

Swiss Re – solutions for terrorism insurance

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Swiss Re's new focus report on terrorism concludes that the most promising approach to the problem of terrorism insurance is a public/private partnership. The report addresses the challenges insurers face after 11 September and specifically considers if terrorism risks are insurable. It presents possible solutions that insurers and reinsurers could offer to clients and also considers the role of government.

Is terrorism insurable?

Prior to 11 September, the assumed maximum loss potentials attached to terrorist acts were of a controllable size and were comparable to property losses resulting from fire or explosion. On this basis, terrorism was not explicitly excluded from property policies. However, the magnitude of the loss in the United States revealed a new scope and extent of terrorist threat and has forced insurers to reconsider these assumptions and the insurability of terrorism risks all together.

The Swiss Re report finds that increasingly terrorism risks meet fewer of the important criteria of insurability, particularly as it is impossible to accurately assess the probability and severity of terrorist attacks. As a result, terrorism is only insurable on a very limited basis. Swiss Re, therefore recommends that government and insurers work together to develop solutions.

Short to medium term solutions

Swiss Re proposes three elements that efficiently combine state and private insurance in the short to medium term. First, mandatory direct insurance, under which all property risks are automatically covered against terrorism risks. Secondly a levy is placed on current property premiums, which could be a fixed percentage or downscaled according to exposure. In the US such a levy would typically need to be around 3-5% of the property premium.

Finally, a greater sharing of the loss burden, by further aligning the interests of all parties to these risks i.e. insureds, insurers, reinsurers and government. Insured parties should carry a significant deductible, of around 5%-10% of insured values. All insured losses would be pooled and the pool reinsured beyond a given deductible by reinsurers, capital markets and government.

Swiss Re believes that in the current environment public/private partnership offers the most promising approach as all stakeholders bear a portion of the risk relative to their financial capacity. With large shares of terrorism risks pooled and government assuming the role of insurer of last resort.

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 and the net income after tax reached CHF 3 billion. Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" (superior) by A.M. Best.

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