



Swiss Re *sigma* study: Demand for broking services rises as complexity of risk increases

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The role of the broker has evolved into that of risk-related service provider

The global insurance and reinsurance broker markets are very concentrated

Zurich, 1 April 2004 – Brokers face greater demand for their services as the complexity of risk increases, according to Swiss Re’s latest *sigma* study. Entitled ‘Commercial insurance and reinsurance brokerage – love thy middleman’, it examines developments in the key broker-markets for non-life commercial insurance and reinsurance and shows how the role of the broker has evolved over the last 20 years. The report also considers issues such as consolidation, patterns in profitability, and long-term prospects for the global brokerage industry.

Thomas Holzheu, senior economist at Swiss Re and the editor of the study, comments: “The role of brokers in the commercial insurance and reinsurance sectors has changed over the past 20 years. Corporations with large commercial and industrial risks are facing a rapidly shifting risk landscape brought about by changes in the economy, the legal environment and the emergence of new risk classes. As a result of the current hard market, brokers are experiencing strong demand for insurance solutions and risk management services. This increase in demand also reflects the growth in offshore insurance markets such as Bermuda, which are almost entirely broker driven.”

According to the *sigma* report, during the last two decades, the role of the broker has evolved from pure intermediation to additionally providing services for clients and insurance companies. Today brokers use sophisticated risk-modeling skills in combination with their market knowledge to structure risk solutions for clients. They have also developed additional fee-based services such as claims administration, risk management, asset management, employee benefit, HR consulting, risk securitisation and actuarial consulting.

Consolidation among brokers in the US and Europe during the late 1990s created a highly concentrated market. In 2002, global commercial brokerage revenues were estimated at about USD 27 billion, over half of which were accounted for by the two largest broking firms Marsh and Aon.

Commercial brokers play a major role in the English-speaking insurance markets

Even with the consolidation of the late 1990s, the broking sector remains fragmented, with many small niche brokerage firms. Further consolidation in the broking sector is expected as mid-sized and regional companies make acquisitions to fuel revenue growth and expansion into additional markets. As a subset of that market, the 2002 global revenues from reinsurance brokerage are estimated at USD 3 billion. This market segment is also highly concentrated, with the top four companies accounting for 78% of the total market.

The significance of the broker distribution channel varies widely by country. Brokers play an important role in the US and the UK and their share of the Continental European market continues to increase. Brokers occupy strong positions in Latin America and Southeast Asia, but are virtually non-existent in the key markets of Japan, South Korea, China and India. The liberalisation of financial services markets and the growth of emerging insurance markets is expected to provide brokers further growth opportunities.

Notes to editors

Swiss Re

Swiss Re is one of the world's leading reinsurers and the world's largest life and health reinsurer. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863. Through its three business groups Property & Casualty, Life & Health and Financial Services, Swiss Re offers a wide variety of products to manage capital and risk. Traditional reinsurance products, including a broad range of property and casualty as well as life and health covers and related services, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA" by Standard & Poor's, "Aa1" by Moody's and "A+" by A.M. Best.

How to obtain a copy of this *sigma* study:

The English, German, French, Spanish and Italian versions of the *sigma* study "Commercial insurance and reinsurance brokerage – love thy middleman" are available electronically on Swiss Re's website <http://www.swissre.com/sigma>

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