Swiss Re Rüschlikon
Measuring and Managing Intangible Values in Today's Economy

Risk and Vulnerability Management

Thomas Trauth, CSFB
Senior Strategist, Swiss Fixed Income Research
Tel. 411 333 34 62

November 6, 2002

Drastic shift in the risk landscape

- High insurance losses and the stock market slump have decreased global risk capital considerably
- Governments and the insurance industry are challenged to provide cover for terrorist risks
- Global slowdown has increased credit risk / default rates
- Insurance companies are suffering from the past build-up of equity and credit exposures
- Banks suffer from the deterioration in their loan portfolios
- Aggressive build-up of leverage in the late 1990s looks much too high today (e.g. telecoms)
- After Enron & Co., accounting and disclosure have to be taken more seriously
- Many pension funds are underfunded: CSFB estimates the level of underfunding of pension funds to total USD 243 bn

What we expect going forward

Corporates

- Deleveraging
- Closing of pension fund gaps (higher contributions, lower benefits)
- Refocusing on core business
- Basel II requires increased focus on credit assessment and credit ratings
- Management of maturity profile (liability duration and maturity independently)

Insurers

- Re-underwriting of insurance risks
- Control and management of credit risks
- Life insurers: devalued assets vs. high liabilities (guaranteed returns)

Banks

- Control and management of credit risks
- Management of loan portfolios
- Managing reputational risk (conflict of interest)
- Preparing for Basel II

Conclusions

- **Importance of fixed income is rising due to:**
  - Increasing attention paid by investor base (shift in asset allocation)
  - Increasing focus on managing credit risk (reinforced by Basel II)
  - We think deleveraging is unlikely to come via earnings growth, but via rights issues and divestitures ➔ this should favor corporate debt relative to equity
- **Basel II will force banks to rethink their strategy towards taking on credit risk**
- **Sound risk management is becoming a key intangible asset**

CREDIT SUISSE | FIRST BOSTON