REPORT ON WORLD MERCHANT FLEET AND WORLD TRADE

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Swiss Re
Corporate Solutions

18.09.2016

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AGENDA

- Update on committee work
- Macroeconomic development
- Shipping market
- Outlook

UPDATE ON COMMITTEE WORK

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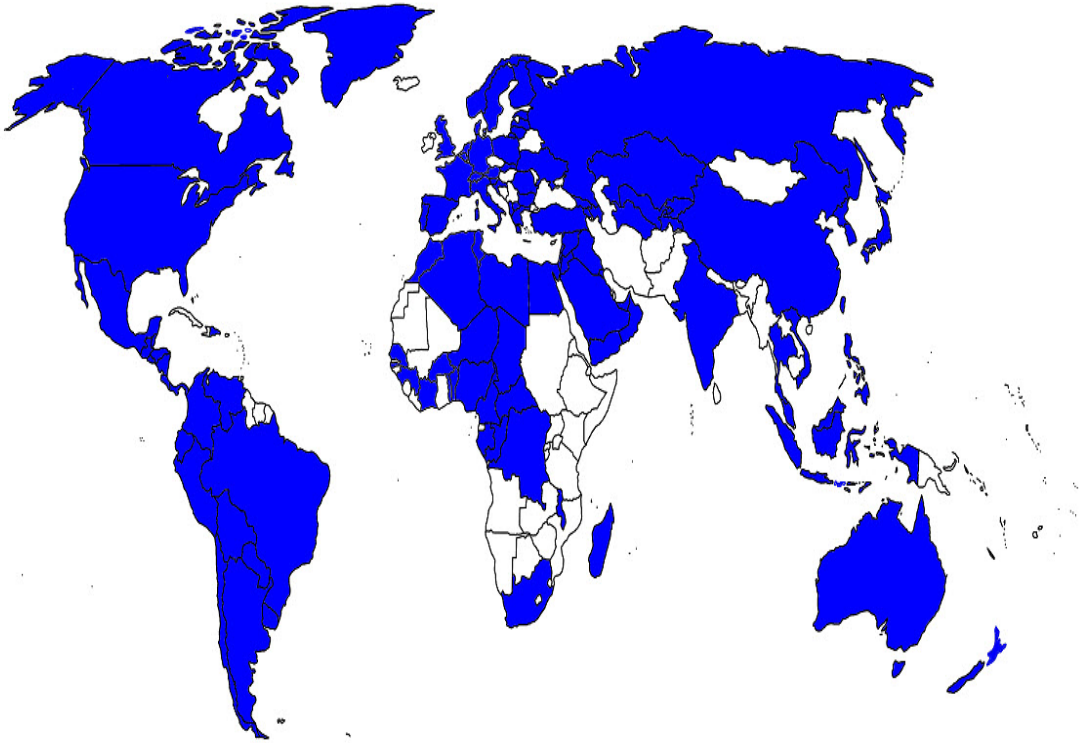
FACTS & FIGURES - COUNTRY DATA COLLECTION 2015 PREMIUM



Premium volume of all countries covered in 2015:

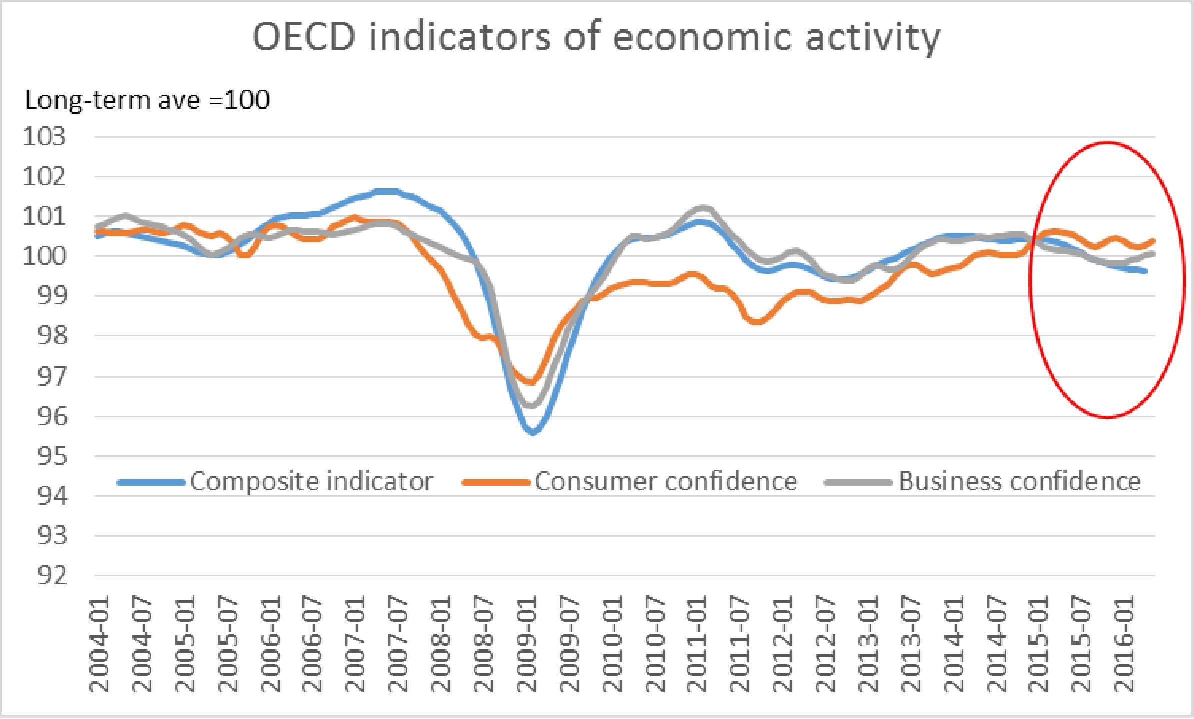
USD 29.9bn

THE FACTS & FIGURES COMMITTEE UPDATE ON COMMITTEE WORK

Update World Fleet & Trade	September 2016
Update Global Marine Insurance	September 2016
Fact Sheets	September 2016
Hull Repair Cost Index Follow up	IUMI Website 2016
Cargo Index Follow up	IUMI Website 2016
Cargo & Hull presentation	March 2016

MACROECONOMIC DEVELOPMENT

WORLD ECONOMY IS STRUGGLING TO ACHIEVE SUSTAINED GROWTH…

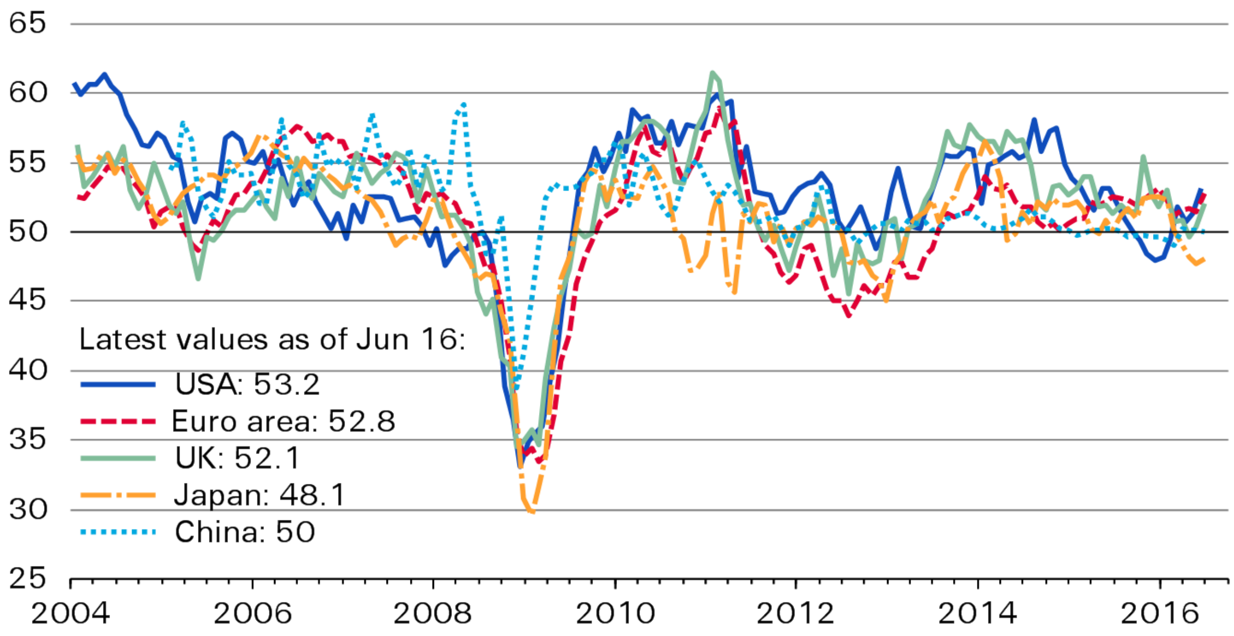


Source: OECD

- US economy continues to expand, although moderately comparing with previous post-recession periods
- Europe is still dealing with the legacy of the financial crisis; high unemployment levels and fragility of banking sector persist in some countries
- Despite stronger private consumption, Japan remains stuck in deflation
- Weak commodity prices hit emerging markets. Moreover, excess debt in China could reduce global demand

… EVEN THOUGH MAIN GLOBAL ENGINES OF GROWTH ARE NOT YET FIRING ON ALL CYLINDERS…

Purchasing Managers Indices, monthly data



PMIs are survey based indicators. Values above 50 indicate economic expansion, values below 50 contraction. However, the China PMI is not calibrated accurately – industrial production is currently up 6% year over year.

…MOREOVER, BREXIT HAS ADDED UNCERTAINTY

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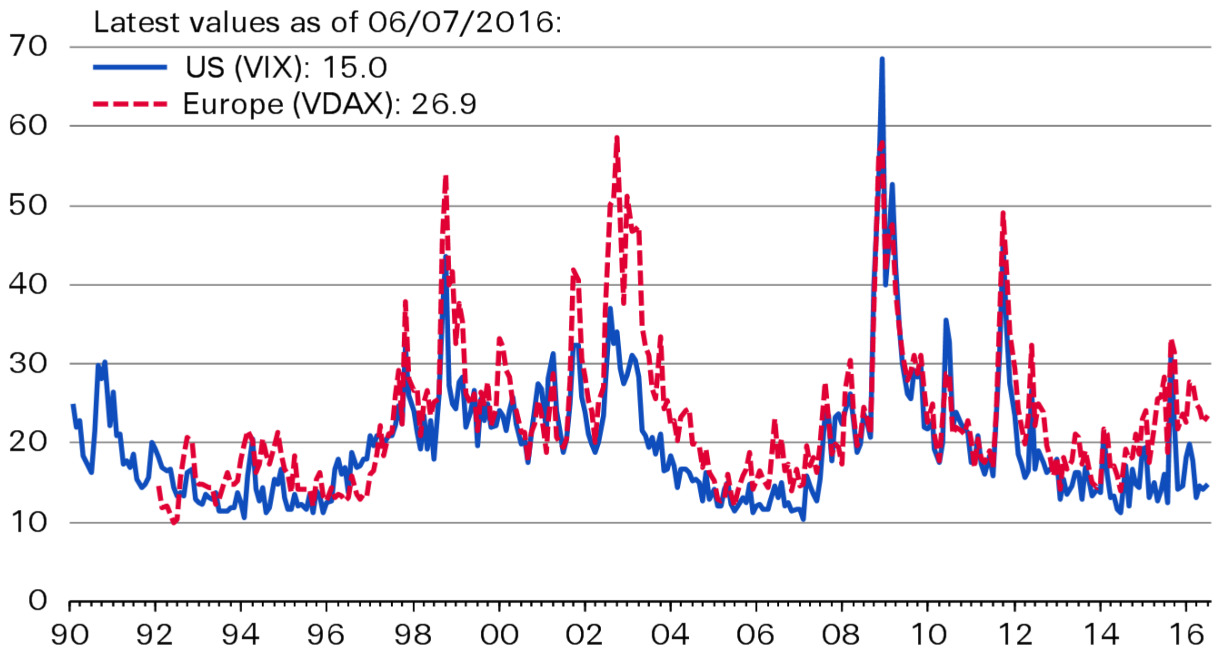
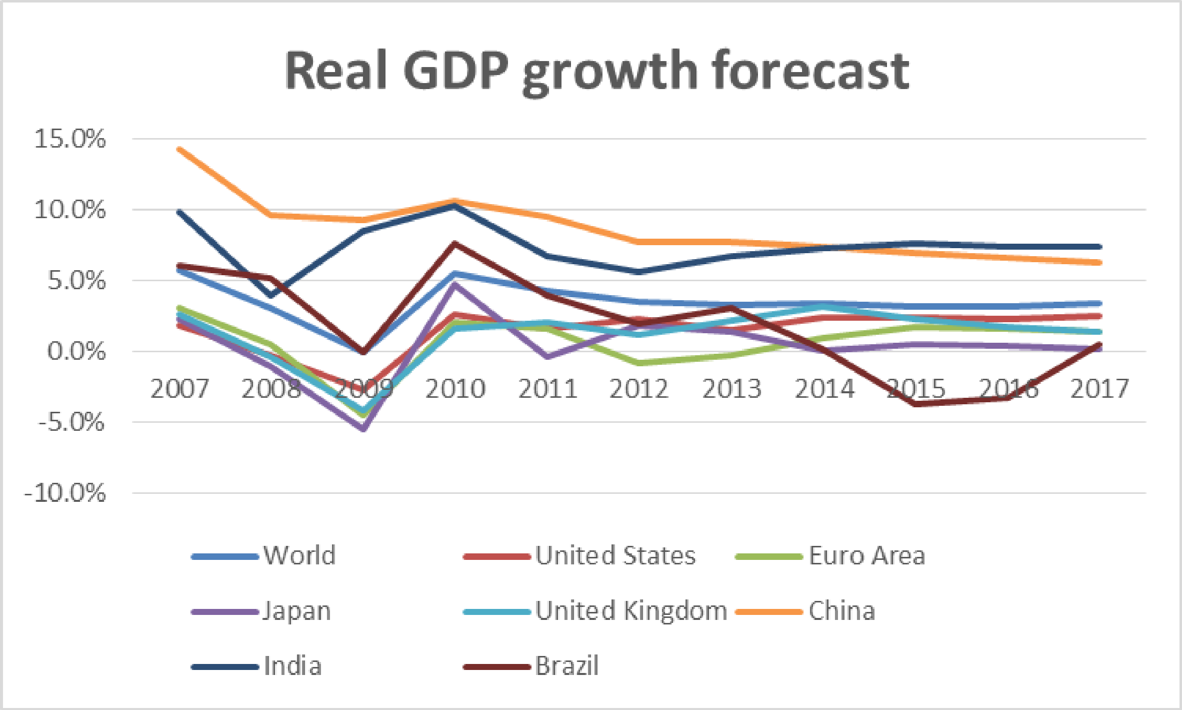
Stock market volatility, monthly data



Source: Datastream

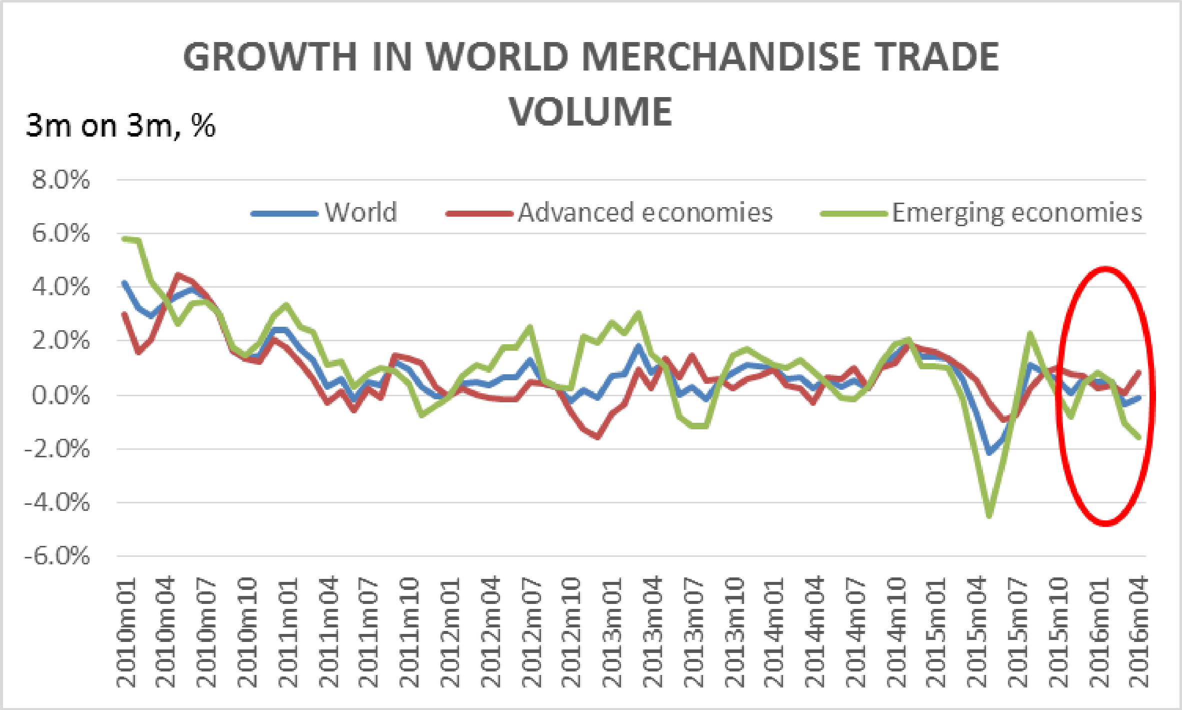
ECONOMIC RECOVERY STILL EXPECTED TO STRENGHTEN FROM NEXT YEAR…



Source: IMF

- The global recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging markets, as conditions in stressed economies start to gradually improve
- But uncertainty has increased, and growth outlook is subject to substantial downside risks

TRADE VOLUMES AFFECTED SIGNIFICANTLY BY SLOW ECONOMIC GROWTH

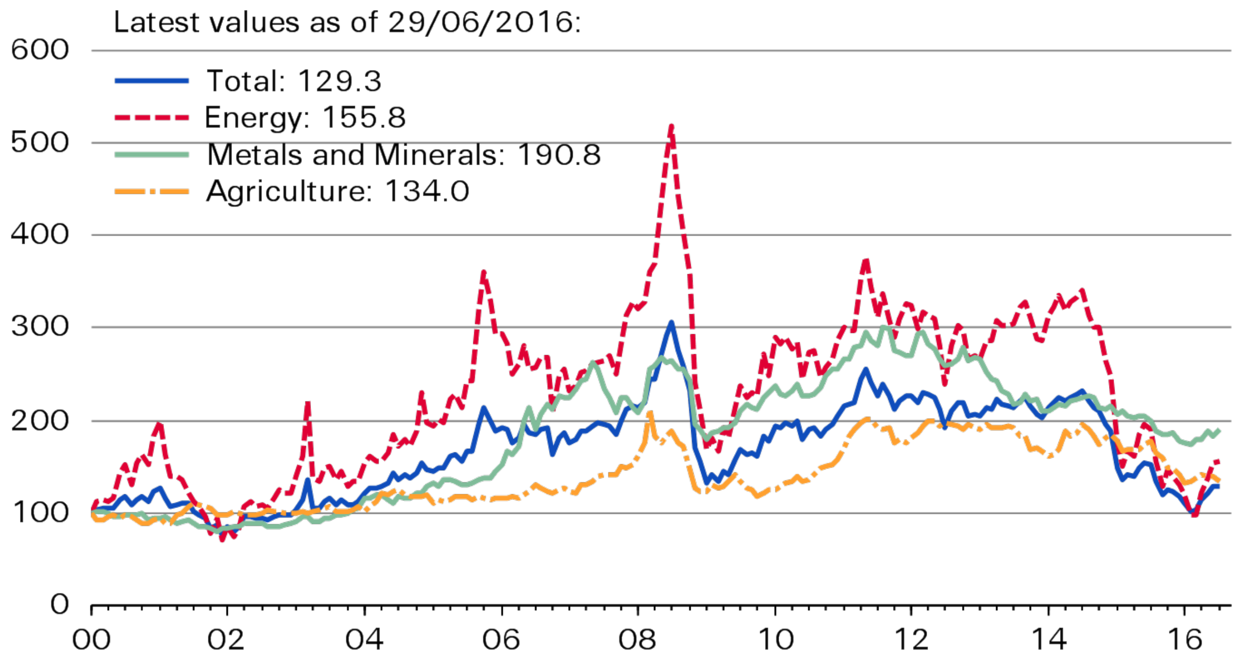


Source: CPB Netherlands Bureau for Economic Policy Analysis

- 2015 was a very volatile year for world trade; sharp drop in the first half of the year was followed by some recovery in the second half
- But upward momentum in the second half of 2015 has not been sustained; world trade slowed again in the first few months of 2016
- Import/export volumes of emerging economies have been especially weak in recent months, mainly due to a very weak performance in Asia

COMMODITY PRICES REMAIN WEAK, ALTHOUGH ABOVE THE LOWS OF THE EARLY 2000s

Bank of Canada, Commodity price indices, weekly data, (indexed to Jan 2000=100)



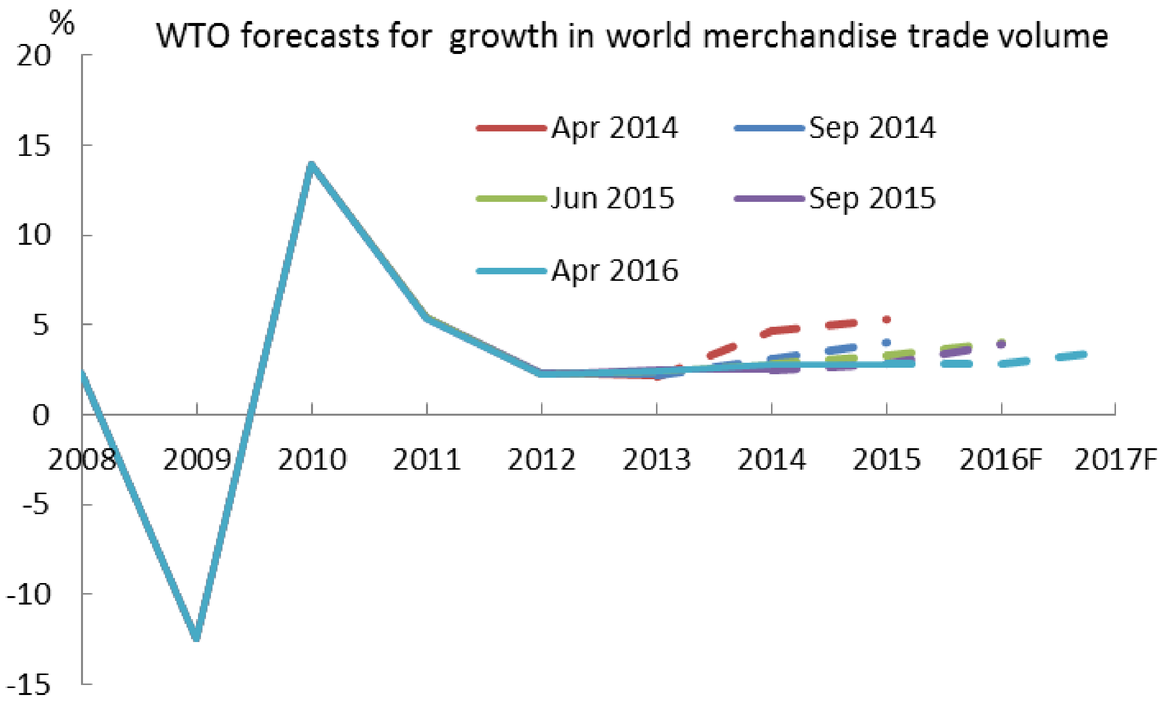
Source: Datastream

Note: Total index includes energy, metals & minerals, agriculture, forestry and fish

DIRECT LONG-RUN RELATIONSHIP BETWEEN GDP AND TRADE WEAKENING

Source: IMF

FORECAST INCREASE IN TRADE REMAINS LOW, TRACKING GDP



Source: WTO

SHIPPING MARKET

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FREIGHT RATES REMAIN CLOSE TO ALL TIME LOWS, DUE TO WEAK GLOBAL DEMAND AND CONTINUED EXCESS SHIPPING CAPACITY

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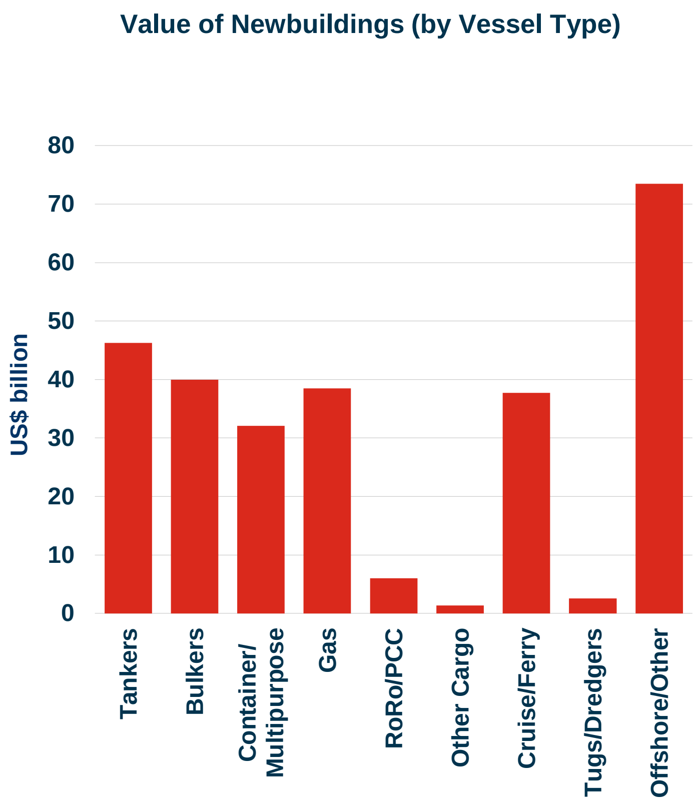
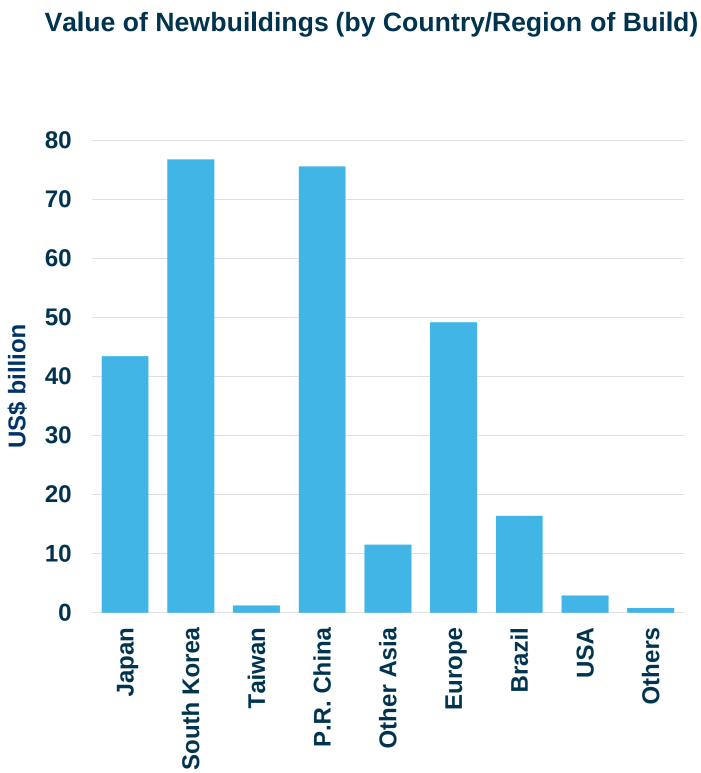
- The Baltic Dry index, a measure of global trade in bulk commodities, has been touching historic lows.
- China, which in 2014 overtook the US as the world's biggest trading nation, reported double-digit fall in both exports and imports in January.
- Brazil imports from China have collapsed, as country is still experiencing worst recession in more than a century

VALUE OF NEWBUILDINGS



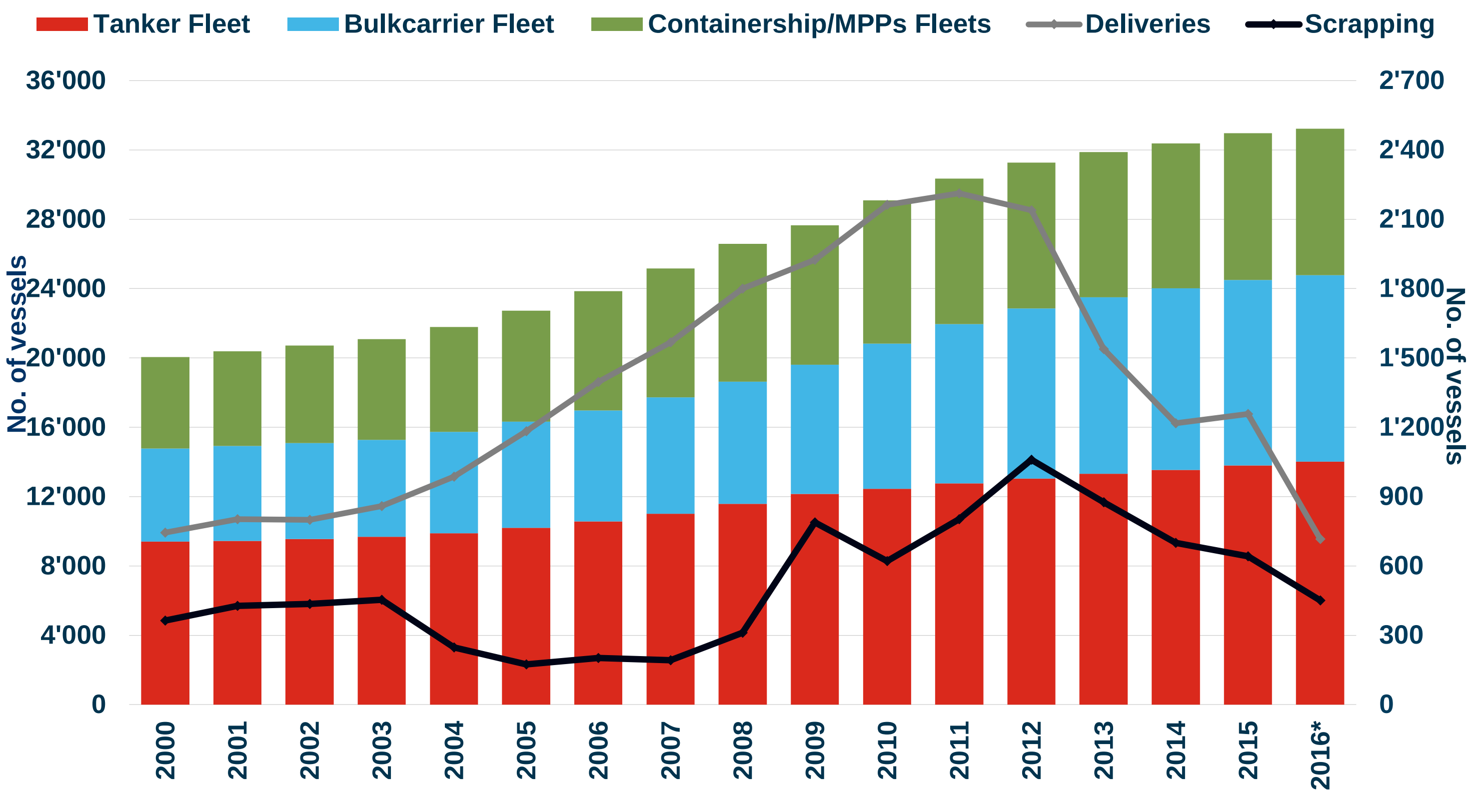
Source: Clarksons Research, August 2016



Source: Clarksons Research, August 2016

Total value of Newbuilding orderbook (1st August 2016): US$277.9 bn (at contracted values) = 5% decrease compared to previous year

TANKER, BULKCARRIER, CONTAINERSHIP AND MULTIPURPOSE FLEETS

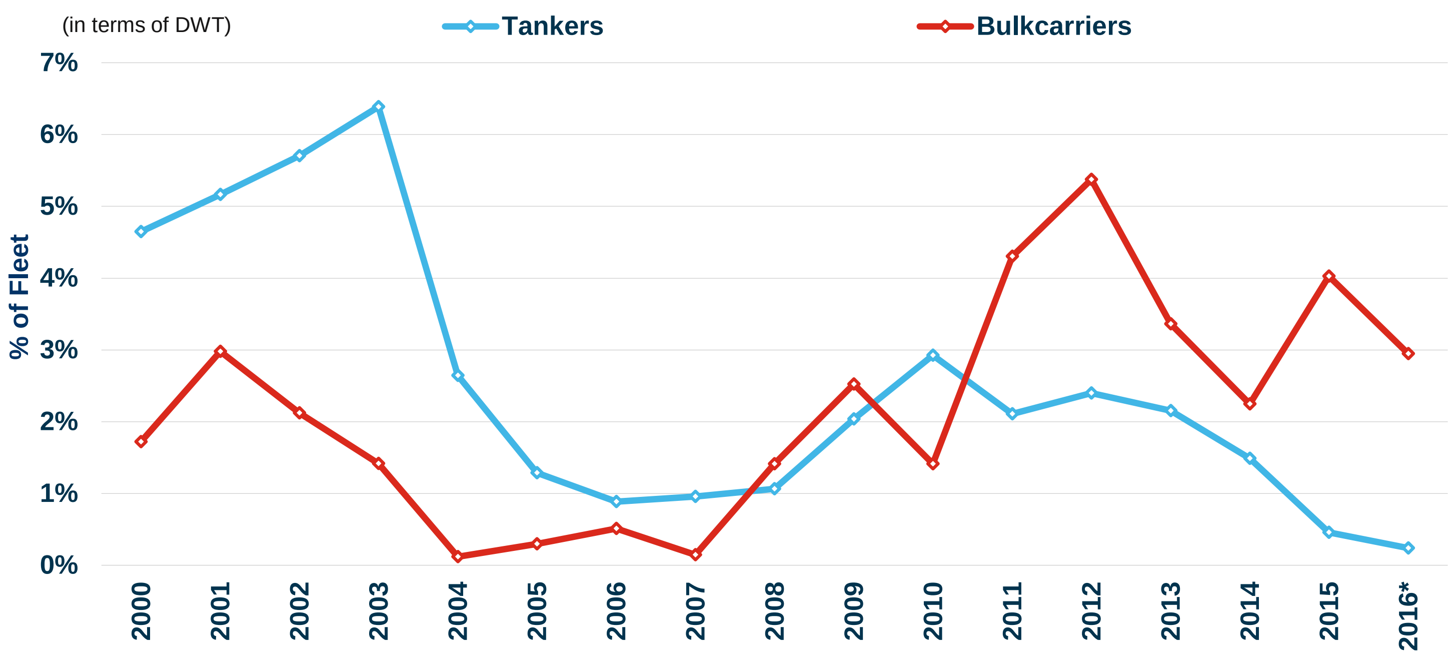


Source: Clarksons Research, August 2016

Note (1): Includes all vessels in these categories above 100 GT.

Note (2): All fleet totals are on the left-hand axis and deliveries and scrapping figures are on the right hand axis. Fleet totals are as at year end; deliveries and scrapping figures are full year totals.
Note (3): 2016* = year to date.

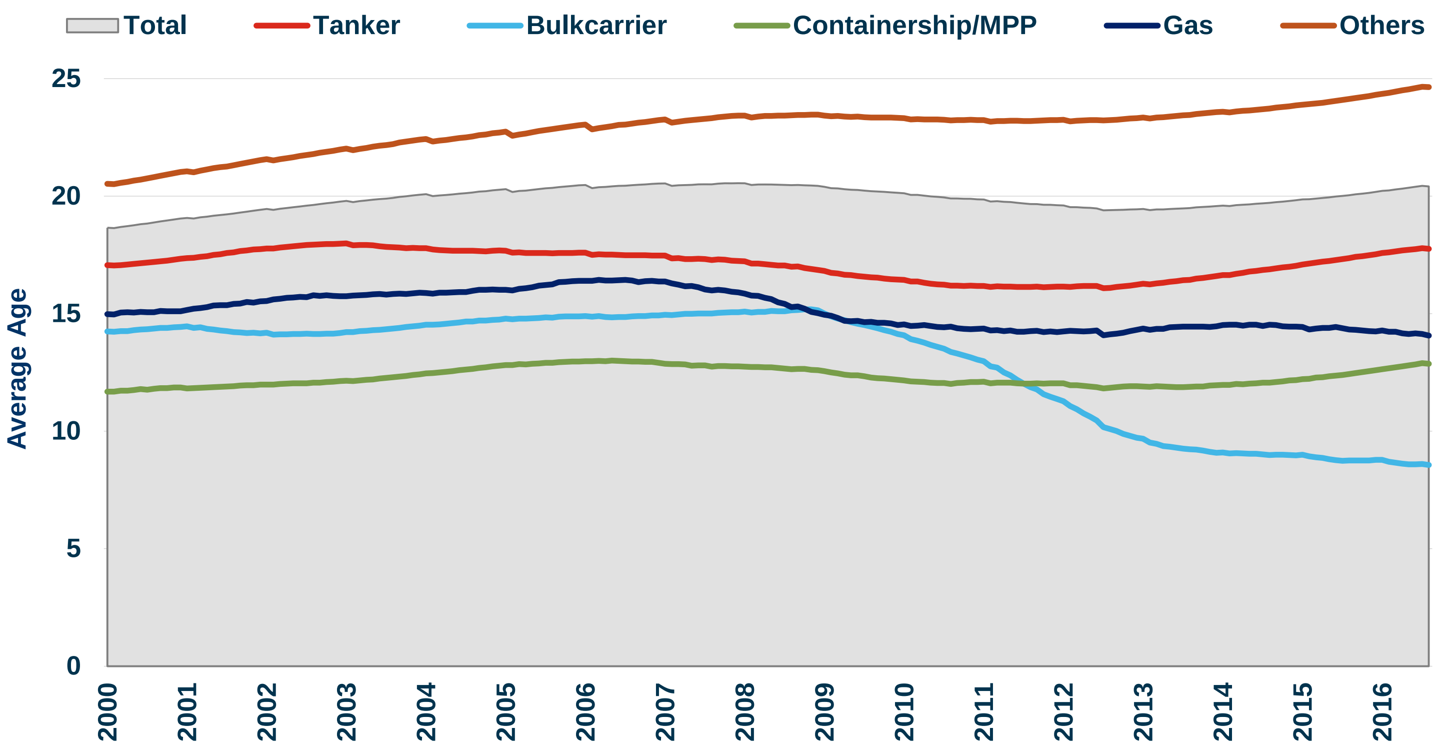
DEMOLITION AS PERCENTAGE OF TANKER AND BULKCARRIER FLEETS



Source: Clarksons Research, August 2016

Note (1): 2016* = year to date.

AVERAGE AGE OF THE WORLD FLEET 2000-2016



Source: Clarksons Research, August 2016

Note (1): Includes all vessels in these categories above 100 GT.

Note (2): Average age is calculated using number of vessels. Calculations are based on year and month of construction.

OUTLOOK

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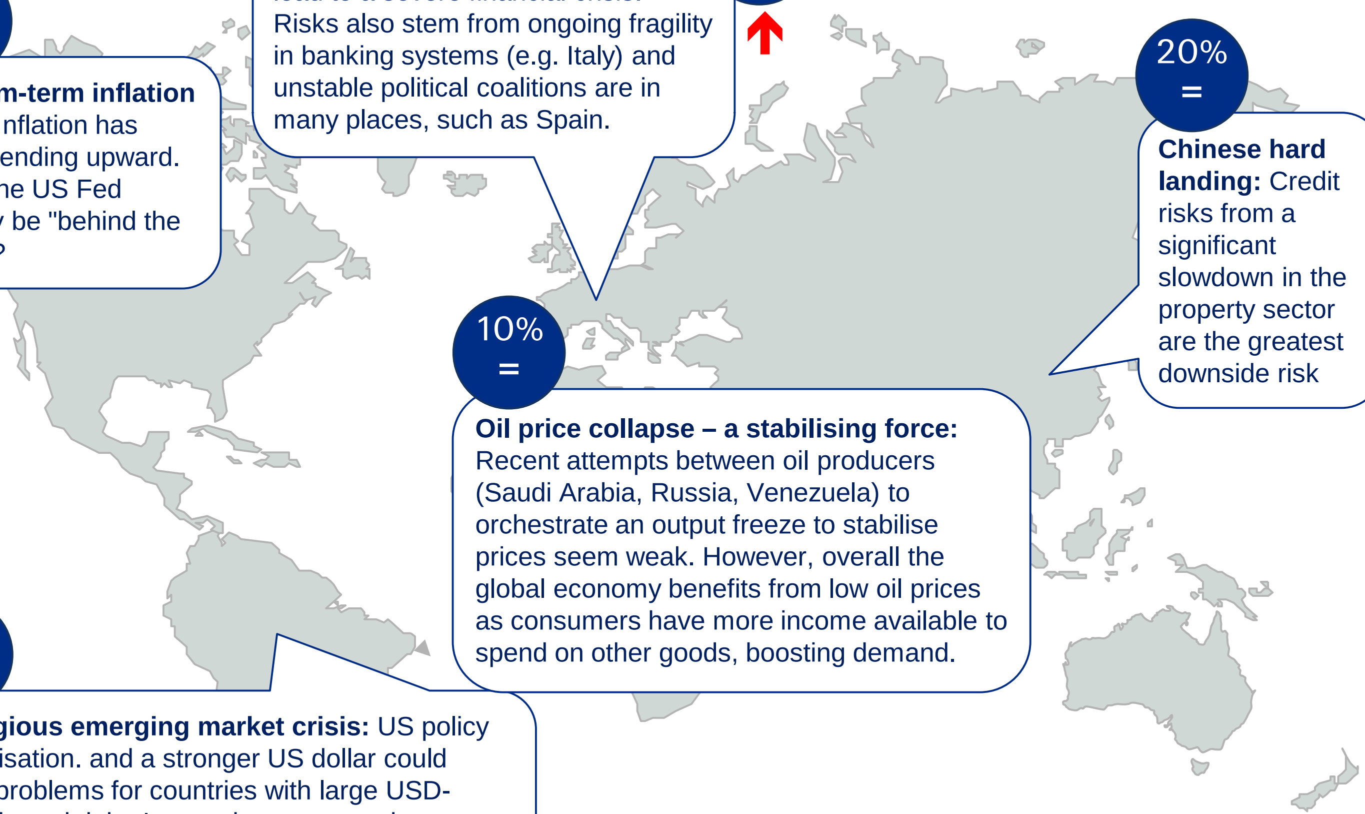
THREAT FROM GLOBAL FINANCIAL SECTOR



10%
=

Medium-term inflation risks: Inflation has been trending upward. could the US Fed already be "behind the curve”?

10%

Recession in the Euro area: Brexit could destabilise the Euro area and lead to a severe financial crisis. Risks also stem from ongoing fragility in banking systems (e.g. Italy) and unstable political coalitions are in many places, such as Spain.

20%
=

Chinese hard landing: Credit risks from a significant slowdown in the property sector are the greatest downside risk

10%
=

Oil price collapse – a stabilising force: Recent attempts between oil producers (Saudi Arabia, Russia, Venezuela) to orchestrate an output freeze to stabilise prices seem weak. However, overall the global economy benefits from low oil prices as consumers have more income available to spend on other goods, boosting demand.

15%
=

Contagious emerging market crisis: US policy normalisation. and a stronger US dollar could cause problems for countries with large USD-denominated debt. In an adverse scenario, investor panic could lead to a major withdrawal of funds from many Emerging Markets (contagion).

Source: Swiss Re Economic Research & Consulting

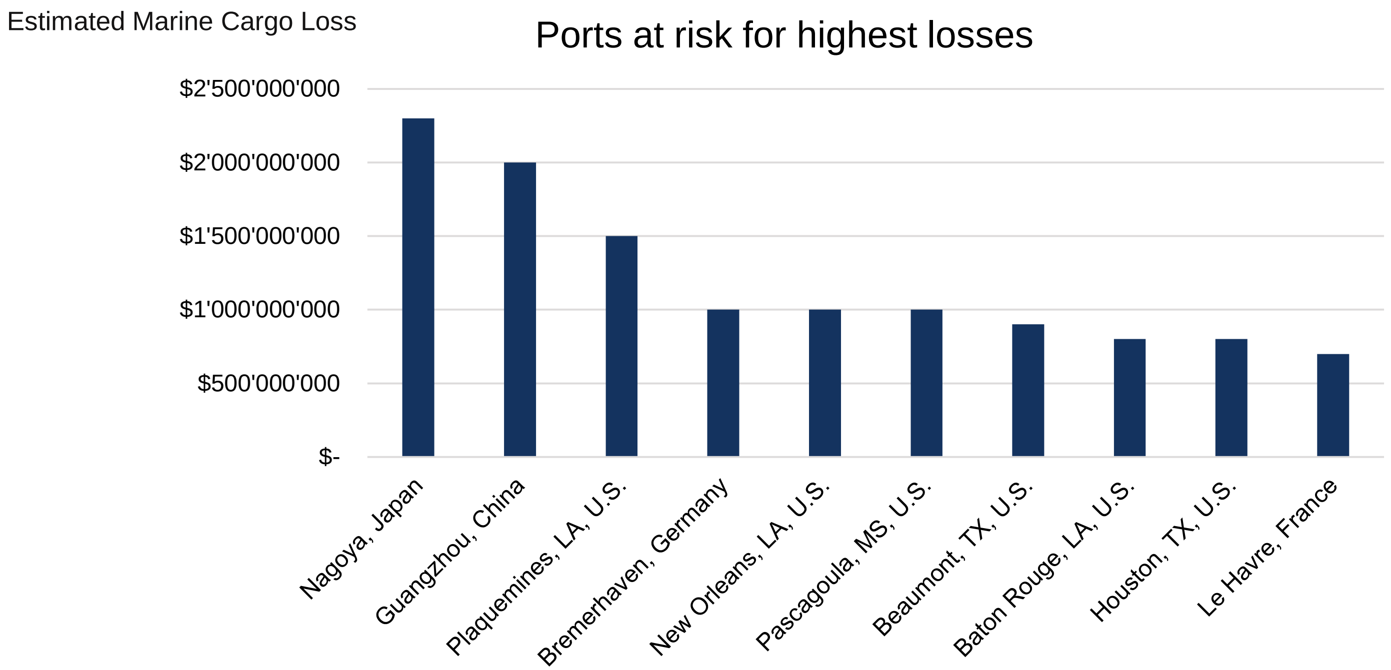
TOP RISKS - GLOBAL RISK MANAGERS'S PERCEPTION

Top 10 corporate risks:	Insurable:
Damage to reputation/brand	✘
Economic slowdown/slow recovery	✘
Regulatory/legislative changes	✘
Increasing competition	✘
Failure to attract or retain top talent	✘
Failure to innovate/meet customer needs	✘
Business interruption	
Third-party liability	✓
Computer crime/hacking/etc	
Property damage	✓

AON Global Risk Management Survey 2015;
sample size 1418

MARINE TOP RISK ACCUMULATION IN PORTS

(1 in 500 year modelled catastrophe loss for earthquake, wind, and storm surge perils)

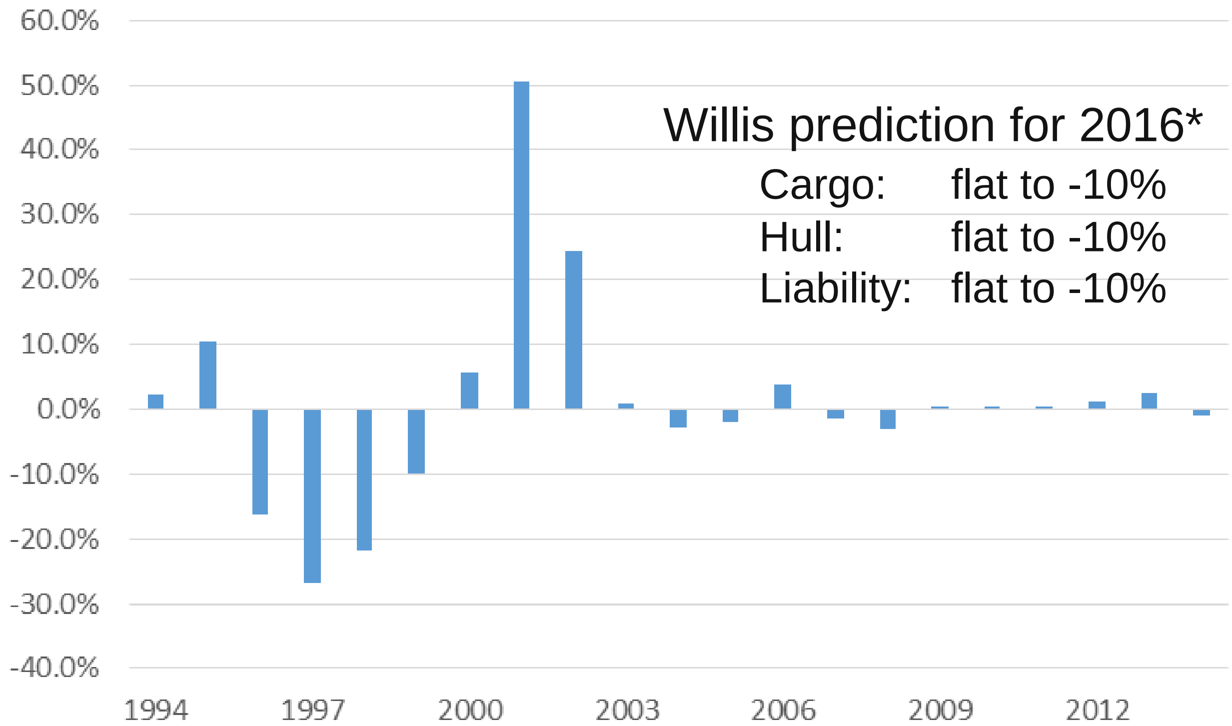


Source: RMS (Risks Management Solutions)

- Not just the biggest container hubs have a high risk of loss, but also smaller ports due to their cargo type and the natural hazards they face
- No strong correlation between port's size and ist catastrophe loss potential
- The modeling takes into account: cargo type (e.g. autos, bulk grains, electronics specie), precise storage location (e.g. coastal, estuarine, waterside or within dock complex), storage type (e.g. open air, warehouse, container – stacked or ground level), dwell time (which can vary due to port automation, labor relations and import/export ratios)

SOFT MARKET CONDITIONS PERSIST

Annual change in risk-adjusted premium rates - marine



Willis prediction for 2016*

Cargo:	flat to -10%
Hull:	flat to -10%
Liability:	flat to -10%

Source: Lloyd's of London and Willis

* As of end-December 2015.

SUMMARY

Global growth is expected to gradually pick up	▪ The US expansion is supported by consumer spending and low oil prices. ▪ Underlying factors restraining growth persist in Europe, although monetary policy remains supportive. ▪ Growth in oil-importing emerging markets will gradually improve.
Risks deviated to the downside	▪ Europe risks: 1) Brexit - hit to trade and business/household confidence 2) Financial market contagion (e.g. Italian banking sector). ▪ China hard-landing (20%) on the back of worries about private sector debt build-up as it transitions to a more balanced growth path. ▪ Capital flight from emerging markets as worries about US policy normalization and strong US dollar intensify.
Monetary policy and interest rates likely to diverge further	▪ Monetary policy in US is expected to retain a tightening bias. BoE and ECB likely to delay any narrow; economies may in fact, need additional stimulus. ▪ Yields on US and UK long-term government bonds likely to remain very low in the short term. ▪ Increased tensions in financial markets reflecting heightened economic uncertainty.

Source: Swiss Re Economic Research & Consulting

IMPACT ON MARINE INSURANCE

- Economic and financial market uncertainty remains the only constant
- The global economic recovery is expected to continue, supported by a near-term recovery in key emerging markets, although there are significant downside risks to the outlook
- The accompanying growth in world trade should support marine insurance demand. But marine insurers need to adapt the reality that a structural shift in the trade intensity of production, means lower long-term premium volume growth
- Moreover, although there is some consolidation in the sector, abundant capacity will maintain pressure on insurance pricing, which will consequently slow down premium growth and profitability
- Such intense competitive conditions are likely to determine a further stabilization in the sector, including M&A, as leading players compete for market position and explore ways to re-deploy capital efficiently

THANK YOU

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