

# News release

## Insurance industry needs to respond proactively to changing market dynamics in order to benefit from promising opportunities

- Market environment remains challenging, but short- and long-term opportunities for growth exist
- With an estimated 2 billion people globally having no access to insurance, addressing the protection gap is the most promising long-term opportunity along with the growth of risk pools
- Swiss Re expects the pricing environment to be broadly stable; largest P&C insurance markets need to improve underwriting margins to achieve sustainable return on equity

Monte Carlo, 10 September 2018 – Swiss Re sees some of the current improvements in the overall market environment as a chance for the insurance sector to embrace new market dynamics; for example, the increased use of digital solutions. Swiss Re expects companies that respond proactively with more relevant solutions and services in support of their customers' goals to benefit most from long-term opportunities. While the current environment is still influenced by an abundance of capital, rising interest rates are having a positive impact on long-tail lines of business in life and casualty insurance, as well as on the return profile of investment opportunities across the industry. Looking ahead, the continued growth of risk pools combined with the large and growing protection gap, represent the most significant growth opportunities for the industry.

Swiss Re's CEO Reinsurance, Moses Ojeisekhoba, says: "Together with our clients, we worked through a difficult environment after the 2017 natural catastrophe events. By paying claims and helping to rebuild, we could again demonstrate the value of sharing risks. Although the market environment remains competitive with an abundance of capital, the long-term opportunities that lie ahead are positive as we address the very large protection gap that still exists. I am optimistic about our future growth."

### Addressing the challenges and opportunities of a very large protection gap

The natural catastrophes in 2017 showed the importance of insurance coverage and once again highlighted the protection gap. It persists in emerging as well as in advanced markets, and across all lines of business – with a global estimated premium potential of USD 800 billion. Just to compare: The Swiss Re Institute estimates the global size of the insurance market to be at USD 4.7 trillion. Roughly 2 billion people worldwide have no

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access to insurance, resulting in a very large protection gap. Therefore, a real potential for the re/insurance industry exists to support the global population.

Global natural catastrophe losses totaled USD 2 trillion over the last decade, 70% of which were uninsured, according to estimates of the Swiss Re Institute. The uninsured losses from natural disaster events are expected to exceed USD 150 billion annually, underlining the need to close that gap and help societies better protect their people and assets against risks.

Such statistics are sobering, and for re/insurance to make a difference, Swiss Re and the industry must seek to address the key drivers that help create this gap, such as lack of awareness, access, affordability and understanding, as well as product design elements. In this context, having close client relationships, offering know-how and expertise and supporting clients with large transactions as well as new, innovative, technology-driven solutions will be critical for success.

A tangible example of such a solution is the "Flood Insurance Toolkit", a full service offering Swiss Re has rolled out in the US in its continuous effort to find new ways of managing uncovered risks caused by climate change and natural disasters. The flood toolkit incorporates over 400 000 modelled events, which enables insurers in the US for the first time to offer affordable, more accurately priced flood policies. Underinsurance against flood, one of the biggest risks for the US, is prevalent and only one in six homes has flood insurance. As a result of this, an average year of storms will produce uninsured losses of USD 10 billion due to flooding, compared to insured losses of USD 5 billion. Swiss Re's toolkit can potentially help make a significant difference in the coverage of this risk.

Swiss Re has also developed a fully digital insurance offering for natural catastrophe perils with embedded, so-called parametric product design, enabling automated and therefore much faster claims payments and policy administration. Such digital platforms and devices are enabling cheaper, faster and more scalable solutions expanding the boundaries of insurability. Customers can access covers that would previously have been unaffordable or inaccessible.

#### **Rates are expected to be broadly stable**

Swiss Re expects overall broadly stable price development, with heterogeneous trends depending on lines of business and market. After many years of price erosion and only moderate improvements in 2018, large market segments remain inadequately priced to achieve sustainable returns on equity. Swiss Re expects gradual improvements, depending on emerging loss experience and level of rate inadequacy.

Swiss Re's Group Chief Underwriting Officer, Edouard Schmid, says: "We believe an inflection point in the pricing cycle for non-life insurance has been reached. For 2019, we broadly expect stable rates, provided no major event

happens this year. Underwriting margins in major non-life insurance markets need to improve more to deliver sustainable returns on equity."

### **Focusing on partnerships for future growth**

Swiss Re's focus remains on its clients and on providing them with the required capacity, expertise and innovative solutions. Swiss Re aims to bring value by leveraging technology to support its clients' needs while also improving the efficiency of its own business. As an example, the company offers a machine learning-based pricing engine to accurately price flight delay risks. This enables automated claims payments and real-time steering. It is a flexible turn-key solution that can be leveraged for other parametric insurance offerings such as earthquake coverage.

In addition, advancements in technology are expected to bring many benefits to the re/insurance industry across the whole value chain (i.e. distribution and sales, underwriting, claims, solutions & services, and operational backbone). Technology is also changing the nature of risk itself – both mitigating and creating new categories of risk.

Swiss Re's CEO Reinsurance, Moses Ojeisekhoba, says: "In our view, trying different solutions aimed at addressing the protection gap is the only approach that will make a material difference. We already see that various elements of new technologies afford us an opportunity to break down some of the barriers. At Swiss Re we see ourselves as part of the solution and will continue to collaborate with our clients, governments and other partners to bring tangible innovation that helps narrow the gap."

### **Media conference and call**

Swiss Re will hold a media conference with a dial-in possibility today at 02:15 pm (CEST). If you plan to dial in, you are kindly requested to call 10 minutes prior to the start using the following numbers:

From Switzerland/Europe	+41 (0)58 310 50 00
From Germany:	+49 (0)69 505 0 0082
From UK:	+44 (0) 207 107 0613
From France:	+33 (0)17091 8706
From USA:	+1 (1)631 570 56 13
From Hong Kong:	+852 5808 1769

### **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.

For logos and photography of Swiss Re executives, directors or offices, go to [www.swissre.com/media](http://www.swissre.com/media)



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### Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans, objectives, targets, and trends) and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

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 realize tax loss carry forwards, the ability to realize 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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