of weak equity markets, he said.

In the nonlife insurance market, the recovery seen in 2000 accelerated through 2001 in terms of premium income. In particular, rate increases were achieved in the highly competitive commercial insurance and automobile lines, where premiums saw a considerable boost. The trend has continued into 2002. In the industrialized countries, premium growth in 2001 was clearly above the long-term average. In the emerging markets, too, premiums overall were up on previous years, according to the study.

Despite clear price increases, nonlife insurers' profitability suffered significantly in 2001. Claims from the Sept. 11 attacks, reserve-strengthening from the days of the soft market, and falling investment returns on the back of share-price collapses all took their toll on insurers' financial results. As in the life insurance business, these factors considerably depleted equity in the nonlife markets, thereby weakening insurers' balance sheets, according to the Sigma report titled "World Insurance in 2001: Turbulent Markets and High Claims Burden Impact Premium Growth."

It will take a while for nonlife insurers to see the benefits of increased premium income because of investment losses, Holzheu said. "The benefit will be seen in the following years—2003 and on," he said.

In North America, growth in nonlife premiums was 6% in 2001, up from 1.9% the previous year, marking the shift to a hardening market. Profitability suffered from a combination of factors, including weak investment results, inadequate premium rates, the need to strengthen reserves and unforeseen catastrophe losses. In 2001, U.S. nonlife insurers recorded a loss for the first time since records began being kept more than a century ago, according to the study.

Life insurance and annuity premiums in North America declined by an inflation-adjusted 1.5%, although the study predicted strong demand for protection products and fixed annuity products would continue. (Published: BestWire - 12/06/2002).

By Dennis Kelly, Washington bureau manager, BestWeek: Dennis.Kelly@ambest.com

Asia/Pacific

Australia

Australia's IAG Raises Funds for Acquisition

SYDNEY, Australia — Insurance Australia Group Ltd. (ASX:IAG) said shareholders who participated in its share-purchase plan would pay A$2.40 (US$1 = A$1.79) a share after the close of the 10-day pricing period on Dec. 6. The price represents a 5% discount from A$2.53, which was the average market price over the 10 trading days of the pricing period, the company said.

IAG's stock closed at A$2.56 a share on Dec. 10.

Under the share-purchase plan, retail shareholders bought A$95.8 million worth of ordinary shares. The shares issued under the plan began trading Dec. 10.

Another A$284.2 million worth of ordinary shares in the plan weren't taken up by retail investors. Deutsche Bank and UBS Warburg, which underwrote the offering, had sub-underwriting arrangements for most of the shares not taken up, IAG said. Those shares are to be allotted on Dec 12 and begin trading Dec. 13.

The A$380 million raised through the plan will be partly used to fund IAG's acquisition of the Australia and New Zealand general insurance operations of London-based Aviva plc. IAG agreed to acquire CGU Insurance Australia Ltd. and Belves Investments Ltd., the holding companies for all of Aviva's general insurance businesses in Australia and New Zealand, for A$1.8 billion (BestWire, Oct. 18, 2002). Those businesses include CGU Insurance, Swann Insurance, CGU-VACC and 51% of MCGI in Australia, and New Zealand Insurance Ltd. (Published: BestWire - 12/10/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Former HIH Director Faces Securities Charges

SYDNEY, Australia — Rodney Stephen Adler, a former board member of failed Australian insurer HIH Ltd. and former chief executive of an insurer acquired by HIH, was charged in a Sydney court with three counts of stock market manipulation and two counts of making false or misleading statements in relation to securities, Australian officials said.

The Australian Securities and Investments Commission, which brought the legal action against Adler, alleges he contravened the Corporations Act by manipulating the stock market through the purchase of 1.87 million HIH shares on June 15, 2000, another 951,339 shares on June 16, 2000, and 425,000 shares on June 19, 2000. Those purchases were made in the name of Pacific Eagle Equities Pty. Ltd., the commission said.

The charges related to making false and misleading statements concerning "information disseminated" by Adler on June 19 that he bought 1.87 million HIH shares for himself, and, on June 20, 2000, that he bought another 951,339 shares for himself, the commission said.

Adler's case will next come before Downing Centre Local Court in Sydney on Feb. 18, 2003. The commission said it has no further comment on the case.

Adler had been CEO of FAI Insurances Ltd., which was acquired by HIH in 1999. At first, FAI appeared to be a good investment for HIH, but the company later decided it needed to get out of retail insurance and focus on corporate clients. In 2001, HIH struck a deal to sell 51% of FAI's personal lines to Allianz Australia Ltd., a unit of German insurer Allianz AG Holding (BestWire, Sept. 14, 2000). The sale was part of an effort to boost short-term earnings at HIH, which suffered a loss of A$21.8 million ($1 = A$1.78) for second half of the fiscal year ended June 30, 2000.

HIH's stock was suspended from trading on the Australia Stock Exchange on Feb. 27, 2001, after regulators expressed concern about the company's financial position, and emerging complications with the FAI-Allianz deal began to cast doubt on future earnings. Adler resigned from the HIH board a day earlier (BestWire, Feb. 26, 2001).

In March 2001, HIH placed itself in provisional liquidation, as its stock price plummeted amid regulatory investigations and questions about the company's capital position (BestWire, March 15, 2001). (Published: BestWire - 12/06/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Korea

ING Extends Alliance With Korea's Kookmin Bank

SEOUL, South Korea — ING Group said it would extend a strategic alliance with Korea's Kookmin Bank in a move that would allow the Netherlands-based insurer to expand into the soon-to-be-deregulated bancassurance market in Korea, as well as the asset-management market.

Under terms of the extended agreement, ING and Kookmin Bank will add bancassurance and asset-management activities to their existing joint-venture companies—ING Life Korea and Kookmin Bank Investment Trust Management Co. ING said it would take a 6% share in Kookmin Bank.

The bancassurance business is expected to be deregulated in Korea by August 2003, ING said, at which time ING plans to set up an independent bancassurance division within ING Life Korea as a 50-50 profit-sharing business between ING and Kookmin. Bancassurance products are to be distributed exclusively through Kookmin Bank's branch network.

"ING sees Korea as a key market for its banking, insurance and asset management activities and the establishment of a bancassurance division with Kookmin Bank marks an important step forward for our ambitions in Korea," said Fred Hubbell, executive board member of ING Group, in a statement. "Kookmin Bank, as Korea's largest commercial bank, has a strong client base and dominant market share, and provides ING with a strong banking network to distribute its financial services products more widely to retail and corporate customers."

Kookmin Bank offers ING Life Korea an outlet for its whole life insurance and annuity products through 69 branches and more than 3,500 financial consultants, ING said.

ING has been seeking joint-venture and bancassurance opportunities in several countries. ING acquired a 19.2% stake in Mexico's Grupo Financiero Bital; formed a joint venture with Capital Group, based in Beijing; and completed the purchase of a 49% stake in Brazil's Sul America (BestWire, Aug. 1, 2002).

The South Korean insurance industry has undergone a number of liberalization reforms since the 1997 Asian financial crisis, which hobbled some of the country's biggest insurers. For life insurers, a significant move was a rule change in 2000 that allowed the insurers to set the risk and expense factors in the premiums they charge (BestWire, March 31, 2000). Nonlife insurers also got the freedom to set their expense factors.

ING Life Insurance Korea Ltd. is rated A (Excellent) by A.M. Best Co. (Published: BestWire - 12/04/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Philippines

Aegon to Sell Philippines Business

THE HAGUE, Netherlands — Dutch insurer Aegon N.V. said it reached an agreement to transfer its existing book of business in the Philippines to Paramount Life & General Insurance Co.

"The decision was taken in line with Aegon's strategy to focus on markets where it has a leading position with sufficient scale or has good opportunities for growth to a leading position and sufficient scale," Aegon said in a statement. Aegon had been doing business in the Philippines since 1998.

Aegon said regulators in the Philippines approved the transaction. Terms of the sale weren't disclosed.

Paramount, which until recently had been exclusively a general insurer, said it had received approval from the insurance commissioner in the Philippines to operate as a composite insurer, clearing the way for it to take over Aegon's life business. Paramount said its gross premiums rose 33% to 362.1 million Filipino pesos ($1 = 53.52 Filipino pesos) in 2001 from 272.6 million pesos in 2000.

Aegon's 2001 premium income in the Philippines rose 62.2% to 53.2 million pesos from the year before, Paramount said.

Aegon is the second major international life insurer this year to decide it couldn't get enough traction in the Philippines market. MetLife Inc. (NYSE:MET) said it would close its life insurance operation in the Philippines because it hasn't been successful in penetrating the market (BestWire, Feb. 15, 2002). MetLife Insurance Company of the Philippines didn't generate sufficient sales in the country to support continuing operations, the company said.

But others have been moving into the Philippines this year. Canadian insurer Manulife Financial Corp. (NYSE, TSE:MFC) said it would acquire the life insurance and pension and education operations of CMG Philippines from Commonwealth Bank of Australia (BestWire, Oct. 17, 2002). Among other life insurers showing an interest in the Philippines is British insurer Prudential plc, which last June said it would buy the Philippine life insurance subsidiary of ING Group of the Netherlands (BestWire, June 18, 2002). ING Life Insurance Co. (Philippines) Inc. was established in 1997 and has 17 sales office covering most of the major cities in the Philippines.

Aegon (NYSE:AEG), which has been struggling this year as equity-market weakness cut into life insurance income, raised about $3.4 billion with an offering of 350 million shares of common stock in September at a price of 10 euro ($1 = 1 euro) a share and $9.71 a New York share. The transaction closed Sept. 23 (BestWire, Sept. 18, 2002).

American depositary shares of Aegon were trading at $14.80 a share on the afternoon of Dec. 3, down 4.82% from the previous close. (Published: BestWire - 12/03/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Europe/U.K.

Germany

A.M. Best Affirms Rating Of Munich Re and Subsidiaries

OLDWICK, N.J. — A.M. Best Co. has affirmed the financial strength ratings of Munich Reinsurance Company (Munich Re) and its core subsidiaries (see list below). At the same time, A.M. Best has downgraded Munich Re's EUR 1,115 million exchange bond issue to "aa+" from "aaa". A negative outlook has been assigned to all ratings.

These rating actions reflect Munich Re's superior capitalisation, superior business position in the global reinsurance market and excellent market profile in the German primary insurance segment. Offsetting these factors is Munich Re's unsatisfactory, but improving underwriting performance.

Superior Capitalisation and Excellent Financial Flexibility—A.M. Best regards Munich Re's consolidated risk-adjusted capitalisation as superior. However, significant unrealised losses from its equity portfolio and the necessary reserve strengthening of USD 2.5 billion have severely impacted the group's capital base. A.M. Best believes that Munich Re's financial flexibility remains excellent despite difficult market conditions. The consolidated financial leverage is below 5%.

Superior Business Position—Munich Re is the world largest reinsurer benefiting from its outstanding global network and underwriting capacity. A.M. Best believes that Munich Re is one of the main beneficiaries of an increasing focus on financial strength combined with reduced capacity in the reinsurance market. In the primary insurance segment, which accounted for 43.5% of total premiums in 2001, Munich Re has an excellent market profile in Germany, where it is the third largest composite group. ERGO Versicherungsgruppe, Munich Re's primary insurance arm, is one of the market leaders for private pensions (Riester-products) and is part of a consortium of insurers offering corporate pensions to more than three million employees of the metal industry.

Unsatisfactory, but Improving Underwriting Performance—Munich Re's underlying underwriting results have improved in the first nine months of 2002, leading to a combined ratio of 102.4. However, the overall underwriting performance was negatively impacted by necessary reserve strengthening for American Re and the World Trade Center as well as the floods in Central Europe—total impact EUR 2,058 million (USD 2,045 million after tax). Post-tax earnings in 2002 will be influenced by EUR 4.7 billion (USD 4.6 billion) profits from the restructuring of cross-shareholdings with Allianz and the necessary write-downs on investments.

Outlook negative:

The negative outlook reflects A.M. Best's concerns that Munich Re's risk adjusted capitalisation may further deteriorate as a consequence of continued weak equity markets. In addition, A.M. Best sees further potential for adverse developments in respect of asbestos and environmental related claims.

Expectations:

— A.M. Best will closely monitor whether Munich Re will be able to achieve its profit targets over the next three years, which includes a 15% return on equity and a combined ratio of 100% for the next two years.

— A.M. Best expects Munich Re's risk-adjusted capitalisation to remain commensurate with an A++ (Superior) rating.

The following A++ financial strength ratings have been affirmed and a negative outlook assigned:

— Munich Reinsurance Company
— Munich Reinsurance Company of Australasia Ltd
— Great Lakes Reinsurance (UK) PLC
— Munich Reinsurance Italy S.p.A.
— New Reinsurance Company
— Munich Reinsurance Company of Africa Ltd
— Munich Reinsurance Company of Canada
— Munich American Reassurance Company

The following debt rating has been downgraded to "aa+" from "aaa" and a negative outlook assigned:

— "aa+" rating Munich Reinsurance Company, EUR 1,115 million Bonds Exchangeable into Allianz AG Shares 2000/2005

(Published: BestWire - 12/06/2002).

A.M. Best Affirms Rating Of HDI and HDI Reinsurance Ireland Ltd.

OLDWICK, N.J. — A.M. Best Co. has affirmed the financial strength rating of A+ (Superior) of Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) and HDI Reinsurance Ireland Ltd. The outlook is negative.

The rating reflects HDI's strong business position in industrial insurance and excellent consolidated capitalisation. An offsetting factor is the weak, but improving consolidated earnings. The affirmation of the rating for HDI Reinsurance Ireland Ltd reflects its core status within the HDI group.

Strong business position—HDI is the third-largest industrial insurer in Germany, benefiting from strong direct relationships with its clients. A.M. Best believes that HDI's business position in the industrial segment has been further enhanced by the current shortage of capacity and favourable underwriting conditions. Life business has also grown significantly in recent years, positioning HDI as one of the leaders in the private pension (Riester-products) and unit-linked segment. For 2002, A.M. Best expects a strong premium growth of approximately 10% from the sales of pension products. However, demand for unit-linked products will be negatively impacted by weak equity markets.

Excellent capitalisation—A.M. Best regards HDI's consolidated risk-adjusted capitalisation as excellent, although declining, mainly due to strong growth in reinsurance and weak equity markets. A.M. Best has given credit for HDI's significant equalisation reserves and for the group's subordinated debt issues up to 15% of total capital. A.M. Best believes that HDI may require additional capital in order to finance its expected overall growth in industrial, life and reinsurance in 2003.

Weak but improving earnings—2002 non-life technical results are improving as a consequence of significant rate increases and stricter policy terms in industrial insurance and reinsurance. HDI is also capitalising on reduced market capacity in these segments. However, investment returns are likely to be severely reduced by weak equity markets. In 2001, HDI recorded an after tax loss of EUR 23.9 million in 2001 (USD 23.7 million) from its exposure to the events of September 11, weaker investment returns and new business strain from its life insurance operations. Inadequate pricing in industrial insurance has historically led to unsatisfactory underwriting results.

The negative outlook reflects A.M. Best's concerns about HDI's limited financial flexibility. HDI had intended to partially float its intermediate holding company, Talanx AG, in order to finance further growth. However, weak capital markets have made this more difficult than previously anticipated. Consolidated financial leverage has also increased to 28.9 at year-end 2001.

A.M. Best will closely monitor the outcome of the merger discussions with Gerling and the potential impact on HDI's rating.

Expectations:

— A.M. Best expects HDI's risk-adjusted capitalisation to remain commensurate with an A+ (Superior) rating.

— A combined ratio of below 100% will be achieved for HDI's non-life and reinsurance portfolio in 2003. (Published: BestWire - 12/04/2002).

A.M. Best Affirms Rating Of Hannover Rueckversicherung AG

OLDWICK, N.J. — A.M. Best Co. has affirmed the financial strength rating of A+ (Superior) of Hannover Rueckversicherung AG (Hannover Re). At the same time, A.M. Best affirmed the "a" rating on the USD 400 million subordinated debt issued by Hannover Finance Inc. and guaranteed by Hannover Re and the USD 350 million subordinated debt issued by Hannover Finance S.A. and guaranteed by Hannover Re. The outlook on all ratings is negative.

These rating actions reflect Hannover Re's strategic position within the HDI group, its excellent business position, very good underwriting performance and excellent, albeit reduced, risk-adjusted capitalisation. An offsetting factor is Hannover Re's limited financial flexibility.

Strategic importance to HDI—A.M. Best considers Hannover Re to be strategically important to its ultimate parent company, Haftpflichtverband der Deutschen Industrie V.a.G (HDI).

Excellent business position—Through opportunistic underwriting, Hannover Re's consolidated property/casualty gross premiums grew by 74.3% in the first nine months of 2002, whilst maintaining underwriting discipline. In life reinsurance, where Hannover Re focused on financing new business, gross premiums remained unchanged during the first nine months of 2002, although A.M. Best expects an overall growth of 10% for 2002. Hannover Re is also one of the largest providers of program business in the United States (gross premiums EUR 2 billion [USD 1.9 billion] during the first nine months of 2002) and is seeking to expand this business model in Europe. A.M. Best believes that recent withdrawals of capacity in the reinsurance market would offer further business opportunities for Hannover Re in 2003.

Very good underwriting performance—During the first nine months of 2002, Hannover Re's profit before tax was EUR 306.9 million (USD 305.1 million). Controlled underwriting and substantial price increases (between 15% and 100%, depending upon line of business) led to very good underwriting results from its property/casualty and program book of business, where combined ratios improved to 95.1% and 92.9% from 124.4% and 94%, respectively.

Excellent risk-adjusted capitalization—A.M. Best regards Hannover Re's consolidated risk-adjusted capitalisation, strengthened by EUR 150 million (USD 149.1 million) earlier this year, as commensurate with the current rating level. A.M. Best has given credit for Hannover Re's subordinated debt issues up to a 15% limit of total adjusted capital. However, further funds may be required to sustain growth in 2003 if Hannover Re is to take full advantage of the current hard market conditions.

The negative outlook reflects A.M. Best's concerns that Hannover Re's access to further funds is limited. In addition, Hannover Re's financial leverage has increased to 24.6% in recent years.

Expectations:

— The current rating is subject to the maintenance of an A+ (Superior) risk-adjusted capitalisation.

— A combined ratio of around 100% will be achieved for 2003 in property/casualty and program business.

— No deterioration of reserve levels, in particular for the World Trade Center claims and asbestos related claims.

The financial strength ratings of A+ (Superior) of the following companies have been affirmed:

— E+S Rueckversicherungs-AG

— Hannover Reinsurance (Ireland) Limited

— E+S Reinsurance (Ireland) Ltd

— Insurance Corporation of Hannover

— The Hannover Life Reassurance (Ireland) Ltd

(Published: BestWire - 12/04/2002).

London/U.K.

U.K. Abbey Life Fined 1 Million Pounds

LONDON — The United Kingdom's Financial Services Authority fined Abbey Life Assurance Co. 1 million pounds ($1 = 0.64 pounds) for alleged mis-selling of mortgage endowments and "other deficiencies in its compliance procedures and controls" between 1995 and 1999, the agency said.

In addition, the FSA—the United Kingdom's financial-services regulator—said that 42,000 to 46,000 mortgage endowment customers and 3,000 to 4,000 other customers might be due compensation estimated at between 120 million pounds and 160 million pounds.

"The failings in this case are serious," said Carol Sergeant, managing director for regulatory processes and risk at the FSA, in a statement. "Weaknesses in Abbey Life's internal controls occurred over an extended period of time and exposed large numbers of consumers, particularly those who purchased mortgage endowments, to risk of loss."

Sergeant said that Abbey Life, which closed to new business in February 2000, could have faced a much larger fine but had taken "extensive and proactive remediation action" to correct its problems. "Abbey Life has voluntarily agreed to extend its review of mortgage endowment sales back to 1988, at considerable cost to itself, and has also undertaken a wide-ranging review of other products," said Sergeant. "Abbey Life has, in doing so, demonstrated a high regard for the priority of the interests of its customers."

Among the problems cited by the FSA was a "systemic failure" in Abbey Life's procedures, which failed to ensure that recommendations to purchase mortgage endowments, made by the company's sales force to customers, were made only to customers who had an "appropriate attitude to risk." Because of that failure, Abbey Life advisers made "widespread unsuitable recommendations" of mortgage endowments to customers, the FSA said.

TSB Group plc, Abbey Life's parent, said it expects to reserve 165 million pounds to cover its liability for the Abbey Life sales problem. "The subsidiary, in common with a number of companies in the life assurance industry, has been carrying out a review of the past sales of certain endowment-based and long-term savings products made primarily in the late 1980s and early 1990s," said Lloyds TSB in a statement.

In 1999, Abbey Life received a 176-million-pound cash injection from Lloyds TSB to shore up its solvency against strains caused by the continuing regulatory review of mis-selling and the difficulties in the guaranteed annuities sector (BestWire, Aug. 20, 1999). Lloyd's TSB said at the time that the mis-selling problems plaguing Abbey Life were widespread in the U.K. life industry.

According to the Association of British Insurers, about 10.3 million people in the United Kingdom have mortgage endowment policies, which are designed to provide monthly interest payments to a mortgage lender over the life of a mortgage. In the late 1980s and early 1990s, many people chose to purchase mortgage endowment policies to repay their mortgages, since the stock markets were booming and interest rates were high. In the past two years, however, declining equity markets have hobbled the ability of many mortgage endowment policies to meet mortgage payments.

The FSA said it has been researching the impact of weakened mortgage endowment policies on policyholders' ability to meet mortgage payments and is considering relaxing time limitations currently in place for policyholders to file complaints against their insurers. The FSA said its research shows that 50% of consumers who had complained to their insurers about their mortgage endowment policies said the company took too long to investigate complaints and process decisions, while 39% said they hadn't been given clear reasons for their insurer's decision.

Abbey Life has been a wholly owned subsidiary of Lloyds TSB since 1997. Lloyds TSB itself was created through the 1995 merger of Lloyds Bank and the Trustee Savings Bank. Lloyds had acquired a majority shareholding in Abbey Life in 1988. In June 1999, Lloyds TSB acquired Scottish Widows, the Scottish mutual insurer, for about 7 billion pounds. (Published: BestWire - 12/09/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

A.M. Best Assigns Syndicate Rating To Lloyd's Syndicate 570

OLDWICK, N.J. — A.M. Best Co. has assigned a Best's Syndicate Rating of A- (Excellent) to Lloyd's Syndicate 570, managed by Atrium Underwriters Limited. The outlook is positive.

The rating reflects the syndicate's excellent prospective operating performance and strong business position, in addition to the financial strength of the Lloyd's market—rated A- (Excellent)—which underpins the security of all Lloyd's syndicates. The rating is based on A.M. Best specific syndicate criteria. (See A.M. Best's Rating Methodology for Lloyd's Syndicates at www.ambest.com.) Partially offsetting these rating factors is the recent track record of the syndicate.

Excellent prospective operating performance—A.M. Best expects the syndicate to return to profitability in the 2002 and 2003 years of account. Although significantly better than the Lloyd's market average, modest losses were recorded for the last two closed years of account—1998 and 1999—and A.M. Best expects further small losses on capacity for 2000 and 2001. Expectations for improvement for 2002 and 2003 are based on the significantly improved pricing conditions and the expected continued shortage of capacity in many of the business classes in which the syndicate specialises, which include US professional indemnity, small commercial lines and personal accident. The underlying performance of the 2001 account, excluding the World Trade Center loss, which is expected to account for 4.5% of capacity or USD 4.5 million, is supportive of expectations for an improving trend in profitability. A.M. Best also notes the excellent track record of consistent bottom line profitability for many years prior to the recent soft market cycle.

Excellent business position—The syndicate writes a significant proportion of its business through binding authorities, lineslips and consortia, maintaining a well-diversified book of business across a wide range of different classes and benefiting from longstanding relationships with the vast majority of coverholders. As a specialist in high-volume small-limit commercial business, the syndicate has a lower risk profile than many other Lloyd's syndicates. Business strategy is often opportunistic insofar as substantial volumes of business may be written in surplus lines and/or "distressed" sectors, from which the syndicate subsequently withdraws when mainstream capacity starts to re-emerge.

Expectations:

A.M. Best believes the syndicate's financial performance will begin to improve significantly from 2002 onwards and views returns in excess of 10% of capacity to be achievable. (Published: BestWire - 12/06/2002).

A.M. Best Assigns Rating to Lloyd's Syndicate 609

OLDWICK, N.J. — A.M. Best Co. has assigned a Best's Syndicate Rating of A (Excellent) to Lloyd's Syndicate 609, managed by Atrium Underwriters Limited. The outlook is stable.

The rating reflects syndicate 609's excellent operating performance and business position, in addition to the financial strength of the Lloyd's market—rated A- (Excellent)—which underpins the security of all Lloyd's syndicates. Partially offsetting these rating factors is the relatively modest business profile of the syndicate compared with larger, more composite competitors. The rating is based on A.M. Best specific syndicate criteria. (See A.M. Best's Rating Methodology for Lloyd's Syndicates at www.ambest.com.)

Excellent operating performance—Syndicate 609 has been consistently profitable in every closed underwriting year since it began trading in 1984. A.M. Best expects a small profit for the 2000 year of account and a break-even position for the 2001 year of account as a result of World Trade Center related claims. The syndicate also has an excellent track record of conservative reserving, which has frequently enabled it to make substantial releases. As with many Lloyd's syndicates focused on relatively specialist high-risk areas, the syndicate is now well placed to exploit the current positive market conditions. It has achieved significant rate increases on renewal business and has developed new business opportunities in areas where it has made substantial profits in the past.

Excellent Business Profile—The syndicate has an excellent market profile in certain specialist areas of marine insurance, such as hull 'total loss only', submarine cables and ports. It also has a meaningful presence in several other sectors including: non-marine property, marine liability, energy and aviation war. A.M. Best recognises that the syndicate's modest size results from a strict strategy of avoiding growth during the soft market and maintaining a disciplined line structure.

The syndicate will write an estimated 75% increase in gross premium volume in 2001 followed by a further 83% in 2002 and 28% in 2003 with the syndicate continuing its practice of writing most of its business on a facultative basis. However, A.M. Best considers that this growth does not present a potential strain on management as resources have been strengthened in the last two years and risk count is comparable with previous hard market levels.

Expectations:

— A.M. Best believes the syndicate will continue to achieve results consistent with its rating level.

— The business plan may vary materially in some classes from the amounts currently forecast as the syndicate employs a flexible strategy adapting to opportunities and threats quickly as they materialise. (Published: BestWire - 12/06/2002).

U.K. Regulator Clears Endurance Worldwide for Business

LONDON — Bermuda-based Endurance Specialty Holdings Ltd. has formed a subsidiary to write commercial insurance and reinsurance in the United Kingdom.

Endurance Worldwide Insurance Ltd. has been authorized by the U.K. Financial Services Authority to write commercial business in the United Kingdom, effective immediately, the company said. Endurance Worldwide will initially focus on commercial property risks, mostly in the United Kingdom, and international treaty business, mainly from European sources. In the future, Endurance Worldwide will add other lines of commercial business "where appropriate," the company said.

The new subsidiary has been capitalized with 140 million pounds (US$1 = 0.63 pounds) of issued capital from Endurance Specialty Insurance Ltd.—an affiliated company—with paid-in capital of 100 million pounds.

The launch of Endurance Worldwide is part of the company's strategy to expand in the global insurance and reinsurance markets, the company said. Endurance Worldwide will pursue an underwriting strategy based on quality risk selection and being responsive to the needs of an international client base, especially in Europe, it said.

"Like our Bermuda-based company, Endurance Specialty, Endurance Worldwide will endeavor to take a technical and analytical approach to the business, while practicing disciplined underwriting," said Kenneth LeStrange, chief executive officer of Endurance Specialty, in a statement. "To this end, we have brought together a seasoned group of U.K. insurance executives with strong reputations in the industry."

CEO Mark Boucher will lead Endurance Worldwide. David Ahmad will head reinsurance treaty underwriting, and Andy Brooks will lead commercial insurance underwriting. Jon Godfray will serve as operations director, and Simon Marshall was named chief financial officer. Bill Bollinder and Ron Iles will be nonexecutive directors.

"Now that we've received our FSA approval, we look forward to getting down to business immediately for the upcoming renewal period," Boucher said in a statement. "We believe we've established a very solid foundation that will help Endurance Specialty Holdings expand into the European and global marketplace."

Endurance Specialty Holdings, formed last year by Aon Corp. and Zurich Financial Services Group, began writing property/casualty insurance and reinsurance last December after it raised $1.2 billion of capital (BestWire, Dec. 18, 2001). The company posted net income of $28.9 million for the third quarter of 2002. Gross premiums written for the quarter were $228.3 million, and net premiums earned were $111.5 million.

For the nine months ended Sept. 30, net income was $63.5 million. Gross premiums written and acquired for this period were $623.5 million, and net premiums earned were $204.3 million. The company had a combined ratio—losses and expenses as a percentage of premiums—of 85.6 for the first nine months of 2002, with a loss ratio of 56.4 (BestWire, Nov. 14, 2002).

Endurance Specialty Insurance and Endurance Worldwide Insurance are rated A- (Excellent) by A.M. Best Co. (Published: BestWire - 12/06/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Equitas Anticipates Hike in Asbestos Reserves

LONDON — Equitas, the reinsurance group set up to run off pre-1993 nonlife liabilities of Lloyd's syndicates, said six-month results for the period ended Sept. 30 show weakened investment performance related to declines in equity markets, as well as a possible need to increase asbestos reserves.

Chairman Hugh Stevenson said asbestos claims in the United States, and the average paid by some commercial policyholders to resolve claims, continued to rise in the first half of the fiscal year. In addition, asbestos claimants continued to target new companies. "Equitas, however, continues to be encouraged by the impact of the documentation requirements and the other asbestos claims-management initiatives which have been adopted," he said in a statement.

"A large number of the new asbestos claims have been filed by persons who have not been impaired by exposure to asbestos," said Stevenson. "We remain firmly committed to ensuring that, except in special circumstances, Equitas reimburses only valid claims in which asbestos-related injuries can be documented."

Stevenson said it "may be necessary" to increase asbestos reserves at the end of the financial year after a comprehensive actuarial review. Equitas undertakes a comprehensive actuarial review of loss reserves only at the end of the financial year, when results for the previous year are presented in an annual "report and accounts."

The group's investment portfolio on March 31 held 383 million pounds (US$1 = 0.64 pounds) in equities out of total financial investments of 5.7 billion pounds. On Sept. 30, the value of its equity portfolio stood at 110 million pounds. Overall investment return rose to 556 million pounds from 215 million pounds in the first half of last year.

"Because of the decline in equity values, however, investment returns had fallen below the 'unwinding of the discount' applied to claims liabilities by 82 million pounds in the first half," the group said in a statement. "Equity values have risen somewhat since Sept. 30, but whether investment return remains below the unwinding of the discount for the entire year will largely depend on the performance of equity markets in the second half."

Also during the first half—which runs from March 31 to Sept. 30—claims paid fell to 451 million pounds from 798 million pounds a year earlier—a reduction in line with expectations. Reinsurers' share of claims paid fell to 133 million pounds from 248 million pounds. "This decrease reflects, in part, the realization of reinsurance assets through commutations of outward reinsurance contracts," the group said.

Operating costs fell to 46 million pounds from 55 million pounds. Exchanges losses rose to 32 million pounds from 1 million pounds, as the value of the portion of the group's surplus held in U.S. dollars fell against the pound.

In its annual report and accounts for the year ended March 31, 2002, Equitas reported 7.76 billion pounds in reserves for claims outstanding. Accumulated surplus fell to 679 million pounds from 700 million pounds a year earlier.

Equitas was set up as a run-off vehicle to handle the huge amount of asbestos-related and other claims Lloyd's faced for loss years prior to 1993. The financial strength of Lloyd's is rated A- (Excellent) by A.M. Best Co. (Published: BestWire - 12/04/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Benfield Looks to Next Level With Planned IPO

LONDON — Reinsurance broker Benfield Group Ltd. is looking to the next steps in its development as it readies an initial public offering on the London Stock Exchange.

Benfield, which moved its domicile to Bermuda from London in October to give it the option of considering a U.S. or a U.K. listing, said it would go public in the first half of 2003. It cited a "rapidly moving regulatory environment in the U.S." as making a listing in New York prohibitively expensive. British press reports said the company specifically was put off by tighter rules for financial reporting and accounting, as well as costs of directors and officers insurance, in the wake of recent scandals surrounding corporate governance.

The company said it wouldn't rule out a New York listing at a later date.

The planned IPO follows Benfield's moves to pay down more than $100 million of bank debt on or ahead of schedule in the current year through the issuance of $62 million of convertible preference shares, augmented by positive cash flow, the company said. Benfield said the capital raised through the IPO would give it greater financial flexibility.

No estimate was given for the value of the IPO.

Benfield acquired U.S.-based reinsurance intermediary E.W. Blanch Holdings Inc. in May 2001 for $179 million in a debt-financed transaction, creating what it says is the world's largest independent reinsurance broker. (Published: BestWire - 12/03/2002).

By Brendan Noonan, senior editor: Brendan.Noonan@ambest.com

Berkshire Hathaway Joins Global Aerospace Pool

LONDON — An affiliate of Berkshire Hathaway Inc. (NYSE:BRKa) is among several new partners that will back the world's largest aviation insurer, a pool managed by Global Aerospace Underwriting Managers Ltd.

Berkshire's National Indemnity will take a 25% stake in the pool in 2003, Global Aerospace said. Two other participants—Converium Holding AG and Munich Reinsurance Co.—will each also take a 25% stake. The other pool members include Royal & Sun Alliance Insurance Group plc, with a 9.25% stake; Tokio Marine & Fire Co. Ltd., with 9%; and Mitsui Sumitomo Insurance Co. Ltd., with 6.75%.

In addition, Berkshire's Northern States Agency Inc. will take a 40% stake in the managing agency, Global Aerospace. The remaining stakeholders in the agency are Converium, with 25%; Munich Re, with 24.9%; and Royal & Sun Alliance, with 10.1%.

Tony Medniuk, group chief executive of Global Aerospace, said the lineup of pool members for 2003 demonstrates the pool's international reach. "When Global Aerospace was formed two years ago, our long-range business plan included a restructuring of our pool members," he said in a statement. "We have been able to achieve an excellent combination of first-class insurance and reinsurance companies from the United Kingdom, Germany, Switzerland, the United States and Japan. This reflects the international nature of our business and anticipates increasing capital needs by our clients in the years ahead."

The Global Aerospace pool is the world's biggest specialty aerospace insurer, with annual premium income of more than $1 billion, Medniuk said.

Pool participants for 2002 that are dropping out next year are Chubb Corp. (NYSE:CB), CNA Financial Corp. (NYSE:CNA) and Aviva plc. Royal & Sun is reducing its participation—in 2002, the British insurer had a 28.125% stake in the pool and a 50% stake in the agency. "The reduced participation in the 2003 aerospace insurance pool will decrease risk aggregation for the group and result in an estimated 110 million-pound (US$1 = 0.64 pounds) decrease in net premium income in 2003, releasing capital of approximately 45 million pounds," Royal & Sun said in a statement.

Converium said it views its participation in Global Aerospace as a strengthening of its long-term strategic position in aviation and aerospace. "Converium views its investment as an important step in its long-term strategy to be one of the top global reinsurance companies and to expand in specialty lines," the company said in a statement.

Global Aerospace's new pool lineup took shape as the aviation market continues to strengthen after the withdrawal of some governments from insurance back-up schemes put in place after the Sept. 11, 2001, terrorist catastrophe. While Singapore, the United States and Canada continue to offer third-party war and terrorism risk coverage to airlines, the United Kingdom and the European Union have stepped back from the market, saying they believe private coverage is adequate (BestWire, Nov. 1, 2002).

National Indemnity, Tokio Marine & Fire and Munich Re Group are rated A++ (Superior), and Mitsui Sumitomo is rated A+ (Superior) by A.M. Best Co. Converium Group is rated A (Excellent) and Royal & Sun Alliance is rated A- (Excellent) by A.M. Best. (Published: BestWire - 12/03/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Netherlands

ING Completes $1 Billion Debt Sale

AMSTERDAM, Netherlands — Netherlands-based ING Group (NYSE:ING) said it raised $1 billion from retail investors in the United States and Asia through the offering of perpetual debt securities.

The funds raised will be used to strengthen ING's solvency, the company said. About $600 million will be used to enhance the Tier 1 capital of ING Bank NV, as well as financing the organic growth of banking activities. The remaining $400 million will be used to improve the solvency position of ING Insurance and to reduce debt.

ING said the securities, which combine the characteristics of a bond and a share, will have a fixed interest rate of 7.2%, payable in quarterly installments. The perpetual debt securities will have a nominal value of $25 and will be listed on the New York Stock Exchange, the company said.

Last month, ING said it would cut 1,000 jobs in its international wholesale banking business as part of an ongoing cost-cutting effort, after announcing that weak banking results dampened nine-month results (BestWire, Nov. 21, 2002). Net profit fell 1.4% to $3.5 billion. Operational net profit rose 0.7% to $3.3 billion, or $1.69 a share. Operational net profit from insurance operations rose 17.1% to $2.4 billion, while operational net profit from banking fell 28.5% to $836 million.

Since the Nov. 21 release of its nine-month results, ING made two other moves to boost capital. The company said it would begin paying investors dividends in stock instead of cash. ING also sold 36 million shares of stock held in reserve for an employee stock option plan, gaining 650 million euro (US$1 = 0.99 euro) on the sale.

American Depositary Receipts of ING, each representing one share, were trading at $16.63 each on the afternoon of Dec. 9, down 5.24% from the previous close. (Published: BestWire - 12/09/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Switzerland

Rating Update: Swiss Re

OLDWICK, N.J. — A.M. Best Co. has affirmed the financial strength ratings of A++ (Superior) of Swiss Reinsurance Company (Swiss Re), Zurich, and its core subsidiaries with a negative outlook.

At the same time, existing debt either issued or guaranteed by Swiss Re has been downgraded as follows: senior debt from "aaa" to "aa+" and subordinated debt from "aa" to "aa-." The ratings of the company's short term debt obligations have been affirmed at AMB-1+. The senior debt securities assumed by Swiss Re America Holdings (originally issued by Underwriters Reinsurance Corporation) have been downgraded from "aa+" to "aa." The outlook for all ratings has been changed from stable to negative.

Swiss Re's ratings reflect A.M. Best's expectation that the company will re-establish its superior capitalisation by year-end 2003, its strongly performing life business, the improving trend in its non-life underwriting and the company's leading presence in the reinsurance market. Offsetting factors include weakness in the recent consolidated financial performance of the company's non-life business and the vulnerability of its equity portfolio to asset devaluation.

Superior risk-based capitalization — A.M. Best expects Swiss Re to re-establish its superior capitalisation by year-end 2003 following some erosion in 2001 and 2002 as a result of weak underwriting performance and investment losses. At year-end 2002, A.M. Best expects consolidated shareholders' equity to be comparable to the half year level of CHF 18,268 million (USD 12,274 million). Substantial further deterioration might trigger a downgrade in Swiss Re's rating.

Strong life and improving non-life performance — The growth and performance of Swiss Re's life business have consistently exceeded the company's targets. In the first half of 2002, life operating revenues increased 25% (Swiss Re target growth: 13%) following consolidation of the Lincoln National Corporation's reinsurance business, and return on operating revenues was 11.5% (Swiss Re target return: 10%). In property and casualty reinsurance, A.M. Best believes that Swiss Re is well-positioned to take advantage of improved market conditions and expects this to lead to an average combined ratio of less than 105% for the period 2002 to 2004, down from 116% average for the five years to 2001. The current ratings are predicated upon A.M. Best's expectation that a modest profit (after tax net income) will be recorded for 2002. If consolidated results fall significantly short of this expectation, the ratings may be downgraded.

Leading business position — Based on net earned premiums in 2001 of CHF 25,219 million (USD 15,076 million), Swiss Re ranks as the second-largest global reinsurer and is the world's largest life reinsurer with net earned premium in this sector of CHF 8,922 million (USD 5,334 million). It offers a broad range of traditional and non-traditional reinsurance products and risk management services in addition to specialised risk financing alternatives for non-insurance clients.

Weak recent performance — In 2001, Swiss Re recorded a net loss of CHF 165 million (USD 99 million) and, although there was a modest recovery in the first six months of 2002, the company remains vulnerable to reductions in current investment income and both net realised and unrealised investment losses. A.M. Best expects equities to represent less than 10% of total investments at year-end 2002, down from 18% at year-end 2001.

Expectations:

— The current rating level is dependent upon no further substantial erosion in Swiss Re's risk-based capital as assessed using A.M. Best's capital model.

— A modest profit at year-end 2002 is anticipated, followed by stronger performance in 2003 and 2004, subject to loss experience.

For a complete list of debt and financial strength ratings, please visit www.ambest.com/press/swissre2.pdf. (Published: BestWire - 12/05/2002).

Zurich's Centre Group to Exit Credit Enhancement Business

ZURICH, Switzerland — Zurich Financial Services Group said its subsidiary group Centre would stop writing new credit enhancement business after a review of activities determined the business isn't core to Zurich's future efforts.

Centre would continue to support its existing book of credit enhancement business, the company said. "The decision to exit the credit enhancement business, which was noncore and no longer met our internal hurdle rate, underlines our commitment to focus on core markets and core insurance-based products that provide sustained profitability," said James J. Schiro, Zurich's chief executive officer, in a statement.

Schiro added that the structured finite-risk insurance and reinsurance business of Centre would continue to be a core function of the Zurich group. Centre would continue to offer customized solutions in the property/casualty and life/health areas to clients in North America—including Bermuda, the United Kingdom and continental Europe, he said.

Centre, which had been reporting to the parent company as a separate entity, will now report to the Zurich North America division. Joel Klaassen, previously a senior vice president of Centre and a member of its executive committee, has been appointed president and CEO of Centre. He will report to John Amore, CEO of Zurich North America.

In an ongoing effort to focus on an insurance-based financial-services market, Zurich Financial has sought to restructure some of its subsidiaries. One of those is Zurich Capital Markets Inc., which will focus on its core strengths, which are asset management, customized structured products and client servicing. As a result, it will stop offering structured finance products that it has offered through its Sydney, Australia office and to a lesser extent around the world (BestWire, Nov. 12, 2002). The reduction will take place over the next several months.

Zurich Financial said in September during a conference on its midyear results that it would sharpen its focus while identifying noncore businesses. The company's goals are to restore profitability, strengthen its balance sheet and restore credibility in the marketplace.

Zurich Financial posted a $2.03 billion net loss for the first six months of 2002 (BestWire, Sept. 5, 2002). A $5 billion capital program is part of Zurich's initiatives to boost profits, including a rights offering to shareholders. Zurich plans to reduce exposure to equities in its investment portfolio, be more selective in its use of cost-effective reinsurance and revise its dividend policy—all under the name of risk-based capital savings, which it estimates will total $2.5 billion to $2.7 billion. Cost-cutting initiatives include shedding about 4,500 jobs (BestWire, Oct. 11, 2002).

In October, Zurich Group's shareholders approved a board proposal to launch an increase in ordinary share capital, which would represent aggregate proceeds of 3.74 billion Swiss francs ($1 = 1.47 francs), or about $2.5 billion (BestWire, Oct. 11, 2002).

Centre encompasses a number of subsidiaries, including Bermuda-based Centre Solutions, Delaware-based Centre Insurance Co., and Centre Insurance International and Centre Reinsurance International, both based in Dublin, Ireland. The A (Excellent) financial strength ratings of the Centre subsidiaries and Zurich Financial Services Group are under review by A.M. Best Co. (Published: BestWire - 12/05/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

The Americas

Bermuda

Trenwick Secures Letter of Credit; London Specialty Unit Halts Underwriting

HAMILTON, Bermuda — Trenwick Group Ltd. (NYSE:TWK) said it secured commitments to renew $182 million in letters of credit supporting its Lloyd's underwriting operation.

The agreement in principle, along with additional capital from Trenwick and an agreement with Berkshire Hathaway Inc.'s (NYSE:BRKa) National Indemnity Co., brings Trenwick's anticipated Lloyd's underwriting capacity for 2003 to $500 million. "Trenwick's Lloyd's capacity in 2003 will allow it the flexibility to develop its business next year and participate further in market conditions which we believe will continue to be very favorable," said Michael Watson, chairman and chief executive officer of Trenwick Managing Agents Ltd., in a statement.

Trenwick also said it hired Greenhill & Co. LLC as its financial adviser. Greenhill will advise Trenwick in evaluating and implementing a restructuring of its outstanding debt and preferred equity, Trenwick said.

Bermuda-based Trenwick also said its specialty London market insurer, Trenwick International Ltd., has stopped underwriting new business. While Trenwick will continue to administer and pay claims in connection with the policies underwritten by Trenwick International, the parent company will record a fourth-quarter charge for the expenses it expects in connection with the termination of Trenwick International's underwriting business. Trenwick offered no details as to the amount of that charge.

"These actions represent significant steps in the right direction for Trenwick," said acting Chairman and CEO W. Marston Becker in a statement. "The $182 million letters of credit and continued support from National Indemnity for Trenwick's Lloyd's underwriting operation allows us to continue to support those portions of our business which we believe will produce the best results for our policyholders, creditors and shareholders."

Trenwick's negotiations with its letter-of-credit providers took on some urgency when, on Nov. 7, the company widened its third-quarter net loss to $137.2 million, or $3.73 a share, compared with a net loss of $96.1 million, or $2.61 a share, for the third quarter of 2001 (BestWire, Nov. 14, 2002). Trenwick said its third-quarter loss primarily reflected an increase in loss reserves.

In late October, Trenwick said it would stop underwriting its U.S. specialty program insurance business through several subsidiary companies.

On Nov. 14, A.M. Best Co. downgraded the financial strength ratings of several of Trenwick's operating subsidiaries to B- (Fair) from B+ (Very Good), and one subsidiary, Chartwell Insurance Co., was downgraded to C++ (Marginal) from B (Fair).

Trenwick's stock was trading at $1.65 a share on the morning of Dec. 9, up 35.25% from the previous close. (Published: BestWire - 12/09/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Ace Executives See Value In Terrorism Backstop

NEW YORK — Congressional passage last month of a federal backstop for terrorism insurance has brought a measure of certainty to the market, executives of Bermuda-based Ace Ltd. said Dec. 4 during a media luncheon.

"It's good that we have legislation, and it's good that we have clarification, but the amount of retention by the industry is still very high," said Brian Duperreault, chairman and chief executive officer. "The good news is the recognition by the country that this is too big for insurers alone."

Duperreault said the law is so new that "there are no experts yet" and that insurers are busy "sorting out the terms," but Ace has concluded it is in insurers' best interests to write more—rather than less—terrorism insurance in order to spread the risk. The vast majority of insureds will have a very low exposure, he said.

If that kind of thinking has merit, then insurers would probably have incentive to keep premiums low. Under the law, insurers must offer the coverage, and businesses have to notify insurers in writing if they don't want to buy it. Duperreault said he doubts there will be price-gouging, but he also predicted there won't be low-pricing "craziness," either.

The new law requires insurers to bear an escalating scale of insured losses from 7% in the first year to 15% in third year. The federal government insures 90% of losses in excess of those amounts. Evan Greenberg, vice chairman and chief executive officer for both Ace Overseas General and Ace Tempest Re, said each insurer's total loss exposure is based on premiums written.

Dominic Frederico, president and chief operating officer, said Ace has six categories of terrorism risk— ranging from high-rise urban, or so-called "trophy," properties, to low-rise rural properties. Ace will not engage in pricing category-one properties out of the market, but will buy small portions of such risks, "even if we like the risk," Duperreault said.

Greenberg predicted the new law could help stimulate stalled construction projects. No one can anticipate the frequency and severity of attacks, but the law helps insurers know the risks and price for them, he said.

In response to a question, Duperreault said neither the government nor the industry is happy that the government is in the business of insuring terrorism risk, but both parties understood it was necessary. He said he is "not overly concerned" about what is likely to happen four years from now. "If there is no longer a terrorism risk, Congress could sunset the law," he said. (Published: BestWire - 12/06/2002).

By Ron Panko, senior associate editor, Best's Review: Ronald.Panko@ambest.com

Annuity & Life Re Faces Shareholder Lawsuits

HARTFORD, Conn. — At least four law firms have filed lawsuits seeking class-action status on behalf of stockholders of Annuity & Life Re Holdings Ltd. (NYSE:ANR), the struggling Bermuda-based life reinsurer that has been plagued throughout 2002 by accounting problems.

New York law firm Milberg Weiss Bershad Hynes & Lerach—noted for its high-profile legal actions against corporations on behalf of shareholders—and three other law firms filed suit in U.S. District Court for the District of Connecticut in Hartford, where two of the company's subsidiaries are based. The plaintiffs allege that Annuity & Life Re and several of its officers violated U.S. Securities and Exchange Commission rules by "issuing a series of material misrepresentations to the market" between Feb. 12, 2001, and Nov. 19, 2002. The lawsuits claim that, during that period, the company issued financial statements showing increasing revenues, while failing to disclose several problems:

— The company allegedly failed to properly account for embedded derivatives contained in certain of its annuity reinsurance contracts in 2001;

— Since at least 2001, the company understated a portion of its liabilities and expenses;

— The company lacked adequate internal controls and was therefore unable to ascertain its true financial condition; and

— As a result of the above, the values of the company's balance sheet and financial results were materially overstated at all relevant times.

Efforts to reach spokespeople for Annuity & Life Re were unsuccessful.

Annuity & Life Re recently posted a third-quarter net loss of $19.2 million, or 74 cents a share, compared with a net loss of $42.7 million, or $1.66 a share, a year earlier. Last year's results, as well as those for the first two quarters of this year, had to be restated to implement FAS 133—a standard for accounting for derivative instruments and hedging activities (BestWire, Nov. 27, 2002).

The company said it is still in discussions with the SEC regarding its implementation of FAS 133. "Depending upon the outcome of these discussions, it is possible that further restatements may be necessary," the company said. The same problems with its FAS 133 accounting forced Annuity & Life Re to postpone the release of second-quarter results (BestWire, July 30, 2002).

A negative net change in the fair value of embedded derivatives totaling $13.3 million was among the items that dragged down third-quarter results. Annuity & Life Re also had to strengthen its variable annuity minimum guarantee reserve by $7.8 million and make variable annuity minimum guarantee payments in excess of premiums totaling $3.1 million. An unrealized loss on interest-rate swaps of $2 million also was recorded.

The life segment had a loss of $10.2 million, or 39 cents a share, compared with a loss of $20.4 million, or 80 cents a share, a year earlier. The segment recorded a $6.2 million loss related to a contract with Lincoln National, which was recaptured during the quarter after Annuity & Life Re agreed to settle an arbitration dispute with Lincoln National. Adverse mortality also was worse than the same quarter a year earlier, the company said. Life premium rose 29% to $82.3 million for the quarter.

The annuity segment narrowed its loss to $18.3 million, or 71 cents a share, from $25.4 million, or 99 cents a share. The segment was hit with $19.2 million in write-downs associated with a Transamerica Re annuity reinsurance contract—the fourth write-down on the contract since the third quarter of 2001.

On top of its financial problems, Annuity & Life Re is in the midst of a management transition effort, as it seeks a successor to Lawrence Doyle, who retired as president, chief executive officer and a director of the company (BestWire, Sept. 12, 2002). Doyle, Chairman Frederick S. Hammer and Chief Financial Officer John F. Burke are named individually in the lawsuits, along with the company.

The company reached an agreement with Citibank to extend a $49 million unsecured letter of credit facility into 2003 (BestWire, Oct. 16, 2002).

The B++ (Very Good) financial strength ratings of Annuity & Life Re's two subsidiaries, Annuity & Life Reassurance Ltd. and Annuity & Life Reassurance America Inc., are under review by A.M. Best Co. On the morning of Dec. 5, Annuity & Life Re's stock was trading at $2.07 a share, up 5.61% from the previous close. The stock was at a 52-week high of $26.09 in early January. (Published: BestWire - 12/05/2002).

By David Pilla, senior associate editor, BestWeek: David.Pilla@ambest.com

Canada

A.M. Best Withdraws Ratings Of CGU Insurance and Affiliated Companies

OLDWICK, N.J. — A.M. Best Co. has withdrawn the financial strength rating of A (Excellent) and assigned an NR-4 (Company Request) rating to CGU Insurance Company of Canada (Scarborough, Ontario) and affiliated companies.

This rating action is in response to the request from CGU's management to withdraw from the interactive rating process.

Additionally, A.M. Best has withdrawn the financial strength ratings of A (Excellent) of Elite Insurance Company, Pilot Insurance Company and Victoria Reinsurance Co. Ltd. and the financial strength ratings of A- (Excellent) of Scottish & York Insurance Company, Limited and Traders General Insurance Company. All of these companies have been assigned NR-4 (Company Request) ratings and are located in Ontario, with the exception of Victoria Reinsurance, which is located in Barbados. (Published: BestWire - 12/10/2002).

Manulife Makes $4.1 Billion Offer To Acquire Canada Life

TORONTO — Toronto-based Manulife Financial Corp. (NYSE, TSE:MFC) said it has made an offer to acquire Canada Life Financial Corp. for $4.1 billion, or C$6.4 billion, to create Canada's largest insurance company by market capitalization. But Canada Life said the offer doesn't reflect the company's value.

Under Manulife's terms, Canada Life (NYSE: CLU, TSE:CL) common shareholders would receive either C$40 ($1 = C$1.56) in cash or 1.055 Manulife common shares for each Canada Life common share. Payments would be pro-rated if acceptances exceeded 40% in cash or 60% in Manulife common shares.

The offer represents a premium of 30% over the weighted average trading price of Canada Life's shares on the Toronto Stock Exchange in the past 20 trading days, Manulife said during a conference call.

On the afternoon of Dec. 9, Canada Life's stock was up 29.22% to $26 a share in New York, and Manulife's stock was down 5.92% to $22.80 a share.

If Canada Life accepted the transaction, it would be the largest in Canadian history, Dominic D'Alessandro, Manulife's president and chief executive officer, said during the call. The company's goal is to create a Canadian-based global leader in the financial-services industry. The combined company would be the fourth-largest financial-services company in Canada and the fourth-largest life insurer in North America. It would rank 10th in the world among public life insurers.

Manulife and Canada Life had combined premiums and deposits of C$40.8 billion and assets of C$191.9 billion for the 12 months ended Sept. 30. D'Alessandro described the transaction as a "win-win" situation.

But Canada Life's chairman and CEO, David A. Nield, said the unsolicited proposal didn't reflect the value of the company. "We and our professional advisers are reviewing our strategic options," he said in a statement.

Canada Life said it wouldn't discuss further details about the proposal until its board meets. The board has formed a special committee to review the offer and any alternatives, and it has retained financial advisers BMO Nesbitt Burns Inc. and Credit Suisse First Boston.

During the call, D'Alessandro noted that the book value premium of 1.77 times is higher than the average 1.6 times of recent transactions that were made during stronger markets. When asked why the company took a "hostile" approach, he said the company thought it would be inappropriate to make an offer without talking about it publicly. "These things have a way of getting leaked," he said.

He added that he thought once Canada Life tested the market, the company would be satisfied that Manulife's offer was fair.

Manulife plans to make its offer as a "permitted bid" under Canada Life's shareholder rights plan, which means the offer would be open for acceptance for at least 60 days after Manulife mails its formal take-over bid to shareholders. The offer is also subject to regulatory approvals. Manulife said it expected the transaction to close in the second quarter of 2003.

Canada's Competition Bureau, as part of its standard procedure, would review the proposal to determine whether the transaction violates competition laws, said Tim Weil, senior communications adviser for the bureau. The duration of the review depends on the complexity of the transaction. Complex mergers take about 10 weeks to review, while very complex mergers take about five months, he said. It was too soon to determine into which category this transaction would fall, he said.

In a separate announcement, Canada Life released financial guidance for 2003 and said it would be adopting the fair-value method of expensing stock options next year. The company expects net income for 2003 in the range of C$3.45 to C$3.55 a share, an increase of 15% to 18% over the expected 2002 figure.

In particular, Canada Life said it expects significant growth of earnings in its European divisions after the acquisitions it made in 2002.

In July, the company's U.K. division bought Royal & Sun Alliance Insurance Group plc's group life and long-term disability business for 60 million pounds in cash ($1= 0.6 pounds) (BestWire, July 29, 2002).

Canada Life's subsidiaries are rated A+ (Superior) and Manulife's subsidiaries are rated A++ (Superior) by A.M. Best Co. (Published: BestWire - 12/09/2002).

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