Swiss Re and Tokio Marine arrange unique USD 450 m cat risk swap

12 Jul 2001 CET

Swiss Reinsurance Company and Tokio Marine and Fire Insurance Company, through Tokio Millennium Re Ltd., Bermuda, have arranged a USD 450 million cat risk swap to cover losses from three natural perils. The cat risk swap is structured in three risk exchanges of USD 150 million each: Japan earthquake for California earthquake, Japan typhoon for Florida hurricane, and Japan typhoon for France storm.

The deal is renewable annually but is expected to run for several years. There are separate trigger points for each element of the deal, based upon three factors; indemnity levels, reference portfolios and industrial indices.

By swapping segments of Japanese catastrophe event exposure with Florida, France and California cat risks, Tokio Marine and Swiss Re are able to significantly improve the diversification of their risk portfolios by transferring ”peak risks” off of their balance sheets.

Through this structure, Tokio Marine can diversify outside of its local market and free up risk capital. Additionally, as a risk exchange rather than traditional reinsurance, this deal brings revenue to Tokio Marine’s bottom line. On the other side, Swiss Re can lay off a significant part of its peak exposures to hurricane Florida, storm France and earthquake California to Tokio Marine, which currently has a relatively small amount of it in its portfolio.

“Swapping exposures is a win-win situation for both companies. Swiss Re and Tokio Marine will both benefit from a diversification effect which will lower capital costs substantially, increasing shareholder value, “ said Jürg Stoll, director at Swiss Re New Markets. “It is part of Swiss Re’s strategy to more actively manage the risk portfolio and optimise capital at risk.“

Swiss Re has pioneered this risk swap technique with Tokio Millennium Re based on their sophisticated catastrophe exposure modelling expertise to structure layers with the same risk characteristics to enable the cat risk swap. With companies increasingly forced to reduce capital costs and diversify risk to enhance shareholder value, continued growth for these advantageous risk portfolio optimisation and financing techniques is predicted.

Swiss Re is one of the world’s leading reinsurers with over 70 offices in more than 30 countries. In the 2000 financial year, gross premium volume amounted to CHF 26.1 billion (USD 15.4 billion) and the net income after tax reached CHF 3 billion (USD 1.8 billion). Swiss Re is rated “AAA“ by Standard & Poor's, “Aaa“ by Moody's and “A++“ (superior) by A.M. Best.

Tokio Marine is the largest non-life insurance company in Japan with gross premium volume of Yen 1,718 billion (USD 13.9 billion) in financial year 2000.

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