News release

Swiss Re

New Swiss Re *sigma* study shows that the commercial insurance marketplace is leaning towards liability risks and high-growth markets

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- **Commercial insurance is a USD 600 billion business globally, the US accounts for 40% of it**
- **Liability insurance is gaining importance compared to property insurance in the rapidly changing mature economies**
- **Contingent business interruption risk is growing due to globalisation even though insurance coverage is low**
- **Commercial insurance growth in high-growth markets is outpacing advanced markets by a factor of two to three**

Zurich, 17 October 2012 — Swiss Re's latest *sigma* 5/2012, "Insuring ever-evolving commercial risks", provides new insights into commercial insurance, revealing that demand varies greatly based on industry, company size and jurisdiction. Commercial insurance helps companies to manage risks and find new ways to innovate, grow and stabilise their earnings. It accounted for some USD 600 billion in premiums in 2010, or about 41% of global non-life business.

Commercial insurance premiums amounted to USD 237 billion in the US for 2010, making it by far the largest commercial insurance market in the world. Besides the size of the economy, a large difference between the US market size and the rest of the world is due to liability and workers' compensation covers. Outside the US, workers' compensation or employers' liability covers are often nationalised or part of the social security system. Japan, with USD 35 billion in premiums, is the second-largest commercial insurance market, while China is the third largest market with USD 31 billion in premiums.

In the last decade, commercial insurance premiums in emerging markets grew an average of 14% per year, expanding two to three times faster than in advanced markets (+5.4%). China grew 32% annually in the same period, substantially fuelled by the introduction of mandatory auto liability insurance. Excluding the motor business, China would slide to rank seven globally.

"Commercial insurance in high-growth markets such as China benefits not only from an expanding economy, but also from increasing penetration, so premiums tend to grow faster than the economy," says Kurt Karl, Chief Economist of Swiss Re.

The world's 10 largest commercial insurance markets

Rank	Country	Commercial insurance premiums[1]	Total non-life insurance premiums[1]	Commercial share of market	Premium as a % of GDP
1	United States	236.8	479.4	49%	1.6%
2	Japan	35.4	82.8	43%	0.6%
3	China	30.7	59.4	52%	0.5%
4	United Kingdom	28.3	69.7	41%	1.2%
5	Germany	26.5	76.7	35%	0.8%
6	France	24.4	81.1	30%	1.0%
7	Canada	13.9	45.0	31%	0.9%
8	Italy	12.7	47.5	27%	0.6%
9	Australia	11.7	26.6	44%	0.9%
10	Russia	9.3	17.6	53%	0.6%
	World	**600**	**1 450**	**41%**	**1.0%**

Note: Estimates for direct non-life premiums written in 2010 (excluding health). The UK figures do not include London Market business of approximately USD 30 billion.
[1] in USD billion.

Source: Swiss Re Economic Research & Consulting

Liability risks are gaining importance as the risk landscape evolves
Liability insurance is rising in importance in all markets, increasing compared to GDP and to property insurance. Liability insurance lines are growing faster than the overall economy.

"The growth of the services sector, which is more exposed to liability risks than the manufacturing sector, is one reason for the increasing importance of liability protection," says *sigma* co-author Thomas Holzheu.

Other reasons include legislative changes, increasing litigiousness, greater emphasis on the value of life, higher wealth, increasing interconnectivity and better environmental awareness.

Property insurance risks are also increasing
In 2011, property lines accounted for 29% of direct commercial insurance premiums written in the US and 50% in high-growth market Brazil. However, in China, property lines only accounted for 13% of premiums.

Natural catastrophes are one of the main reasons that property risks are on the rise. Moreover, globalisation, just-in-time production, and the relocation of manufacturing plants to high-growth markets with high exposures to natural disasters have made risk management costlier and more complex. Recent wide-reaching natural catastrophes have highlighted the potential magnitude and interconnectivity of such events.

"Property risks are increasing, and their nature is broadening from traditional property damage to business interruption (BI) and even to less well-understood contingent business interruption (CBI) risk, which includes company supplier disruptions. Yet globally, CBI insurance coverage remains low," points out Roman Lechner, co-author of the *sigma* study.

Insurance provides tailored cover to a great variety of different risk exposures and insurance needs

Corporate insurance demand varies by many parameters, largely depending on industry, company size, legal environment and specific individual needs. For example, the construction industry spends the most on insurance relative to its revenues, followed by the transportation, communications, utilities and mining sectors. The financial services, trade and government sectors have the lowest insurance expenses compared to their revenues. Manufacturing lies in the middle.

Larger companies spend considerably less on insurance per revenue than smaller companies, even though they purchase significantly higher covers. This is because they are better able to diversify risks and to apply more sophisticated risk management processes.

Underwriting income remains the key profit driver

The commercial insurance industry shows strong cyclicality with intermittent soft-market conditions. The sector has demonstrated resilience, even throughout the financial crisis. Commercial insurance profitability is currently under pressure from low investment yields and soft pricing, but economic recovery and rising interest rates should eventually – with some lag – boost profitability.

In the short to medium-term, commercial insurance growth and profitability will be dominated by the underwriting cycle, with profitability stemming mostly from market hardening while investment incomes will only slowly rise as the economy recovers. In the medium to long-term, underwriting results – not investment yields – will be the key profit driver for successful commercial insurers.

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Notes to editors:

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How to order this *sigma* study:
The English, German, French, and Spanish versions of the *sigma* study No 5/2012, "Insuring ever-evolving commercial risks", are available electronically on Swiss Re's website: www.swissre.com/sigma. The versions in Chinese and Japanese will appear in the near future.

Printed editions of *sigma* No 5/2012 in English, French, German and Spanish are also available now. The printed versions in Chinese and Japanese will be available shortly. Please send your orders, complete with your full postal address, to sigma@swissre.com

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