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Natural Perils Insurance in Switzerland

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I INTRODUCTION

I INTRODUCTION (CONT'D)

- The Swiss people and economy are exposed to a number of natural hazards.
- As to the kind of loss caused by natural perils, in the past 60 years most **economic losses** have been caused by floods and storms, while almost all **damages to persons** have been due to natural catastrophes such as the heat wave in 2003 and avalanches, land-slides and rockslides
- Climate change (new weather constellations) and the increase in and concentration of insured assets are increasing the loss potential. On the other hand, the constant improvement of preventive measures at federal and cantonal, i.e. State level is helping to reduce risk.

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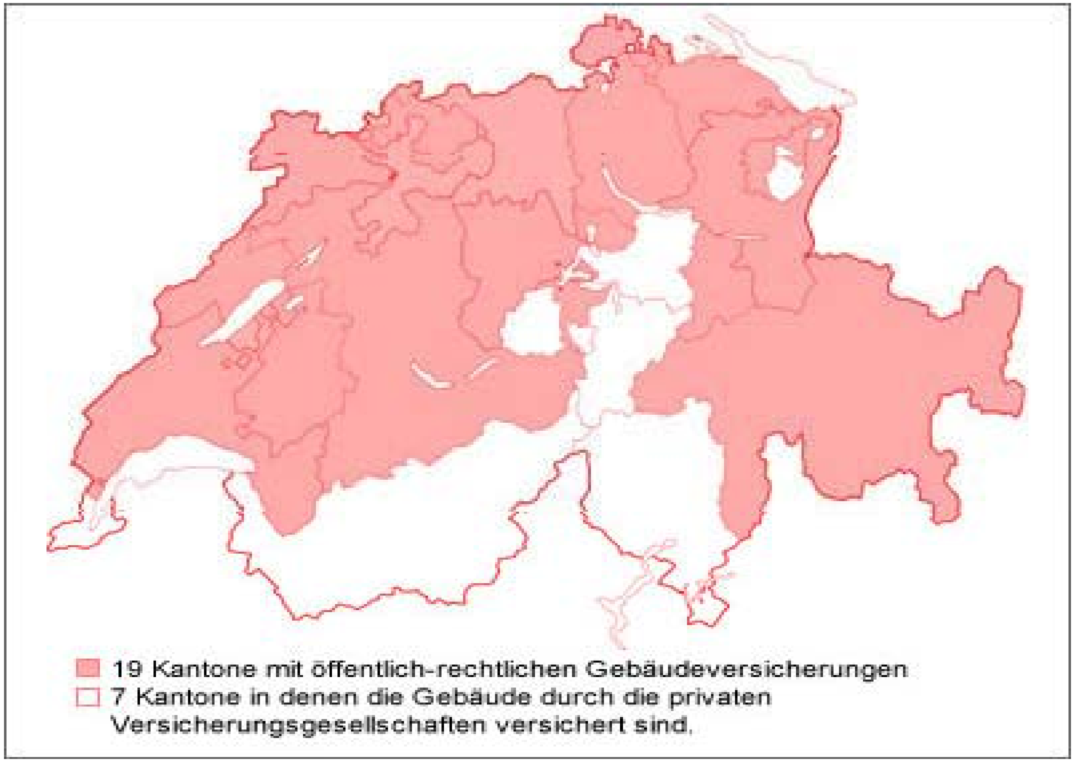
I INTRODUCTION (CONT'D)

- The situation in Switzerland is unique, as can be seen from the UN's Global Assessment Report on Disaster Risk Reduction, issued in 2011. Out of 180 countries, Switzerland is assessed to be best prepared to deal with natural perils and catastrophes.
- An important factor in this respect is the broadly based, coordinated cooperation between federal bodies, cantons, municipalities and the insurance industry.
- Natural hazards' insurance in Switzerland is based **on dual system of insurance coverage, provided by Cantonal, i.e. mandatory State insurance and Private insurance**.
- This short presentation will illustrate how the Swiss system is dealing with insurance of natural hazards.

II BUILDING INSURANCE AS BASIS FOR COMPLETE COVERAGE – CANTONAL & PRIVATE INSURANCE



– 19 Cantons with monopoly mandatory insurance of buildings
– 7 Cantons - private insurance allowed – strictly regulated

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II BUILDING INSURANCE AS BASIS FOR COMPLETE COVERAGE (CONT'D)

- Over 99% of all buildings and chattels in Switzerland are insured against natural hazards. In 19 cantons there are monopoly **cantonal building insurance companies** that insure buildings against **fire and natural hazards**.

- In the cantons of Geneva, Uri, Schwyz, Ticino, Appenzell Innerrhoden, Valaisand Obwalden and in the Principality of Liechtenstein, buildings are insured by **private insurers**

- Under the mandatory regime of Swiss Federal **I**nsurance **S**upervisory **A**ct (**ISA**)

III STATUTORY BASIS FOR NATURAL HAZARDS INSURANCE

- Natural hazards insurance has its statutory basis in article 33 ISA:
- All Private insurance companies that offer **fire insurance** in Switzerland **must** also at the same time **include natural hazards** in the corresponding insurance policy.
- The scope of coverage, premium rates and rules governing deductibles are regulated by statute.
- Natural hazards insurance is described in the Supervision Ordinance (SO) encompass the following **insured risks**
- –– High tide; –– Flood; –– Storm; –– Hailstorm;

  –– Avalanche; –– Snow Pressure; –– Rockfall;

  –– Rockslide; –– Landslide
- Not insurable risks (173 SO): a.others -- Earthquake

III STATUTORY BASIS FOR NATURAL HAZARDS INSURANCE (CONT'D)

- **Insured objects:** all objects located in Switzerland – **chattels** (household effects, contents of buildings, manufactured products, etc.) and **buildings** – are insured at their full value (i.e. replacement cost).
- **Coverage** for destruction, damage or loss of the insured objects caused by the insured hazards (9) listed above.
- **Insurers' Liability** is **limited** to the maximum compensation per event is CHF 2 billion (CHF 1 billion for chattels and CHF 1 billion for buildings). Compensation per insured person is limited to CHF 25 million.
- Private Insurance is allowed to **individually insure** further objects (vehicles), risks (e.g. costs, BI) or insured amounts can be adapted (higher limits, lower deductibles)

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IV DUAL SOLIDARITY SYSTEM

- The concept of natural hazards insurance being divided into Cantonal and private insurance is additionally based on a **dual solidarity system**

> Solidarity among Insured Persons

- Thanks to a comprehensive coverage for nine different natural risks (i.e. broad spreading of different risks), all individuals and businesses (by paying same rates) in Switzerland can benefit from this insurance (low premiums)!

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IV DUAL SOLIDARITY SYSTEM (CONT'D)

> Solidarity among Insurers

- Insurers /almost all /are member to the **Natural Hazards Pool** with the aim of redistributing the claims made in accordance with their market shares. That works as follows:
- The insurers being affected differently (depending on market share in the regions where the damage occurs) cede 80% of each natural hazard, i.e. losses to the pool. The proportion as to each market share is then reallocated to each company, resulting in an offset. The retention of 20% corresponds to each insurer's underwriting risk.
- This ultimately results in the claims burden being spread.

Thank you for your attention!

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