SCOR GROUP

Competing in the “new” reinsurance landscape

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2009 year-to-date renewals confirmed SCOR's September 2008 view of the reinsurance industry…

SCOR's September 2008 analysis of 2009 renewals[1)]	What we have seen so far in the 2009 renewals
➔ *Insurers' capital losses and constraints to increase demand for reinsurance*	➔ Increased demand for reinsurance, including QS surplus capital relief
➔ *Reinsurance conditions and prices due to turn upwards and stand firmer than expected*	➔ Price increases (3% to 5%) with positive trend across the three consecutive main renewal dates
➔ *Near-term Inflationary trends to be factored in reinsurance pricing*	➔ Growing perception of future inflationary risk
➔ *Reinsurance industry to remain disciplined and to focus on technical profitability*	➔ Improved expected technical ratios reported across the industry compared to first semester of 2008
➔ *Demand for reinsurance likely to increase as reinsurance is in most cases the best capital shield option*	➔ Confirmation of de-correlation of reinsurance vis-à-vis GDP (P&C premium growth +3%, Life +13%)[2)]: ➔The industry was open for business throughout the crisis, with variations by geography and products ➔There were no bailouts in the industry and no reinsurer bankruptcies

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(1- See 2008 SCOR's presentation: "Press Conference Monte-Carlo"

(2- SCOR research, Strategic Marketing department,, H1'09 vs. H1'08

… and the "mega stress test" we have experienced allows us to draw a few conclusions on the reinsurance industry

Reinsurance was not at the epicenter of the crisis

- Banking industry at the epicenter
- Insurance and reinsurance "victim" of the crisis, especially on their asset side
- Some reinsurers affected, especially those with off-balance sheet exposures

Reinsurance demonstrated its resilience

- No government interventions or bailouts needed
- Strong solvency preserved
- Continuity of supply of capacity to primary insurers (in contrast to financial market dislocation)
- Proven flexibility of reinsurance offering versus financial market solutions: no discontinuity, no disruption, no dislocation

Regulators should differentiate between industries

- Industry is supportive of Solvency II directive…
- …but increasing worries concerning latest developments by CEIOPS (too restrictive rules on capital eligibility capital, inappropriate calibrating of SCR[-1)], improper approach to group supervision, use of CRA rating to assess counterparty risk)
- Banking concerns should not simply be transposed to the insurance business

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(1- Standard Capital Requirements

1 Benefiting from positive reinsurance trends

2 Confronting three main uncertainties

3 Competing in an evolving landscape

Benefiting from positive reinsurance trends

Reinsurance demand to remain positive…

- Deflation and depressed economic activity are indeed putting pressure on the insurance base…
- …but demand for reinsurance is somehow de-correlated from GDP (cf. graph 6) as:
  - Reinsurance deals with stock variables rather than flows (GDP)
  - Primary insurers need to be protected against events and catastrophes not linked to GDP
  - Universe of risk is expanding
- Demand is supported by pressure on primary insurance capacities due to:
  - A likely increase of median risk aversion
  - A shrinkage of capital base of primary insurers due to the financial crisis
  - An anticipated increase in capital requirements due to regulatory strengthening

…with supply still below end 2007 levels

(cf. graph 7)

- At this stage, no significant capital inflow in reinsurance through rights issues ($1B in 1H'09 vs. $3B in full year 2008)[-1)] or hybrid issuances (zero year to date), with no increase in net capacity
- No significant new entrants in 2009 (5 new Bermudans, with less than $1B in capital in total)
- Limited Cat Bonds issuances ($1.4B in 1H'09 vs. $2.4B in 1H'08)[-1)]
- Limited net income (~$5B) and capital gains (~$3B) contribution to capacity in 1H'09 [-2)]
- Continued focus on disciplined underwriting and technical profitability for management of fragmented cycles (cf. graph 8)

All things considered, 2009 positive trends should continue in 2010

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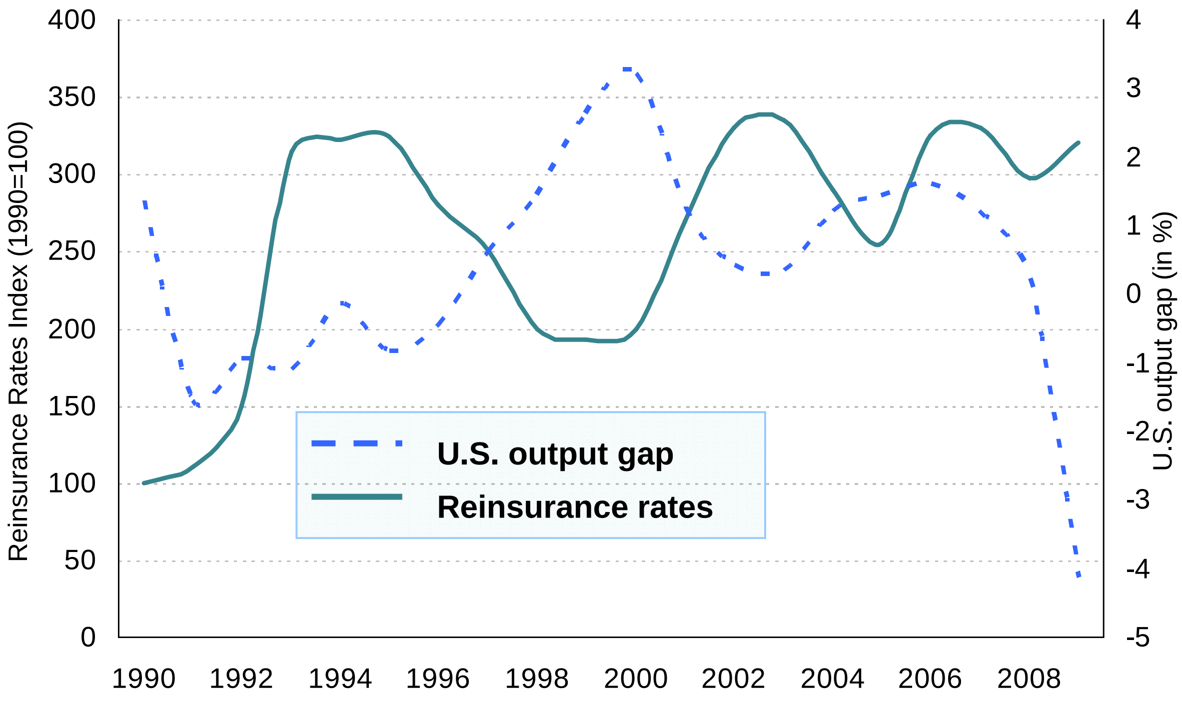
(1- SCOR research, Strategic Marketing department

(2- SCOR research, Strategic Marketing department, excluding FX gains

Reinsurance is largely de-correlated from the economic situation…

US property catastrophe reinsurance rates and GDP

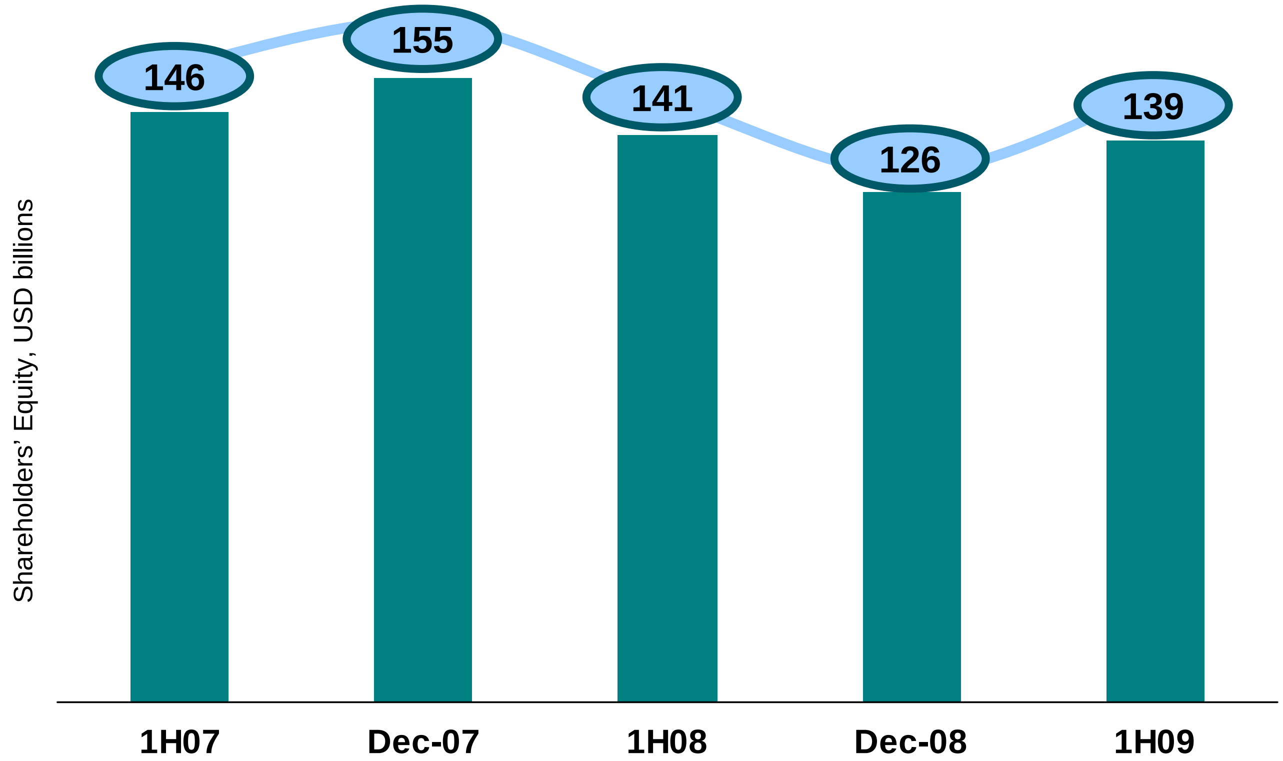


Sources:
GDP: IMF; Reinsurance Rates: Willis Re

- ➔ Reinsurance primarily deals with events not linked to GDP
- ➔ Reinsurance deals with stock variables rather than flow variables

… and capacity in the industry has not yet returned to the end of 2007 level

Equity evolution of the reinsurance industry[1)]

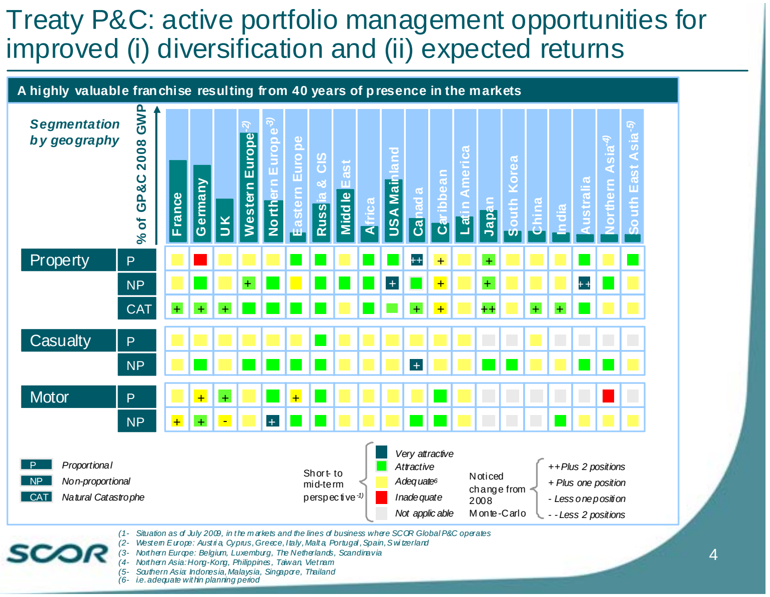


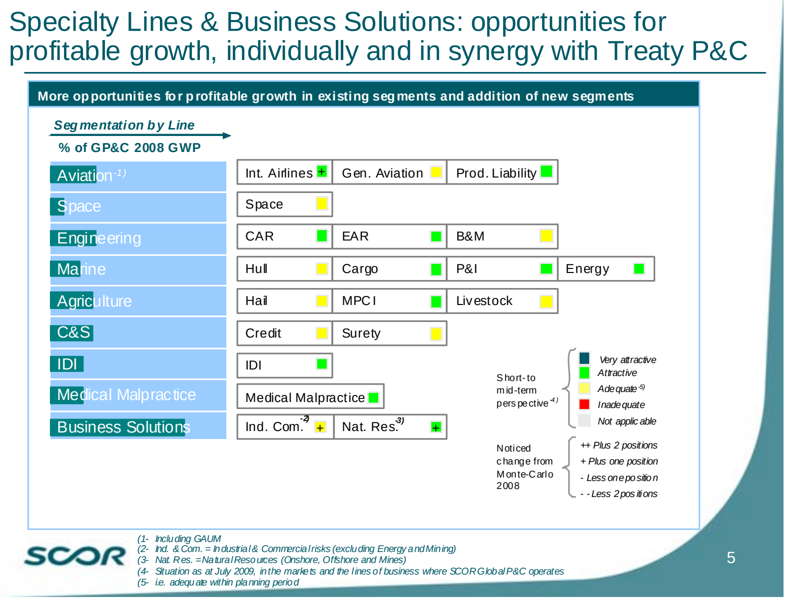
Source: SCOR research, Strategic Marketing department

(1- ACE, Arch, Aspen, AWAC, Axis Capital, Endurance, Everest Re, Flagstone Re, Hannover Re, IPC, Max Re, Montpelier Re, Munich Re, Odyssey Re, Paris Re, PartnerRe, Platinum, RGA, Renaissance Re, SCOR, Swiss Re, Transatlantic, Validus, XL Capital (excluding capital injection of Berkshire Hathaway into Swiss Re)

Market analysis by SCOR Global P&C leads to a rather positive outlook for 2010 in the context of fragmented cycles

SCOR Global P&C actively manages market conditions





- ➔ **Active portfolio management (market power)** will be favoured as in 2009, when approximately 20% of contracts were cancelled and replaced
- ➔ Fragmented cycles justify a **high level of diversification**
- ➔ Underwriting policy still **limits exposure to economic and financial risk** (with 96% of the Group's liabilities not directly linked to economic activity risk)

Expected gross premium growth in 2010 (1)

(1- *Assumption as of September 2009, excluding any major disruptions to the global economy and/or financial markets; Further clarification will come after Baden Baden talks*

SCOR Global Life can also leverage on expanding universe of risk and market conditions

Demand

- Life insurance growth in many mature markets (France, +10% in H1'09), due in particular to increase in savings rates
- Increase in demand from emerging markets (e.g. takaful reinsurance)
- Pandemic concerns raise awareness for protection
- Demand for quota share solvency surplus relief deals driven by primary insurers' capital needs
- Solvency II likely to increase capital requirements for life insurers
- Strong demand for biometric risk coverage, not only for mortality and critical illness but also for longevity
- Increasing demand for LTC

Supply

- Limited new capacities due to:
  - Exit of some life reinsurance players
  - No newcomers due to increasing barriers of entry
  - Less transfer of portfolios
- Market remains attractive due to the fact that:
  - Life reinsurance risks are largely de-correlated from savings risks
  - Profitability is still appealing
  - It is still possible to protect the book through capacity coming from mortality swaps or bonds

Expected gross premium growth in 2010 positive [1)]

(1- Assumption as of September 2009, excluding any major disruptions to the global economy and/or financial markets

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Today reinsurance is confronted with three main uncertainties

Many experts anticipate a progressive economic normalization…

Scenario of normalization:

- Stabilization of economic activity, excluding double-dip and no systemic crisis
- Progressive normalization of monetary policies
- Progressive control of public expenditures and deficits
- Progressive increase of interest rates, decrease of credit spreads and de-steepening of the yield curve
- Stabilization of equity markets

… but there are three open questions regarding this "*rosy*" scenario

Sustainable recovery?

- Reduction of public spending and monetary base will slow down the economy
- Weakened balance sheets
- Low credit activity

Public debt bubble?

- Current course of public debt (cf. graph 12) could appear unsustainable
- It could be politically difficult to control public expenditures and raise taxes

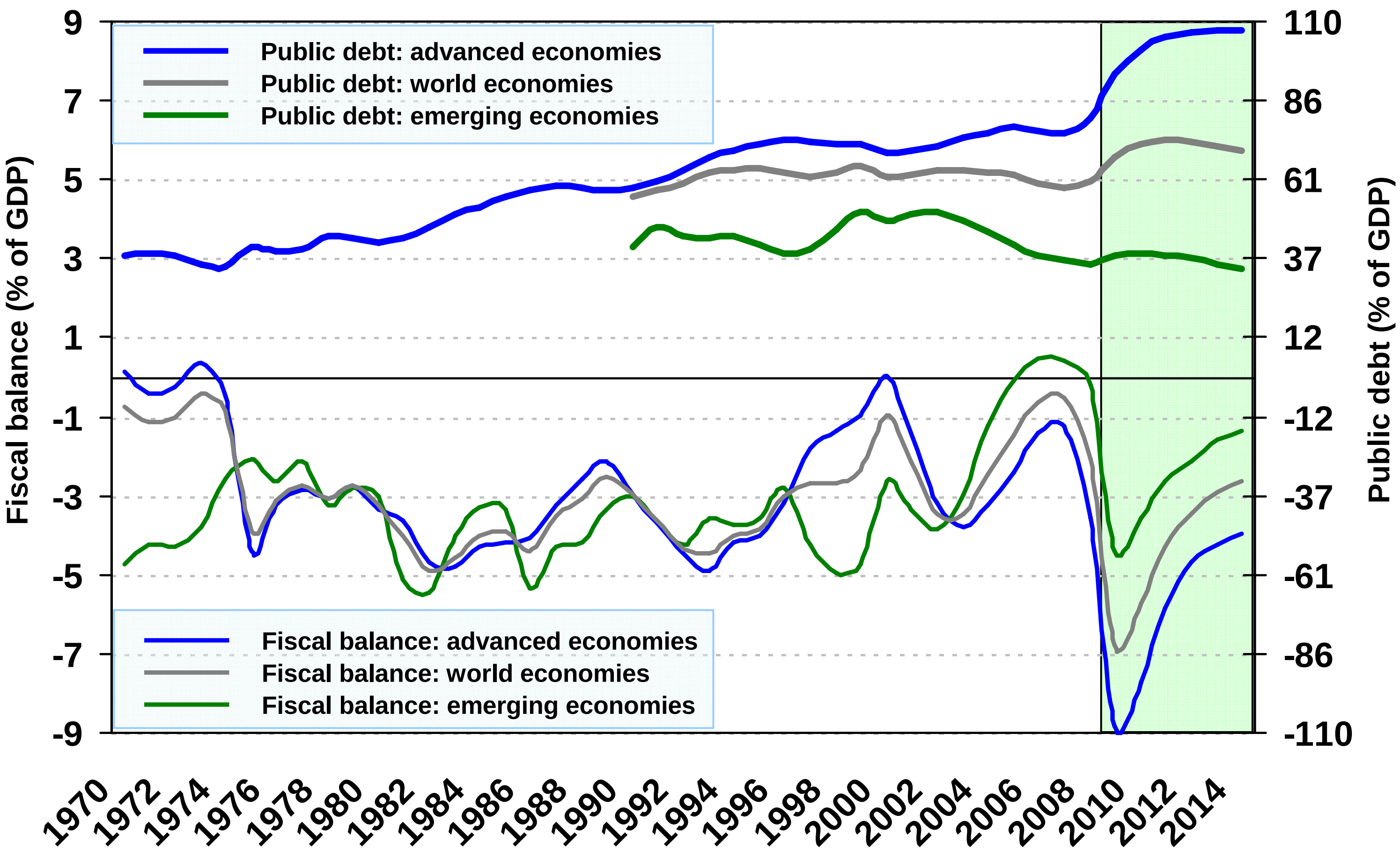
Accumulating inflationary pressures?

- Huge monetary creation in '08 (cf. graph 13)
- Globalization could potentially become inflationary
- CPI inflation already rising: (US: 2,6%; EU: 1,2%; UK:4,2%) [1)]

(1- SCOR research, Strategic Marketing department: *annualized rate of inflation over the period of January to August*

Explosion of deficits may lead to either higher inflation or sovereign defaults

IMF public debt and fiscal balance forecasts



Source: IMF

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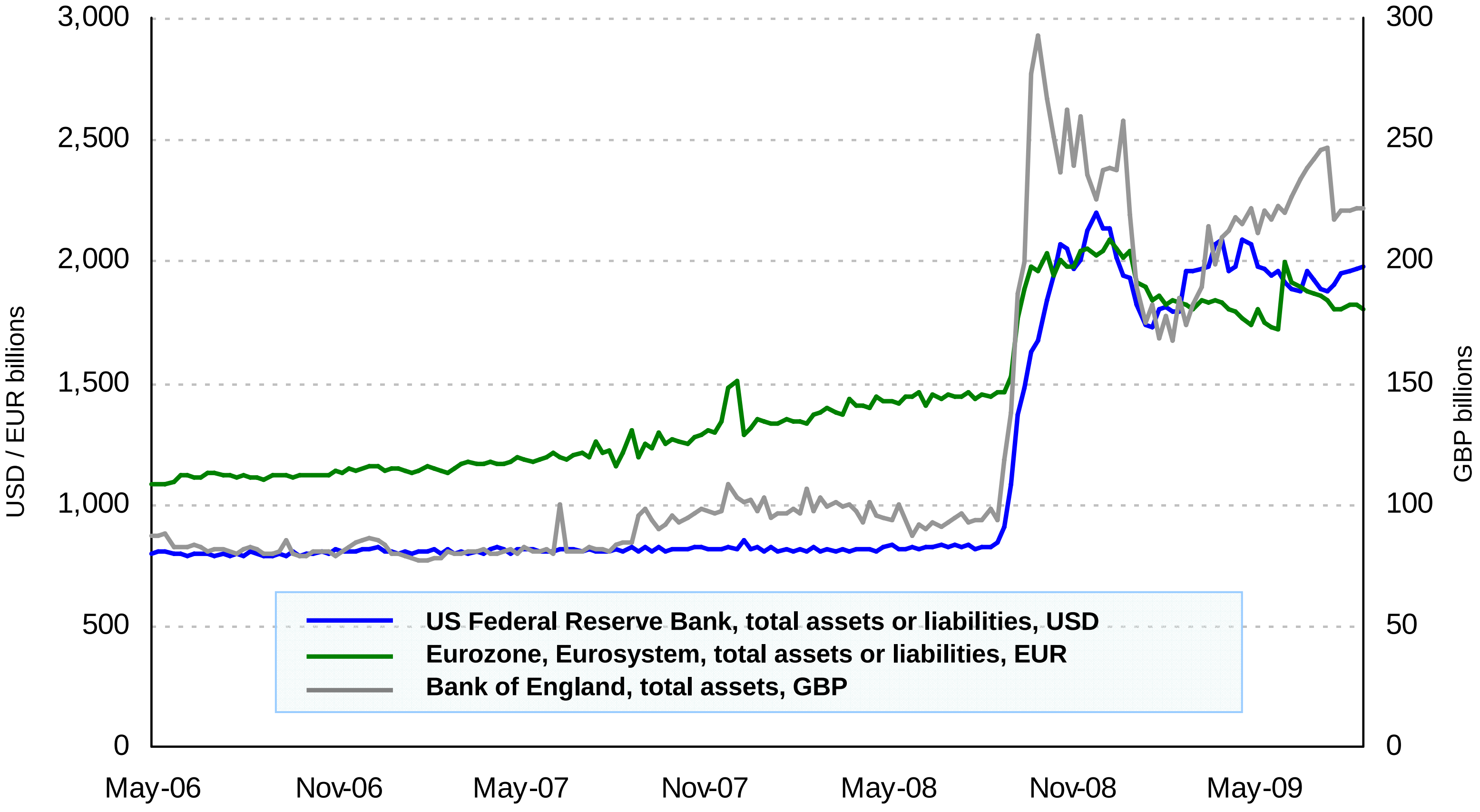
Full sterilization of such huge monetary creation is unlikely

B/S of central banks dramatically expanded



Source: Bloomberg

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Potential consequences of these three main risks

Risk	Significant consequences on reinsurance assets	Significant consequences on reinsurance liabilities
Non sustainability of recovery	➔ Persistence of low interest rates ➔ Increased credit spreads ➔ Volatility of equity markets ➔ Real estate market stagnation	➔ Progressive slowdown of the LoBs most elastic to growth (workers comp, transport, construction, business solution, credit & surety)
Public debt bubble	➔ Increase of interest rates on govies ➔ Depreciation of portfolio of fixed govies, especially long maturities ➔ Large FX movements induced by anticipated downgrades	➔ Depreciation of discounted reserves (life & third party liability) ➔ Capital release for non discounted reserves (P&C)
Inflationary pressures	➔ Potential increase of all interest rates ➔ Depreciation of existing portfolio of fixed bonds (both corporate and govies) ➔ Temporary pressures on equity markets ➔ Large FX movements induced by inflation gaps	➔ Inflation of P&C claims ➔ Inflation in P&C reserves (with an elasticity of 1.5 to current inflation) ➔ Long tail LoBs most affected ➔ Decrease of discounted reserves (life & third party liability) ➔ Capital release for non discounted P&C reserves

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Implementing an active hedging strategy for reinsurers

Hedge strategy for asset management

- ➔ Allow tactical flexibility to deviate from strategic allocation defined by strict ALM
- ➔ Reduce liquidity position, with active inflexion programme
- ➔ Pursue active cash-flow management, to avoid inflation tax…
- ➔ Maintain short duration of fixed income portfolio, until yield curve stabilization
- ➔ Purchase caps/swaps on existing bond portfolio and variable interest rates bonds
- ➔ Selectively reallocate investments from govies into corporates, equities and real estate

Hedge strategy for liability management

- ➔ Identify the LoBs elasticity of cost of claims vis-à-vis CPI
- ➔ Integrate inflationary expectations in pricing ASAP, especially on long tail lines, through eventual increased capital loadings
- ➔ Warn insurers of the importance of taking the risk of inflation into account
- ➔ Reduce exposure to insurers who do not integrate inflation risk in long tail lines

- ➔ Check the relevance of the specification of current internal models for an inflationary environment and enlarge ESG scenarios
- ➔ Circumvent difficulties to implement hedging strategy:
  - ➔ Limited availability of adequate hedging instruments
  - ➔ Capital overloading of the hedging instruments which are most efficient against inflation (such as equities and real estate) by Solvency II and rating agencies
  - ➔ Difficulty of hedging in a multi-risk environment

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SCOR's business model is based on constant strategic cornerstones…

Strong franchise

- Focusing on medium to long-term relationship with clients – "no sunshine player"
- Pursuing consistent approach – "no stop and go"
- Ensuring proximity to stakeholders with hub organization and local teams with global expertise – "not an aircraft carrier strategy"
- Guaranteeing business continuity including claims and run-off handling

Controlled risk appetite

- Remaining a key element of the implicit and explicit mandate with our shareholders
- Following a mid level risk appetite, reviewed and endorsed by the Board and Risk Committee
- Targeting a risk / return profile with a probability of recapitalization of once in ten years
- Applying same risk appetite on both sides of the balance sheet

Robust capital shield

- Ensuring that shareholders do not become "retrocessionaires of last resort"
- Offering first-class signature to clients
- Executing capital driven underwriting and asset allocation
- Embedding capital parameters in pricing tools to ensure profitability by business lines & markets
- Utilizing traditional retro and insurance-linked securities to protect the group's capital position

High diversification

- Executing twin-engine strategy with Life and P&C businesses
- Diversifying Life and P&C portfolios by business lines, markets and clients
- Providing efficient risk mitigating tools and techniques
- Generating capital savings through diversification effect

…which take into account changing economic and industry environments

Economic cycle

- "Armageddon" scenario unwinding, but the current economic recession is likely to continue
- Steepening yield curve and increased likelihood of medium-term inflation return
- Increased exchange rate volatility and weakening USD
- Emerging markets seem to cope better – change in relative position of countries & markets

Reinsurance cycle

- Globally positive and reflecting soft hardening
- Improved terms and conditions
- Fragmented market: reinsurance industry changing hierarchy
- Shrinking retro capacity
- Increasing demand with shrinking supply leading to likely medium-term scenario of continued positive cycle

Capital markets

- Slow reopening of the primary sub credit market
- Credit spreads still high, recently showing some improvement
- Equity markets continuing to be very volatile
- Financial markets still on a "bumpy road"

Regulatory environment

- Effect of regulatory environment increases the demand for reinsurance – Solvency II
- Growing risk aversion leading to additional layers of protection
- Accounting changes potentially inducing volatility and therefore increased demand for reinsurance

SCOR's decision making in times of uncertainty

Environmental variables

Strategic cornerstones	Economic cycle	Reinsurance cycle	Capital markets	Regulatory environment
Controlled risk appetite	→ Apply Asset Management inflection program → Protect B/S from inflation	→ Maintain current risk profile	→ Increased cost of capital requires higher returns → Overall increased risk aversion	→ No change: risk appetite already aligned with new public, regulatory requirements
Capital shield strategy	→ Maintain high financial strength	→ Pursue tailored retro and securitization programs	→ Active liability management & high financial flexibility → Keep retro and ILS protection	→ No change: ahead of Solvency II requirements
Strong franchise	→ Strengthen franchise → Seize opportunities	→ Focus on endogenous growth → Active U/W portfolio management	→ Support clients through quota share solvency relief	→ Support clients for Solvency II transition
High diversification	→ Preserve limited direct exposure to economic activity risk	→ Keep high diversification to smooth cycle effect	→ Maintain highly diversified asset and capital structure → Keep access to all financial resources	→ Maintain high diversification for Solvency II

SCOR's growth management is aligned with economic and market conditions

Economic environment & reinsurance market conditions

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Growth Strategies

Endogenous

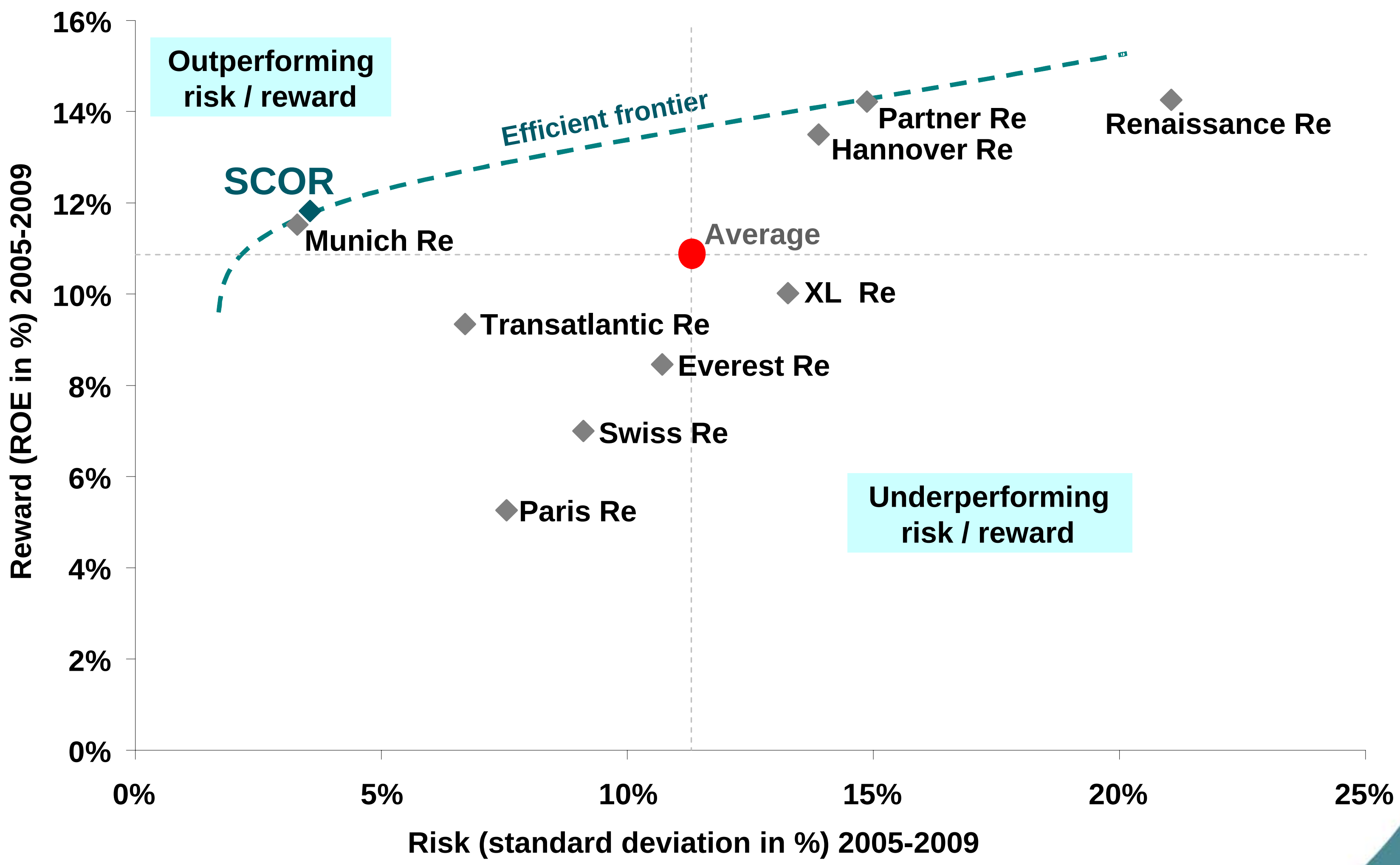
- Hardening cycle and increased demand offer substantial opportunities for organic growth in Life and Non-Life
- Taking advantage of positive momentum (rating upgrades, franchise strengthening, struggling competitors) and improved relative position
- Expanding franchise through local presence and customized innovation

Exogenous

- Focus on "gardening" deals:
  - Small, complementary portfolios
  - Hiring expertise & knowledge
  - Expand franchise
  - Increase diversification
- Mainly self-financed
- Opportunities for large transformational deals currently not considered

In the current environment SCOR focuses on endogenous growth

SCOR stable performance since 2005



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