



Swiss Re *sigma* study: growing cost of the liability system as a major global challenge

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Zurich, 28 October 2004 – Liability systems throughout the world are growing increasingly costly, according to Swiss Re’s latest *sigma* report. The study, “The economics of liability losses – insuring a moving target”, examines the development of liability claims and its drivers.

Thomas Holzheu, senior economist at Swiss Re and co-author of the study, comments: “Growing liability claims costs have raised concerns among companies and their insurers throughout the world. Insurers must better understand the development of liability claims costs and factor this into their pricing.”

In the world’s ten largest non-life insurance markets, commercial liability claims totalled USD 84 billion in 2002, with USD 67 billion originating from the US alone. The relative size of insured commercial liability claims costs varies across countries, with the US leading at 0.64% of GDP. This is about three times the level seen in Europe’s largest economies.

In all major economies examined in the study, general liability claims and premiums have grown faster than overall economic activity. Long-term estimates suggest that claims are growing 1.5 to 2 times as fast as nominal GDP. Among the several reasons for this, the most important are social and legal developments. Insurers need to continually monitor these developments and factor them into underwriting.

The study also addresses general issues regarding tort systems. It identifies a clear need for reform particularly in the US, where less than half of the funds from litigation reaches victims. While this is mainly a US issue, the potential for US practices to spill over to other parts of the world exists. The commercial and political challenge is to stop these detrimental developments so that liability systems remain affordable.

The volume of liability insurance claims

Claims incurred in 2002	General liability				Total non-life
	USD billions	Average loss	% of total	% of GDP	USD billions
	2002	ratio 1997-02	non-life		
US	66.7	99.7%	21%	0.64%	318.0
Canada [1]	1.3	73.5%	7%	0.18%	18.8
Germany	4.2	65.1%	10%	0.21%	40.8
UK [1]	3.1	99.0%	12%	0.20%	25.9
France	2.8	113.2%	9%	0.19%	30.6
Italy	2.3	102.0%	10%	0.19%	22.3
Japan [2]	1.5	53.7%	5%	0.04%	32.4
Australia [3]	0.9	124.2%	15%	0.25%	6.1
10 Countries [4]	83.8	98.2%	16%	0.37%	521.8

[1] Net after reinsurance, [2] Claims paid, [3] 2001, [4] Average loss ratio weighted by claims incurred

Sources: National insurance supervisory authorities

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, "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 "The economics of liability losses – insuring a moving target" are available electronically on Swiss Re's website: www.swissre.com/sigma

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