

News release

Swiss Re's 2018 SONAR report examines emerging risks the re/insurance industry and society are facing

- Swiss Re's SONAR report features 18 emerging risk themes and 7 emerging trend spotlights the re/insurance industry needs to have on its radar
- Emerging geopolitical risks, the re-emergence of asbestos and risks from new technologies such as cyber, biased algorithm or the erosion of risk diversification pose the largest challenges
- Other risks are in the health and environmental area, such as people sleeping less and issues around environmental liability
- The yearly SONAR report aims to spark an informed dialogue about what future risk landscape might lie ahead

Zurich, 31 May 2018 – Emerging geopolitical risks, the re-emergence of asbestos, especially in high growth markets, but also risks arising from new technologies such as cyber risks, biased algorithm and the erosion of risk diversification are some of the key risks identified in this year's SONAR report published today. The publication is based on the SONAR process, a crowdsourcing tool drawing on Swiss Re's unique internal risk management expertise to pick up early signals of what lies beyond the horizon.

The identified risks are relevant to life and non-life insurance areas as well as asset management. They are presented with the goal of helping industry players prepare for new scenarios by adapting their behaviour, market conduct and product portfolios.

The five top risks with the highest potential impact are:

A brave new world? – Emerging geopolitical risk: A new multi-polar world is evolving in the geopolitical landscape as power drifts to Asia, democratic influences decline and the relevance of global governance institutions erodes. Possible turmoil in financial markets and possible erosion of legal rules could threaten the ability to run global businesses.

A slow poison – the erosion of risk diversification: Broad diversification and the free flow of capital are key to run a global re/insurance business. National protectionism and regulatory fragmentation are jeopardizing the benefits of international diversification.

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Asbestos reloaded – USD 100 billion in losses and counting: Not all countries have banned asbestos. The UN estimates that one third of the people living in Europe are potentially exposed to asbestos at work or in the environment.

Coming back to bite us – lurking cyber risks: Some flaws and vulnerabilities in hardware and software may remain undetected for a long time. These dormant threats can have a very long tail risk.

Algorithms are only human too – opaque, biased and misled: An increasing number of business processes are driven by algorithms. Often, algorithms are portrayed as being objective, without human bias. But algorithmic applications are not infallible, they base their actions on human judgement as well. Discriminatory bias may also translate into defective modelling and prediction, bringing a two-fold risk to insurance and other industries.

"Our SONAR report is not about forecasting the future or covering all emerging risks, but rather about preparing for its potentialities", says Patrick Raaflaub, Swiss Re's Group Chief Risk Officer. "The more transparency and the more time we have, the better we can adapt to the changing risk landscape", Raaflaub adds.

The report offers insights into emerging risks and highlights a number of emerging trend spotlights. Emerging risks are newly developing or evolving risks that are difficult to quantify, but potentially have a significant impact on the industry and society. Emerging trend spotlights examine early development, which may offer both opportunities and risks for the insurance industry in the future. The report is distributed among clients and the wider stakeholder community in order to inform the debate about emerging risks and facilitate the finding of solutions.

Table: Overview of the 18 new emerging risks and their potential impact over time

Overview

Emerging risk themes by potential impact and timeframe

0–3 years

  A brave new world? – Emerging geopolitical risk  A slow poison – the erosion of risk diversification	  Towering infernos – combustible cladding  You pollute it, you own it – environmental liability and insurance	 The dangers of shiny objects – tech hypes, fails and fraud  Funny money? – Do we need to worry about cryptocurrencies?   Who’s on watch – colliding ships   Faking it – the business of counterfeit medicine
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> 3 years

  Asbestos reloaded – USD 100 billion in losses and counting  Coming back to bite us – lurking cyber risks   Algorithms are only human too – opaque, biased, misled	  Eyes wide shut – the world is sleeping less   Paradise lost – the price of ecosystem services   Dumbed down – is digitisation undermining human skills?  Fed up? – Uncertain future of monetary policy regimes	  The plastic in our veins – health risks from tiny particles  Your printed heart – longer lives for artificial organs?  Inked in – the risk of tattoos
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Most affected business areas				Potential impact		
 Property	 Life & Health	 Operations (incl. legal and regulatory)	 High	 Medium	 Low	
 Casualty	 Financial markets					

Notes to editors:

Join the discussion on Twitter: #SRSonar18 and check out our infographic(s).

Read the Swiss Re SONAR 2018 report here:

http://www.swissre.com/library/archive/Swiss_Re_SONAR.html

And visit the Swiss Re Institute's website:

<http://institute.swissre.com/>

Swiss Re

The Swiss Re Group is one of the world's leading providers of reinsurance, insurance and other forms of insurance-based risk transfer, working to make the world more resilient. It anticipates and manages risk – from natural catastrophes to climate change, from ageing populations to cyber crime. The aim of the Swiss Re Group is to enable society to thrive and progress, creating new opportunities and solutions for its clients. Headquartered in Zurich, Switzerland, where it was founded in 1863, the Swiss Re Group operates through a network of around 80 offices globally. It is organised into three Business Units, each with a distinct strategy and set of objectives contributing to the Group's overall mission.

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Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase", "may fluctuate" and similar expressions, or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- the cyclical nature of the insurance and reinsurance sectors;
- instability affecting the global financial system;
- deterioration in global economic conditions;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in the Group's investment policy or the changed composition of the Group's investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- the Group's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance

agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of the Group's financial strength or otherwise;

- any inability to realize amounts on sales of securities on the Group's balance sheet equivalent to their values recorded for accounting purposes;
- changes in legislation and regulation, and the interpretations thereof by regulators and courts, affecting us or the Group's ceding companies, including as a result of shifts away from multilateral approaches to regulation of global operations;
- the outcome of tax audits, the ability to realise tax loss carry forwards, the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings, and the overall impact of changes in tax regimes on business models;
- failure of the Group's hedging arrangements to be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- uncertainties in estimating reserves;
- policy renewal and lapse rates;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes and certain large man-made losses, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs, lower-than expected benefits, or other issues experienced in connection with any such transactions;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks and the ability to manage cybersecurity risks.

These factors are not exhaustive. The Group operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. Swiss Re undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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