



EDITORIAL

The broker: every company's strategic ally

On the back of a spring rife with natural disasters and a summer of yet another round of record-breaking temperatures on a global scale, in this latest issue of *Insurance Inside* we focus on how insurance capacity will fare in the wake of climate change. Will it still be possible to cover climate risk-related claims? This remains to be seen...

Climate change and the unpredictable and increasingly devastating impacts it has are raising critical issues for the insurance sector. The surge in natural disasters such as floods, storms and drought is underlining the urgent need to reassess the risks and devise new kinds of insurance. Naturally, insurers are not the only ones with a role to play. They are just one of many links in the chain of solutions. Companies and private entities alike have no choice but to adapt to this new reality. The research sector, public authorities, industry, etc. are also springing into action.

Where does this leave insurance brokers in these new circumstances? Now more than ever, their role is to act as a strategic ally for companies. This role goes beyond acting as a simple intermediary between the insurer and policyholder. They become a trusted advisor able to

identify specific susceptibilities in terms of climate risks and to create tailor-made solutions to mitigate them. This requires a new, more specialist kind of expertise.

Here at Qualibroker-SRC, the consultancy we offer sets itself apart from the rest owing to our ability to anticipate the evolving needs of our clients. We are not content with simply offering a standard coverage: we strive to understand the specifics of each situation. With this personalised approach on the one hand, and our global vision of the market on the other, we help to select the most suitable coverage at the best price, whilst taking into account the latest legal and environmental developments.

Our role is also an educational one. As a complex phenomenon, climate change requires increased awareness. We help our clients to understand the risks, which in turn enables them to make informed and proactive decisions.

Happy reading!

David Cochet
CEO of Romandie



Insurance in the face of the climate challenge

Floods in the canton of Vaud, gale-force winds in the Neuchâtel mountains, a hailstorm in the Valais countryside, and record-breaking heat across the country; although Switzerland may not be one of the countries most exposed to climate change, this certainly does not make it immune to its effects. Our country has experienced extreme weather events that are increasingly severe and frequent, to the extent that insurance capacity for damages caused by natural disasters has become an area of concern.

The Swiss system: a tried-and-tested model

The Swiss system for insurance coverage of natural hazards is renowned for its effectiveness and is based on a well-established model of solidarity. It is characterised by a dual system: in 19 cantons, buildings are covered by cantonal building insurance, whereas in the remaining 7 cantons, coverage is provided by private insurance policies.

Natural disaster cover in Switzerland is generalised, making insurance mandatory for most buildings, which enables more people to benefit from this protection at an affordable price.

Insurance premiums remain the same, regardless of the level of risk a building is exposed to owing to the principle of solidarity underpinning the system.

This concept of solidarity also extends to private insurance policies with **the pool for damage caused by natural hazards**. This enables the risks to be shared amongst the private insurance companies, fairly distributing the financial expenses incurred by the damages. This hybrid model, combining the action of both the State and private insurance companies, has proven its worth and is often cited as an international benchmark for natural hazard management.

In spite of this, the significant surge in frequency and intensity of climate events around the world inevitably brings about ramifications for insurance capacity, namely on the amounts that insurance companies will be willing to cover for damages.

A tougher market

If, for now, damages caused by natural disasters in Switzerland remain insurable and at a relatively reasonable price, market conditions for reinsurance will become tougher on a global scale. Reinsurers clearly tend to increase their prices and to decrease their coverage, which leads to insurers adjusting their products

“Parametric” insurance: the new tool to combat climate change risks

Parametric or index-based insurance is a type of innovative insurance that differs from traditional insurance in that it is not based on the idea of compensating for the actual losses incurred, but rather on predefined indices or parameters, such as the intensity of a natural event (the magnitude of an earthquake or the level of rainfall, for example). It makes for an attractive alternative when traditional insurance is difficult to take out or is very expensive.

How it works

When a parametric insurance policy is taken out, the insurer and the policyholder agree to a set of triggering parameters. For example, for a policy providing coverage for a wind farm, insurance may depend on the strength of the wind. As soon as the triggering event is confirmed by an independent source (such as a weather or seismic station), compensation is paid without it being necessary to provide evidence of the damages incurred. The triggering mechanism is simple and transparent as it relies on objective and independent data. Administrative costs and waiting times often associated when claims have to be assessed in traditional insurance policies are significantly reduced. Despite this, the effectiveness of this new model depends on access to accurate and reliable data, which is often highly complex.

Parametric insurance is undergoing rapid expansion, particularly in areas of the world where risks associated with climate change and natural hazards are high. In Switzerland, parametric insurance is an appealing additional option for companies and institutions that want protection against specific risks.



In Switzerland in 2023, insured damages caused by natural disasters are estimated to amount to an average of 306 million francs per year.

Damages caused by natural disasters around the world are estimated to cost 280 billion dollars, 108 billion of which are covered by insurance.

Source: SwissRe

accordingly. The latest risk modelling which takes into consideration the acceleration of claims, is going in the same direction and justifies a tougher stance when it comes to insurance policy conditions to protect companies' reserves. This results in an increase in premiums, even if these currently remain under control.

This is particularly the case for property and business interruption insurance. Going against the grain of the general trend, FINMA (Switzerland's independent financial-markets regulator) proposed a reduction in premiums for property insurance for all insurers, with effect from 1 January 2023. As a result of this political decision, in 2024 insurers are executing CAPs (premium adjustment clauses) for 2025 premiums on water damage and theft coverage, so as to compensate for the

reduction in rates. Given that this is not remediation, these CAPs affect the majority of property insurance policies, regardless of their returns. When all is said and done, clients hardly benefit, if at all, from these reduced premiums.

Other consequences for clients are more exclusions and limitations. Insurance policies may incorporate more exclusions or lower thresholds for cover for damages caused by natural disasters.

Lastly, in some extreme cases, clients may no longer be able to find any insurance coverage that accepts to bear the risk, especially in areas deemed to be at high risk.

So, what next?

To face these challenges head on, there are several strategies to consider.

Investing in prevention and protection measures is now a priority to counter climate change and reduce the impact of natural disasters. When faced with flood risk, initiating construction for building structures, for example, to contain and direct lake and river water, appears to be one solution to mitigate damage. This is one of many examples of initiatives that have been introduced. According to data from the OFS, Switzerland's Federal Statistical Office, in 2021 Switzerland invested 606 million francs in protection against natural hazards, 290 million of which was earmarked for flood defence. These efforts are not being channelled into rural areas alone. Several towns afford green spaces at the heart of

their urban neighbourhoods to help absorb excess water from heavy rain and keep temperatures cooler during periods of intense heat. Agronomical and technological research is now in action and benefits private and public funding alike. Take, for example, the project, 'Grandes cultures résilientes au changement climatique 2035' (Climate-resilient field crops 2035), which looks into new irrigation methods, resistant crop varieties and the management of sustainable soils.

Developing new insurance options which take account of the current situation in terms of natural hazards is another approach that is now being considered. Parametric or index-based insurance may be a promising solution (see box).

Another example: to delegate certain risks, reinsurers issue new securities known as **cat bonds**. These are financial products designed to guarantee coverage in the event of natural disaster-related risks. These complement standard reinsurance.

Lastly, **governments can play a role by providing cover or by creating specific compensation funds**. In Europe, the situation varies from country to country. France has, for example, mandatory public insurance that covers natural disasters. The Swiss Confederation is planning to introduce a drought and frost premium in 2025 to compensate farmers for their financial losses resulting from frost and drought events, which are becoming increasingly frequent.



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