

Swiss Re market research: further improvement in cat treaty conditions necessary – latest Swiss Re focus report underlines the insurability of floods

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A new Focus report by Swiss Re concludes that reinsurers should enter the 2003 renewal season with a “back-to-basics” approach to natural catastrophe underwriting. Cat reinsurance - meeting the sustainable level is being presented today at the reinsurance meetings being held in Baden-Baden, Germany, where Swiss Re is focusing on the insurance and reinsurance of natural disasters. Among the key issues being addressed by the reinsurer are the latest developments in the global reinsurance market and, given recent events, the insurance of flood-related risks. A further report - Floods are insurable! - is also being promoted at the annual industry gathering.

Premium rates in catastrophe reinsurance have staged a strong recovery over the last two years. Yet, according to cat market research carried out by Swiss Re, they are still below the level needed to achieve long-term targeted returns. In particular, reinsurers have yet to sufficiently recuperate the high cost of risk capital used to cover the major loss scenarios in the US, Japan and Europe. It was further found that in the previous, drawn-out soft market phase, reinsurers were repeatedly too generous in relaxing other reinsurance conditions and expanding cover.

In its Focus report entitled Cat reinsurance – meeting the sustainable level, Swiss Re’s natural catastrophe experts conclude that reinsurers writing cat business must go back to basics. During the upcoming renewals, emphasis in the negotiations should be placed on greater transparency, limited liability and tighter treaty conditions, in addition to premiums that adequately reflect the risk. Whilst demand for top-quality reinsurance security looks set to increase, available capacity will remain limited. Swiss Re itself is prepared to allocate its capacity on a selected basis in cases where the business offered matches its return targets and is aligned to its underwriting standards.

In the aftermath of the flooding in Europe, the insurance industry can play a bigger part

The devastating floods in Germany, Austria and the Czech Republic in the summer of 2002 acutely threatened, or even ruined, many livelihoods. This was largely due to the fact that only a comparatively small percentage of the material damage and economic losses was insured. The authors of Floods are insurable! maintain that this situation is highly unsatisfactory for the insurance industry, given the key societal function of insurance in providing economic security and facilitating rebuilding efforts by offering adequate insurance cover.

The impact of this year's large-scale disasters in Europe was mitigated by remarkably generous donations and government aid. In Swiss Re's opinion, funding catastrophe damage via voluntary donations and taxpayers' money is only the second-best solution. According to Ivo Menzinger, Head of Flood Group at Swiss Re: "An approach based on traditional insurance according to the solidarity principle is better for all concerned – and it is feasible: from an underwriting point of view, there is no reason why comprehensive cover for flood damage should not be available." This, says the report, is provided that the essential principles of insurability are observed, which presupposes a close partnership among the insurance industry, policyholders and governments.


Notes for editors:

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. Swiss Re reported a loss of CHF 165 million in 2001, predominantly due to losses from 11 September. In the 2001 financial year, gross premium volume amounted to CHF 28.5 billion. At the end of June 2002, Swiss Re's shareholders' equity amounted to CHF 18.3 billion and the total balance sheet stood at CHF 168 billion. Swiss Re is rated "AA+" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best.

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