

CONVERIUM HOLDING AG

Form 20-F

April 18, 2003

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 333-14106

CONVERIUM HOLDING AG

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Switzerland

(Jurisdiction of incorporation or organization)

Baarerstrasse 8

CH-6300 Zug

Switzerland

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Name of each Exchange on which registered</u>
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one-half (1/2) of one registered share, nominal value CHF10 per share	New York Stock Exchange
Registered shares, nominal value CHF10 per share*	New York Stock Exchange
8.25% Guaranteed Subordinated Notes due 2032 issued by Converium Finance S.A.	New York Stock Exchange
Subordinated Guarantee of Subordinated Notes+	New York Stock Exchange

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Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

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+ Not for trading, but only in connection with the listing of the Subordinated Notes, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2002, there were outstanding: 39,904,647 registered shares, nominal value CHF10 per share, including 7,855,604 American Depositary Shares (as evidenced by American Depositary Receipts), each representing one-half (1/2) of one registered share.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **No**

Indicate by check mark which financial statement item the registrant has elected to follow.

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PRESENTATION OF INFORMATION

In this annual report on Form 20-F, unless the context otherwise requires, Converium, we, us, and our refer to Converium Holding AG and our consolidated entities. Please refer to the glossary beginning on page G-1 for definitions of selected insurance and reinsurance terms.

We publish our financial statements in U.S. dollars, and unless we note otherwise, all amounts in this annual report are expressed in U.S. dollars. As used herein, references to U.S. dollars, dollars or \$ and cents are to U.S. currency, references to Swiss francs or CHF are to Swiss currency, references to yen or Japanese yen are to Japanese currency, references to British pounds or £ are to British currency and references to euro or € are to the single European currency of the member states of the European Monetary Union at the relevant time.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements.

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In particular, statements using words such as expect, anticipate, intend, believe or words of similar import generally involve forward-looking statements. This annual report includes a number of forward-looking statements, including the following:

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certain statements in Item 4. Information on the Company B. Business Overview with regard to strategy and management objectives, trends in market conditions, prices, market standing and product volumes, investment results, litigation and the effects of changes or prospective changes in regulation

certain statements in Item 4. Information on the Company B. Business Overview Regulation with regard to the effects of changes or prospective changes in regulation

certain statements in Item 5. Operating and Financial Review and Prospects with regard to trends in results, prices, volumes, operations, investment results, margins, overall market trends, risk management and exchange rates

certain statements in Item 11. Quantitative and Qualitative Disclosures About Market Risk with regard to sensitivity analyses for invested assets

In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements should not be considered a representation by us that objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those in the forward-looking statements, including factors set forth in Item 3. - Key Information D. Risk Factors and the following:

cyclicality of the reinsurance industry

uncertainties in our reserving process

the occurrence of natural and man-made catastrophic events with a frequency or severity exceeding our estimates

acts of terrorism and acts of war

changes in economic conditions, including interest and currency rate conditions that could affect our investment portfolio

actions of competitors, including industry consolidation and development of competing financial products

a decrease in the level of demand for our reinsurance or increased competition in our industries or markets

the lowering or loss of one of the financial or claims-paying ratings of one or more of our subsidiaries

political risks in the countries in which we operate or in which we reinsure risks

the passage of additional legislation or the promulgation of new regulation in a jurisdiction in which we operate or where our subsidiaries are organized

changes in our investment results due to the changed composition of our invested assets or changes in our investment policy

failure of our retrocessional reinsurers to honor their obligations

failure to prevail in any current or future arbitration or litigation

risks associated with implementing our business strategies

extraordinary events affecting our clients, such as bankruptcies and liquidations

The factors listed above should not be construed as exhaustive. We cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. Except as otherwise required by law, we undertake no obligation to publicly release any future revisions we may make to forward-looking statements to reflect events or circumstances or to reflect the occurrence of unanticipated events.

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The Company has made it a policy not to provide any quarterly or annual earning guidance and it will not update any past outlook for full year earnings. It will, however, provide investors with perspective on its value drivers, its strategic initiatives and those factors critical to understanding its business and operating environment.

PART I**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. SELECTED FINANCIAL AND OTHER DATA**

We prepare our consolidated and historical combined financial statements (financial statements) included in this annual report in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The following financial data highlights selected information that is derived from our financial statements as of and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998, which have been audited by PricewaterhouseCoopers AG, independent accountants.

Converium was formed as a result of the divestiture of the former Zurich Re business of Zurich Financial Services in December 2001. For a description of the transactions that led to the divestiture, which we refer to herein as the Formation Transactions, see Item 4. Information on the Company A. History and Development of the Company. The financial statements are presented as if we had been a separate entity for all periods presented. The financial statements include estimates related to the allocation to Converium of costs of Zurich Financial Services corporate infrastructure prior to the Formation Transactions. We believe that these allocations are reasonable. However, this financial information may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a stand-alone entity during the periods covered.

	Year ended December 31				
	2002	2001	2000	1999	1998
(\$ million, except per share information)					
Income statement data:					
Revenues:					
Gross premiums written	\$ 3,535.8	\$ 2,881.2	\$ 2,565.8	\$ 1,928.7	\$ 1,458.8
Less ceded premiums written	(213.6)	(398.6)	(569.8)	(358.5)	(213.7)
Net premiums written	3,322.2	2,482.6	1,996.0	1,570.2	1,245.1
Net change in unearned premiums	(156.7)	(187.4)	(134.5)	(168.7)	(17.7)
Net premiums earned	3,165.5	2,295.2	1,861.5	1,401.5	1,227.4
Net investment income	251.8	228.7	176.0	214.0	255.4
Net realized capital (losses) gains	(10.3)	(18.4)	83.7	76.3	78.9
Other (loss) income	(1.2)	(5.8)	29.3	22.1	24.8
Total revenues	3,405.8	2,499.7	2,150.5	1,713.9	1,586.5

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Benefits, losses and expenses:					
Total losses, loss adjustment expenses and life benefits	(2,492.0)	(2,300.5)	(1,604.5)	(1,138.7)	(917.3)
Total costs and expenses	(856.4)	(678.7)	(587.5)	(470.6)	(484.7)
Amortization of goodwill (1)		(7.8)	(7.3)	(6.2)	(6.2)
Restructuring costs		(50.0)			
Total benefits, losses and expenses	(3,348.4)	(3,037.0)	(2,199.3)	(1,615.5)	(1,408.2)
Income (loss) before taxes	57.4	(537.3)	(48.8)	98.4	178.3
Income tax benefit (expense)	49.4	169.9	19.5	(40.6)	(62.0)
Net income (loss)	\$ 106.8	\$ (367.4)	\$ (29.3)	\$ 57.8	\$ 116.3

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	Year ended December 31				
	2002	2001	2000	1999	1998
	(\$ million, except per share information)				
Earnings (loss) per share:					
Number of shares (millions) (2)	39.9	40.0	40.0	40.0	40.0
Basic earnings (loss) per share	\$2.68	\$(9.18)	\$(0.73)	\$1.45	\$2.91
Diluted earnings (loss) per share	2.64	(9.18)	(0.73)	1.45	2.91

	Year ended December 31				
	2002	2001	2000	1999	1998
	(\$ million, except per share information)				
Balance sheet data:					
Total invested assets	\$ 6,117.3	\$4,915.9	\$4,349.7	\$4,232.8	\$3,898.1
Total assets	12,051.0	9,706.5	8,321.3	6,916.0	6,290.9
Reinsurance liabilities	9,454.8	7,677.9	6,486.6	5,048.9	4,409.9
Debt	390.4	197.0	196.9	196.8	196.7
Total liabilities	10,313.0	8,135.7	7,232.9	5,694.6	5,060.6
Total equity	1,738.0	1,570.8	1,088.4	1,221.4	1,230.3
Book value per share	43.55	39.27	27.21	30.54	30.76

	Year ended December 31				
	2002	2001	2000	1999	1998
	(\$ million)				
Other data:					
Net premiums written by segment:					
Converium Zurich	\$1,670.5	\$1,185.0	\$ 818.3	\$ 569.5	\$ 439.9
Converium North America	1,193.9	898.4	844.7	677.3	533.3
Converium Cologne	289.8	257.8	218.6	238.6	209.3
Converium Life	168.0	141.4	114.4	84.8	62.6
Total net premiums written	\$3,322.2	\$2,482.6	\$1,996.0	\$1,570.2	\$1,245.1
Non-life combined ratio	104.2%	129.0%	116.5%	112.5%	111.8%
Adjusted non-life combined ratio (3)	99.3%	108.8%	112.8%	122.3%	132.3%
Ratio of earnings to fixed charges (4)	3.7	(5)	(6)	5.9	10.6

(1) For a discussion on goodwill and Converium's compliance with SFAS 142, see Notes 2(k) and 7 to our consolidated financial statements

(2) Immediately following the Formation Transactions, we had 40,000,000 shares outstanding. Therefore, these shares are considered outstanding for all prior periods presented.

(3) The adjusted non-life combined ratio is calculated excluding prior years' reserve development and September 11th terrorist attacks.

The table below presents the adjustments for non-life net premiums written, net premiums earned and total losses and loss adjustment expenses related to prior years' reserve development and September 11th terrorist attacks.

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Dividends

For a discussion of our dividend policy, see Item 8. Financial Information A. Consolidated Statements and Other Financial Information Dividends and Dividend Policy.

B. CAPITALIZATION AND INDEBTEDNESS

In December 2002, Converium Finance S.A., a newly formed Luxembourg company, issued \$200.0 million principal amount of non-convertible, unsecured, guaranteed subordinated notes (the Guaranteed Subordinated Notes). The Guaranteed Subordinated Notes are irrevocably and unconditionally guaranteed on a subordinated basis by each of Converium Holding AG and Converium AG. The Guaranteed Subordinated Notes mature in full on December 23, 2032 and bear interest at the rate of 8.25% paid quarterly in arrears on March 15, June 15, September 15 and December 15.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Cyclicality of the reinsurance industry may cause fluctuations in our results

The insurance and reinsurance industries, particularly the non-life market, are cyclical. Historically, operating results of reinsurers have fluctuated significantly because of volatile and sometimes unpredictable developments, many of which are beyond their direct control. These developments include:

price competition

frequency of occurrence or severity of both natural and man-made catastrophic events

levels of capacity and demand

general economic conditions

changes in legislation, case law and prevailing concepts of liability

As a result, the reinsurance business historically has been characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of underwriting capacity permitted attractive premium levels. We expect to continue to experience the effects of this cyclicality, which could have a material adverse effect on our financial condition, results of operations or cash flows.

Our loss reserves may not adequately cover future losses and benefits

Our loss reserves may prove to be inadequate to cover our actual losses and benefits experience. To the extent loss reserves are insufficient to cover actual losses, loss adjustment expenses or future policy benefits, we would have to add to these loss reserves and incur a charge to our earnings which could have a material adverse effect on our financial condition, results of operations or cash flows.

Loss reserves do not represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of losses. All of our loss reserve estimates are based on actuarial and statistical projections, at a given time, of facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability and general economic conditions. Changes in these trends or other variable factors could result in claims in excess of our loss reserves.

Unforeseen losses, the type or magnitude of which we cannot predict, may emerge in the future. These additional losses could arise from newly acquired lines of business, changes in the legal environment, extraordinary events affecting our clients such as reorganizations and liquidations or changes in general economic conditions. We continue to conduct pricing and loss reserving studies for many casualty lines of business, including those in which preliminary loss trends are noted. For example, the Converium North America loss reserve analysis that resulted in our recording provisions for additional losses on our automobile excess, medical excess, professional liability (nursing homes) and umbrella liability lines of business in the third quarter and fourth quarters of 2002, also revealed that similar trends may be developing in other liability lines of business that we wrote in the years 1997 to 2000. Converium North America finalized its loss reserve analysis that resulted in the recording of additional provisions for losses on its commercial

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umbrella, miscellaneous casualty (particularly professional liability, nursing homes), medical errors and omissions liability, motor liability, and workers' compensation lines of business of \$70.3 million net for the fourth quarter 2002, which are in addition to the \$47.0 million that were recorded during the third quarter 2002. These additional provisions are the result of the continued emergence of increased reported losses versus expected losses related to prior years.

In addition, because we, like other reinsurers, do not separately evaluate each of the individual risks assumed under reinsurance treaties, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that our ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded to us may not adequately compensate us for the risks we assume.

We had \$6,821.3 million of gross reserves and \$5,361.5 million of net reserves for losses and loss adjustment expenses as of December 31, 2002. If we underestimated these net reserves by 5%, this would have resulted in \$268.1 million of incurred losses and loss adjustment expenses, before income taxes, for the year ended December 31, 2002.

Our exposure to catastrophic events, both natural and man-made, may cause unexpected large losses

A catastrophic event or multiple catastrophic events may cause unexpected large losses and could have a material adverse effect on our financial condition, results of operations or cash flows. Natural catastrophic events to which we are exposed include windstorms, hurricanes, earthquakes, tornadoes, severe hail, severe winter weather, floods and fires, and are inherently unpredictable in terms of both their occurrence and severity. For example, in 1999 and 2002, the reinsurance industry suffered losses from windstorms and flooding in Europe. These events adversely affected our results.

We are also exposed to man-made catastrophic events, such as the terrorist attacks of September 11, 2001, which are difficult to predict and may have a significant adverse impact on our industry and on us. It is possible that both the frequency and severity of man-made catastrophic events will increase.

As a result, claims from natural or man-made catastrophic events could cause substantial volatility in our financial results for any period and adversely affect our financial condition or results of operations. Our ability to write new business could also be impacted. We believe that increases in the value and geographic concentration of insured property and the effects of inflation will increase the severity of claims from catastrophic events in the future.

The extent of our losses from catastrophic occurrences is a function of the total insured amount of losses our clients incur, the number of our clients affected, the frequency of the events and the severity of the particular catastrophe. In addition, depending on the nature of the loss, the speed with which claims are made and the terms of the policies affected, we may be required to make large claims payments upon short notice. We may be forced to fund th