

## Swiss Re's Holzheu: Lingering Effects of Financial Crisis Hit Insurers' Underwriting Performance

The lingering effects of the financial crisis are causing underwriting headaches for insurers and reinsurers worldwide due to radical changes in capital positions.

"The financial market meltdown had an immediate impact on insurer balance sheets," said Thomas Holzheu, senior vice president with Swiss Re in the United States. He said there was a 20% decline in nonlife insurer GAAP capital, and a greater decline for life insurers.

Holzheu said while there was an immediate effect on insurer balance sheets, much of that capital has since been recovered. In the interim, insurers had to shift quickly from an environment of excess capital to one of shortage.

On the underwriting side, with a collapse in the real estate market many commercial insurers saw declines of up to 10% in demand, he said. "That's a drop that hasn't been seen in quite a while," he said in an interview at the International Insurance Society's 47th annual seminar in Toronto.

Insurance markets have been "back in growth mode" since the second half of 2010, but the lingering effects of the crisis are still being felt by insurers through low interest rates, which central banks used to combat the banking and debt problems but which now affect bond investors, and insurers are among the largest such investors.

Another lingering effect -- financial regulation, which in many countries is undergoing vast changes in reaction to the crisis. "Regulatory changes were brought about by the banking crisis but insurance was roped into that to some degree," said Holzheu.

On the plus side, the crisis has acted as a catalyst for insurers to look to developing markets for future growth. "Those markets were not as leveraged financially as the developed markets, so they came through in much better shape," said Holzheu. The current commodities boom is also benefiting developing markets, he added.

"While interest in emerging markets was not triggered by the financial crisis, it was a catalyst," said Holzheu. "They have done things right."

Swiss Reinsurance Co. Ltd. currently has a Best's Financial Strength Rating of A (Excellent). (Published: BestWire - 06/22/2011).

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