News release

Swiss Re

Swiss Re's *sigma* study: Insurability in a changing risk landscape

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Zurich, 27 October 2005 – Why are some risks, such as terrorism, a challenge to insure? The key lies in the concept of "insurability". Swiss Re's latest *sigma* report shows how the insurance industry meets the challenges posed by newly emerging risks and changes to the risk environment.

The importance of insurance is most evident when it is not available. For a risk to be insurable, it must be measurable, well understood and bounded. Premium rates must be acceptable to insurers and to their clients. The new *sigma* study, "Innovating to insure the uninsurable", explores how the risk landscape changes over time and the tools that insurers use to meet the challenges they face.

The new risk landscape

New risks emerge and previously well-understood risks become ambiguous. As the emphasis within industrialised economies has shifted from manufacturing to services, intangible, hard-to-measure risks – legal, regulatory, market-based and reputational – loom ever larger. For many large firms, the destruction of a branch, plant or office would have less of an adverse impact than the impairment of a key intangible asset.

In some instances, insurers suddenly scale back or withdraw from covering certain types of risk. This can occur when capacity dries up due to losses that reduce the industry capital base, or when a risk becomes so ambiguous that it cannot be reasonably priced, such as in the case of terrorism, or when class action suits run rampant such as in the case of asbestos.

Tools for promoting insurability

Insurers have developed a toolkit to help them insure these risks:

Adjustments to terms and conditions: deductibles and co-payments mitigate moral hazard, while cover limits transform unquantifiable underlying risks into known maximum exposures.

Risk selection and pricing: careful underwriting reduces adverse selection and assures that each risk is adequately priced. Regular price adjustments enable an insurer to react to loss experience.

Innovation: insurers innovate to respond to demand for new risk covers. New solutions that better target client needs use capacity more efficiently and can reduce the cost of coverage.

Reinsurance: reinsurance provides additional capacity. By stabilising underwriting results, reducing average and maximum losses and providing capital relief, reinsurance makes cover more affordable.

Securitisation: by expanding industry capacity, securitisation can make coverage for hard-to-insure risks more readily available. Capital requirements are reduced and risk cover becomes more affordable.

Private/public partnerships: when the free market fails to cover a risk whose coverage is socially desirable, governments can intervene by providing capacity or setting policies that improve the availability of coverage.

The insurance industry's success depends on how effectively it uses these tools to meet client needs, develop new solutions and enter new markets.

Notes for 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. 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, "Aa2" by Moody's and "A+" by A.M. Best.

How to obtain a copy of this *sigma* study:
The English, German, French, Italian and Spanish versions of the *sigma* study "Innovating to insure the uninsurable" are available electronically on Swiss Re's website: www.swissre.com/sigma

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