2021 Trend Barometer

Swiss Insurance and Reinsurance Market / Market Update 09/2021
To our Readers

In this year’s Trend Barometer we aim to provide a broad overview of current trends in the Swiss Insurance and Reinsurance Market, the reasons for the current state of the market and some trends predicted for the remainder of the year 2021. The report is based on information from various sources, both inside and outside of Aon, and complements the recently published Aon Global Market Insights Report.

In simple words, the combination of premium reductions over a prolonged period of time, together with rising claims and natural catastrophes, has resulted in a hard market. This has led to the fall in insurers’ revenues and profit margins to unacceptable levels for shareholders and investors. The global pandemic and the resulting historically low interest rates, as well as the natural disasters in the first half of the year, have only further tightened the situation.

In the following pages of this update, you will find not only a presentation of the general situation and the trends for each insurance line for Switzerland, but also the latest global publications on worldwide market trends from our company starting on page 21.

We wish you an interesting reading.
Aon Trend Barometer 2021 | Management Summary

**Property insurance**

Capacities and the scope of cover will be reduced, in some cases significantly, while premium rates are increasing. A short-term reversal of the trend is not expected.

**Technical insurance**

In the area of construction and erection insurance we expect an increase in premiums, more selective underwriting and slightly declining capacities. There is no expectation of an improvement of the situation in the short future. Within the machinery and technology insurance the premiums continue to be stable at a low level.

**Marine insurance**

Prices for good risks in marine insurance are still on a downward trend. Therefore, no price increases or capacity shortages should be expected soon.

**Motor vehicle insurance**

Car insurers sometimes redevelop negatively performing policies at a very early stage. However, corporate customers will see a rate increase, i.e. premiums for corporate fleets will rise. It is a tough price war.

**Liability insurance**

Insurers are reviewing their underwriting policies. Capacity reductions and an increased need for risk information is expected. Detailed risk reviews are also taking place for already insured risks (existing clients), especially for clients with an US exposure.
The D&O market in Switzerland has hardened even before Covid-19. The pandemic will lead to a further reduction in the capacity offered, greater underwriting discipline and in some cases to a pause in underwriting of new risks.

Covid-19 and the increased work in the home office as well as the switch to online services have contributed to the strong demand for cyber solutions. At the same time, there has been an increased frequency of large claims. This young market has experienced rapid change and faces further challenges.

As a result of the Covid-19 crisis, deals were cancelled or put on hold. The insurance market in the M&A sector continues to develop positively. The classic Warranty & Indemnity (W&I) insurance is still the major part of the market.

The Covid 19 crisis is still having the same effect on the credit insurance market. Capacity are available on a limited basis, premium increases and reviewing the profitability of their book of business are still in the focus of the insurers.
The market is growing increasingly hard, with stricter requirements and higher deductibles. The risk assessment process is becoming ever more complex. Certain insurers are closing their books.

The very limited offer and the generally hardening market in the liability area prevents the competition of previous years at the price level and there is a need for detailed risk assessment.

The market remains unpredictable - consistent restructuring or even termination by insurers, especially in the area of daily sickness. Clients are increasingly examining various measures to reduce the costs for inability of work.

Restrictive acceptance rules regarding the age of the insured and claims experience. Conditions of full insurance providers increasingly unattractive with regard to interest rates, conversion rates and level of risk premiums.

General hardening of the reinsurance market, but with some exceptions. Enough capacity available.
Property and business interruption insurance

General
- In the property damage and business interruption sector, almost all insurers have experienced underwriting losses in recent years. Underwriting guidelines have been tightened up at all insurers.
- There have been capacity reductions in both the insurance/reinsurance sector until the withdrawal from unprofitable segments.

Trend
- Also due to Covid-19, the price trend has become even more pronounced and complete exclusions for pandemic risks are already required.
- Insurers are questioning the granting of special covers such as political risks or non damage business interruption.
- Transparent and comprehensive risk information, also with regard to risk engineering, is a prerequisite to receive a quote. In order to achieve the best possible result, it is advisable to start the renewal process early.

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General

▪ Except for construction and erection insurances, we expect prices to remain stable at their low levels. For construction and erection insurance, premiums and deductibles are expected to rise.

▪ Insurers remain extremely willing to underwrite new risks. Nevertheless, there is a much greater focus than in the past on thorough risk assessment and clarification.

▪ Higher risks, especially in construction and erection insurance, are being more cautiously underwritten and must expect significant premium increases. The offered capacities are decreasing in this context.

Trend

▪ In the medium term, the situation in the construction sector is not expected to ease. Global influences such as economic packages with major infrastructure investments will significantly increase the utilization of existing capacities and give insurers more opportunities to review the level of the premiums.
Marine insurance

General
- Premiums for good risks remain under strong pressure.
- Poor risks will be looked at more closely and restructured too.
- The willingness to insure long-term storage for unlimited periods has declined.

Trend
- Compliance requirements must perforce be implemented.
- New legislation in several countries causes problems in the choice of Incoterms and the related insurance coverage.

Positive trend

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Motor vehicle insurance

Stable trend

General

- There have been no hard and significant restructurings.
- Loss prevention programmes are implemented on an ongoing basis and often mitigate (and sometimes replace) conventional restructuring.

Trend

- Piece premiums instead of individual rate premiums are increasingly offered for fleets.
- Premium reductions for vehicles with modern driver assistance systems, or special pricing for energy-efficient vehicles (hybrid, electric and efficiency class A)

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Disruptive technologies like autonomous vehicles, 3D printers, robots, drones and cloud computing make it necessary to adapt and/or extend conventional liability coverage with specific financial loss components, or errors & omissions coverage.

Insurers are reviewing their underwriting policies. We see capacity reductions and an increased need for risk information. More detailed risk reviews are also taking place for risks already insured (existing clients), especially for clients with an US exposure.

There are now also signs of a hardening market in the area of general and product liability insurance.

The impact of COVID-19 - on capacities and the respective risk appetite - will continue to occupy/change the insurance market in the coming months.
General
- The Swiss market is in an advanced stage of hardening. This can be seen in the reduction of capacities, general premium increases and the fact that individual insurers are taking a pause in writing new business.

Trend
- Also due to the Covid-19 crisis, we see significantly higher underwriting discipline. This increases the need for detailed risk information.
- Especially with strong U.S. exposure, U.S. listing and in certain riskier industries, such as life science, retail and travel, insurers are demanding higher prices and substantial deductibles and are further limiting the offered capacity.
- There are some new insurers for D&O risks in Switzerland. This relieves placements of excess structures a little. We see the first signs of cautious optimism.
General

- The market continues to mature and the position of buyers is becoming more difficult.
- Large loss events have developed an increased frequency.

Trend

- The dynamics of the marketplace are fundamentally changing - the combination of short- and long-term risks plays a central role.
- The minimum requirement to even qualify for cyber coverage is increasing massively. Insurers understand and require more and more information.
- Because of the need to identify and evaluate cyber risks to transfer them where possible to the insurance industry, demand for effective risk assessment of real cyber exposure is rising significantly.

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As a result of the Covid-19 crisis, deals burst or were put on hold. The insurance market in the M&A sector continues to develop positively. The number of insurers offering M&A insurance increased significantly again past year. There are currently 43 insurers and underwriters across Europe. The focus still lays on classic Warranty & Indemnity (W&I) insurance.

By reducing standard exclusions, the coverage solutions offered by established and newly-entered insurers are becoming increasingly broad. Companies are responding to the fact that buyers are increasingly broadening due diligence (DD) and focusing on topics that would normally be excluded from coverage. Examples include data privacy compliance and technical DD. Coverage for known risks, such as uncovered tax risks, litigation and solvency risks, is also playing an increasingly important role. Nevertheless, the premium level has remained stable. Only exceptional issues, such as other economic decisions by the buyer/seller, lead to premium increases.

Higher attention is being paid to operational IT and Cyber Security when conducting DD in the wake of increased home office activities. This also applies to intellectual property, in particular rights to brands, patents, product designs, software and databases, which considers the value of the company. Another facet that is gaining in importance is the consideration of working capital and the associated question of financial optimization opportunities.

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Credit insurance

General

- The positive trend from the past years to offer high risk at low prices has changed abruptly as a result of the Covid-19 crisis.
- Due to the economic effects and the expected high claims burdens, uncertainty is high on the insurers side, and as a result their risk appetite has also reduced significantly - especially for new cover requests.
- Capacities have become tight practically overnight.

Trend

- Until the economic situation stabilizes, capacities will remain tight.
- Return to pre Covid-19 market environment is not expected before Q2 2022.
- Premium increases and reviewing the profitability of their book of business continue.

Challenging trend
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Fidelity insurance (Crime)

General
- Insurers have experienced higher claims rates following the surge in social engineering cases (especially the "fake president" confidence trick).

Trend
- Additional requirements, high deductibles and restrictive capacity management at some major providers are inducing further hardening in the market.
- The risk assessment process is growing increasingly complex.
- Although there still are strong risk transfer partners in the fidelity insurance line, the market's rising dependence on a small number of insurers is deemed negative.

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Environmental insurance

General

▪ Environmental legislation such as the EPA (Federal Act on the Protection of the Environment) in Switzerland provide for the protection of biological communities and habitats.

▪ Partial cover is available for the removal of pollution that must be removed by law but does not require an official order.

▪ Strongly limited market offer of cover.

Trend

▪ Still a niche product, which has been a growth market for some insurers.

▪ Despite homogeneous coverage, competition at the price level is avoided. We expect premiums to increase slightly even though the risk would remain unchanged.

▪ The hardening market in the liability sector is also affecting the environmental insurance.

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Personal insurance

Challenging trend

General

- The situation for insurers remains tight in terms of profitability, especially in the collective daily benefits area. Insurers now focus on profitability rather than premium volume.
- Poorly performing policies are being systematically restructured and insurers are withdrawing from the daily benefits business.

Trend

- Restructuring efforts will intensify.
- The market remains unpredictable. There does not seem to be any uniform procedure for restructuring or tenders.
- We have seen a further increase in the implementation of short-term insurance against short-term absences.
- Companies are increasingly aware of the (high) cost of absenteeism, apart from insurance premiums, and are searching for solutions to reduce such costs.

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Employee benefits

General
- Selective acceptance policy (important factors are age structure, number of insured persons and individual claims experience, amount of mandatory retirement assets).
- Mostly good investment performance also in 2021 (7.1% until end of August)
- Pure BVG minimum solutions are no longer offered in some cases.

Trend
- Low interest rates on extra-mandatory pension assets in full insurance solutions.
- Trend towards uniform, declining conversion rates.
- Tightening risk selection to avoid pension losses and pensioner cross-financing.
- Increased evaluation of 1e plans.

Challenging trend

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Treaty reinsurance

Stable Trend

General
- General hardening of the reinsurance market influenced by Covid-19 claims, especially in the property insurance, business interruption and personal insurance sectors (e.g. UVG)
- Limitation of cover due to exclusions for infectious diseases
- Earthquake and other natural perils partly more expensive, but risk-adjusted +/- zero
- Liability generally less conspicuous, only small price increases (if any)
- Sufficient capacities available everywhere

Trend
- Still sufficient capacities of reinsurers available
- Reinsurance prices tend to rise, but with exceptions for earthquake, natural hazards and other insurance programs not affected by losses.

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Facultative reinsurance

Stable Trend

General
- Full requirement of cyber and pandemic exclusions
- Increased restructuring efforts
- High premium increase and reduced capacity in critical nat cat covers, especially in the USA (wind, Earthquake). Heavy storms in 2020 accounted for almost 70 percent of insured losses.
- Overall higher prices for property and marine insurance, in some cases also for D&O, are visible. For critical types of business (eg. chemicals, food) premium levels are also rising with a focus on risk engineering (property).
- Further increase in deductibles and captive retentions

Trend
- Expectation of a tough market environment, although momentum seems to have slowed somewhat

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With over 300 employees at various locations in Switzerland, we represent all national languages. The head office is in Zurich.

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