KESSLER

MARKET VIEW 2021

CURRENT MARKET PERSPECTIVES

A SECURE FUTURE.

DEAR READER

We are not armed against every single eventuality. The past few months have shown, however, that we can readjust and find solutions, even in global crises. This is a valuable insight that will also benefit us in other areas. Our industry is facing challenges in the shape of tougher markets, the reorganization of social security systems and the risks associated with fragile networks. Nevertheless, there are ways for us to rise to these challenges. The thoughts and ideas of our Risk Practice Leaders presented in this publication provide you with food for thought, to help you do just that.

Lisa Spaar
Head Risk Practices

Warm regards,

Lisa Spaar

LIABILITY INSURANCE
THE CONSEQUENCES OF THE NEW ICA

After a lengthy development, the revised Insurance Contract Act (ICA) will come into force in 2022, with many implications for liability insurance.

Under the new Article 60 of the ICA, an injured party has the right to claim directly against the insurer. The insurer is liable in the same way as the party responsible. This means that in extreme cases, claims can be settled without the policyholder, and potentially contrary to their interests. In the past, injured parties only had this right to make direct claims in cases involving mandatory liability insurance for particularly exposed risks. Going forward, this option will be open to all injured parties. The number of claims will likely increase as a result.

EXTENSIVE CLAIMS PREDICTED

Insurance cover now extends to all of a company's employees. In addition to third-party claims for compensation, recourse claims by third parties (for example social security insurers) are now also covered. This renders the exclusion previously included in insurance policies obsolete. Liability insurers will face extensive claims, especially from social security insurance agencies. These will now very likely pass their medical treatment expenses due to loss events involving individuals who are insured with them on to the liability insurer of the individual responsible for the incident. Unlike many injured parties, professionally organized social security insurance agencies do not shy away from confrontation, which will translate into higher compensation payouts.

The new regulations strengthen the position of consumers. They signal the end of historical regulations that have protected the insurance industry until now. The development is to be welcomed from the customer's point of view, even if it will lead to premium increases. We remain on hand to support you with advice and assistance.

! TRENDING TOPIC

The new ICA brings improvements for insurance customers, albeit improvements that will come hand in hand with higher premiums.

$ DEVELOPMENT OF PREMIUMS	NATIONAL	INTERNATIONAL
Liability insurance	→	↗

Willi Löw
Practice Leader
Liability Insurance

PROPERTY INSURANCE
GLOBAL INSURANCE PROGRAMS

Companies operating internationally are having a hard time at the moment. In addition to the COVID-19 pandemic, they are faced with a hostile insurance market characterized by price increases, restricted cover, reduced capacity and an increased need for information on the part of insurers.

Companies that only need a local policy in Switzerland are in luck. It is a different story with global insurance programs, where placing worldwide insurance cover can become very complex. The terms "good local standard" or "best local standard" often crop up in this context. These terms reflect the insurers' promise to their customers to provide uniform insurance cover worldwide. The insurer issues a policy with the most extensive cover possible in the country concerned, based on the agreements made in the master policy, either through its own subsidiaries or with local insurance partners. However, each country has its own market practices and policy conditions. This means that the promise is virtually impossible to keep, especially since the terms "good" or "best local standard" are not clearly defined.

UNIFORM GLOBAL WORDING

Some insurers have already introduced a uniform policy wording worldwide, and other providers are following suit. The advantage is that all policies look the same worldwide, with the exception of mandatory local features. As a rule, all of the policies are also issued in English. This prevents differences in cover from country to country within the global insurance program and makes claims handling easier, because the definitions and conditions are valid worldwide.

It is important to have a good overview of your own insurance situation so as to be able to combine policies and eliminate redundancies. This helps to achieve the "good" or "best local standard." The Marsh Global Connect tool was developed for this purpose.

! TRENDING TOPIC

If you are familiar with your company's costs and cover, you can improve and optimize your own global insurance programs in a targeted manner.

$ DEVELOPMENT OF PREMIUMS	NATIONAL	INTERNATIONAL
Property insurance	→	↗
Technical insurance	→	↗

Simon Holtz
Practice Leader
Property Insurance

PENSION BENEFITS
GUIDELINE FRP 4 – PROVISIONS FOR PENSIONERS KEEP RISING

The Guidelines of the Swiss Chamber of Pension Fund Experts supplement or specify statutory requirements. Guideline FRP 4 means that increasingly large provisions have to be set aside for current obligations – impacting both interest and conversion rates.

The technical interest rate is used to discount current pension obligations so as to calculate the provisions. The lower the technical interest rate, the higher the provisions for current pensions.

Guideline 4 defines the applicable technical interest rate. It is defined as the average yield on 10-year Swiss government bonds over the last 12 months, plus 2.5 %. If periodic actuarial tables are used, a discount of 0.3 % is applied. The resulting interest rate should be below the expected investment return by an appropriate margin. The recommended technical interest rate is currently between 1.75 % and 2 %.

EROSION OF PENSION PROMISES

Many pension plans with higher technical interest rates are having to increase their pension provisions at the expense of investment performance. Higher provisions must also be set aside for retirement losses if the conversion rate used to calculate new pensions does not fall at the same time.

The creation of reserves leads to low interest on retirement assets – and, in combination with the reduced conversion rate, to the erosion of pension promises. This affects the baby boomers who are now nearing retirement. Younger people at least have the chance that interest will make a greater contribution to the accumulation of retirement capital through the reduction in the pension plan's liabilities.

! TRENDING TOPIC

The definition of the technical interest rate pursuant to Guideline 4 has an impact on the interest rate, the conversion rates and the provisions that need to be set aside.

$ DEVELOPMENT OF PREMIUMS	NATIONAL
Affiliation contracts with a collective foundation	↗
Risk insurance for foundations	→

Nadine Wieland and Martin Suter
Practice Leaders
Pension Benefits

PERSONAL INSURANCE
THE PITFALLS OF WORKING FROM HOME

Whether working from home is mandatory or recommended, its prevalence has greatly increased amid the pandemic. However, employers must follow various rules to prevent costly teleworking risks from arising.

Companies differ in their approach to working from home. New systems are springing up everywhere, and can even include working from a vacation home, camper van or luxury hotel. But all of these options come with new risks. What is the social security position if someone spends half a year working on the beach in Italy? Who pays if a laptop is stolen in the middle of the Alps? Who is responsible if client records are damaged between an employee's home and the office? Who is liable if the Wi-Fi goes down and a project cannot be completed? And who coughs up if cyber criminals extract important data from a laptop?

REMOTE WORKING FROM ABROAD IS A TRICKY BUSINESS

Working from home in Switzerland is easy to organize in insurance terms. That's not the case when employees work from another country, when the question soon arises of which social security system applies. While a number of pragmatic exemptions were applied during the COVID-19 pandemic, it is likely that employees working abroad will soon be subject to local social security systems again, with potentially very expensive implications. As well as the creation of a foreign permanent establishment, work permits or even tax issues, benefit commitments that cannot be met could suddenly arise under Swiss law, creating a need for unpopular accounting provisions. This is why more and more companies are ordering people working remotely abroad to return to Switzerland. In other cases, a limit on remote work of one day per week is being imposed on cross-border commuters to be on the safe side. Claims in which the insured location is not specifically defined as "the chalet in Valais" where the employee is working are problematic.

! TRENDING TOPIC

To avoid risks, it pays for companies to limit working from home. However, a risk management process is also an absolute must.

$ DEVELOPMENT OF PREMIUMS	NATIONAL	INTERNATIONAL
Daily sickness benefits insurance	↗	↗
Accident insurance	↗	↗
Supplementary accident insurance	↗	↗
Corporate travel insurance	→	→

Thomas Roggo
Practice Leader
Accident and Health Insurance

SPECIAL RISKS AND CYBER INSURANCE
WHERE NOW FOR FINANCIAL LINES?

Hard times for policyholders: no turnaround in sight in a much tougher financial lines market. The market restructuring trend in cyber insurance continues, making good advice all the more important.

Switzerland's financial lines insurance market is 40 years old. This business, which was initially very dependent on London, has developed to become an important local pillar of Swiss industry and service providers. For more than 10 years from 2008, it was a buyers' market, with a large number of suppliers, increasing capacity and falling premiums. Today's insurance market is growing much tougher. This applies to all main types of financial lines insurance, such as D&O, professional liability, fidelity, EPLI and cyber. According to the Marsh Global Insurance Market Index, corporate premiums increased by 18 % worldwide in the first quarter of 2021 (compared with +22 % in Q4 2020), with an increase of as much as 40 % in financial lines (Q4 2020 +47 %). This marked the fourteenth consecutive quarter of growth. The pace of the increase at least slowed slightly against previous quarters. One small ray of light on the horizon is that new insurers are offering capacity. So does this mean that the peak has been reached and the markets are consolidating?

NO TURNAROUND

We still see hardly any signs of the market easing. Sums insured are being reduced further, premiums are rising, and conditions are becoming more restrictive. Insurers are returning to their strengths, focusing more on their core competences and solid underwriting, and underwriting those risks that are a good strategic fit. They are no longer willing to make major compromises for market share or customer relationships.

CYBER INSURANCE TRANSFORMATION

The reorganization in the cyber insurance market is still underway. Some insurers still feel that the margins on offer are too low, prompting them to withdraw or drastically reduce their offerings. Providers have enhanced and expanded cyber insurance considerably in recent years, offering comprehensive protection. Although customers were aware of, and in some cases understood the risks involved, many still hesitated to buy. This triggered a marketing drive by insurers, including a very customer-friendly underwriting process. Around this time, cyber risks made it into the top five, and later even the top three corporate risks due to the rapid rise of global digitalization. Insurers were inundated with claims. At times, a quarter of the policies in our portfolio were affected by claims. Today, it seems that the actuaries have regained control from the marketing teams. Instead of low-cost fully comprehensive solutions, the offering is dominated by customized cyber risk cover at a fair market price. Insurers want to be familiar with and to scrutinize the risks and processes involved. Conditions are adjusted to reflect the risk. Customers that do not make it through the underwriting process are left without insurance, or with only a slimmed-down standard version. The need for consulting has increased considerably. But the effort pays off if we remain precise and persistent for our customers.

! TRENDING TOPIC

Policyholders will have to be patient until the markets ease. Those who obtain good advice have an advantage.

$ DEVELOPMENT OF PREMIUMS	NATIONAL	INTERNATIONAL
Special risks	↗	↗
D&O insurance	↗	↗
Cyber insurance	↗	↗
Fidelity insurance	↗	↗
Credit insurance	→	→

Christian Peters and Manuel Pachlatko
Practice Leaders Special Risks and Cyber Insurance

INSURANCE FOR TRANSPORTATION AND LOGISTICS
SUPPLY CHAINS PROVE FRAGILE

Be it by road, sea or air, COVID-19 has had a huge impact on freight transportation and mobility. This has been compounded by delays and bottlenecks in global supply chains.

MARINE INSURANCE

The pandemic is still taking a hefty toll on the industry. Lockdowns sent order volumes, particularly for sea transport of consumer goods, plummeting.

Although orders have bounced back, the logistics are lagging behind: deliveries are delayed, products are arriving in warehouses late and sea freight costs have increased several-fold. Since 80 % of global trade uses sea freight, this trend has serious ramifications. Unforeseen events, such as the Ever Given accident in the Suez Canal, have made matters worse. This highlights just how fragile sea transport is. Air transportation is not providing any relief: prices that were already high due to capacity bottlenecks are continuing to rise.

This is prompting many companies to question their supply chains. They are trying to diversify them and make them less reliant on individual regions. This trend is being reinforced by trends such as glocalization, direct trade and nearshoring. These shifts are, however, sometimes at odds with profitability considerations – not just in the COVID-19 context.

MOTOR VEHICLE INSURANCE

The trend towards working from home has had a major impact on mobility. Use of public transport has slumped and vehicles have driven far fewer kilometers. The number of registrations has also fallen. So what impact has this had on insurance companies? Surprisingly, still none. This is because claims costs from road traffic accidents have remained stable despite the lockdowns, presumably because many people switched from public transport to cars. Road traffic is now almost back at pre-pandemic levels, and still rising. Clear trends are unlikely to emerge before 2022.

As far as vehicle fleets are concerned, COVID-19 has accounting implications: many fleets covered significantly fewer kilometers than the budgeted amount, reducing asset values. This effect is likely to keep the tax experts busy. Many private households switched to electric cars during the lockdown period, a trend that has yet to emerge in corporate fleets. Making the switch would, however, be worth it: insurers are currently offering premium discounts of 20 to 25 % for electric vehicles.

AVIATION

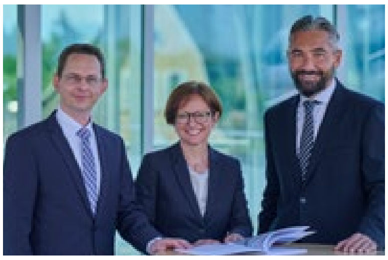
The insurance market has hardened considerably in recent years due to a large number of major claims. The pandemic has grounded large swathes of the aviation industry. Some insurers have withdrawn from the market, while others are no longer prepared to bear the risk alone. Lower capacity, demand and claims results have led to unusually large premium increases. Although there was minimal air travel during the lockdown periods, claims remain at a high level due to numerous ground handling claims. Policyholders have few options available to them. It is important that they avoid claims, such as by ensuring regular pilot simulator training and well-trained ground crew.

The airline industry is likely to experience an upswing again once the pandemic is over. The key for aviation businesses will be how they respond to a rapid increase in demand and how they prepare for any volatility.

! TRENDING TOPIC

Changes in supply chains are creating challenges for entrepreneurs, logistics specialists and insurers alike. There is a need for flexible insurance solutions to support these changes.

$ DEVELOPMENT OF PREMIUMS	NATIONAL	INTERNATIONAL
Marine insurance	↗	↗
Motor vehicle insurance	↗	↗
Aviation insurance	↗	↗



from left to right:
Patrick Frey,
Karin Meyer,
Nicola Carbone
Practice Leaders Aviation, Marine Insurance and Motor Vehicle Insurance

INTERNATIONAL EMPLOYEE BENEFITS
THE BENEFITS OF GLOBAL PROGRAMS

From a certain premium level, insurable employee benefits can be placed more efficiently in a global program. This applies to life, accident and disability insurance, and to some extent to health insurance. It also gives corporations global influence over the choice of local insurer.

A global employee benefits (EB) program places local policies with the local network partners of a global insurance company or network. These policies are reinsured centrally and are underwritten as a single portfolio. This allows for leveraging on a global scale in favor of the price and terms. The local insurance policies always remain in force, ensuring compliance with country-specific regulations as well as claims and administrative services.

Differences between an EB program and a global program for P&C insurance:
- Local life, accident, disability and health insurance are almost always required.
- Global framework agreement instead of a "master insurance policy."
- The freedom to provide services within the EU is rarely used due to subtle local differences.
- No "Difference in Conditions" or "Difference in Limits" clauses.
- Payments from non-admitted policies or benefit payments can prove challenging depending on the type of claims (e.g. annuity benefits) and the ultimate beneficiaries (mostly individuals).
- Types and levels of coverage differ significantly between countries and harmonization is virtually impossible.
- The differences between insurance cover in the individual countries result in more country-specific premium allocation.
- The bulk of the risk is often centralized in a single reinsurance balance sheet that provides a global view of pricing, cover and claims.
- A reinsured global EB program can support more consistent cross-border cover.

Companies should not implement a global EB program for cost reasons alone. Rather, they should also consider the benefits of long-term price stability, increased control, transparency and tailored risk financing.

! TRENDING TOPIC

Global employee benefits programs can bring advantages for corporations in terms of costs and insurance conditions. Other criteria, however, are also important.

$ DEVELOPMENT OF PREMIUMS — **INTERNATIONAL**

International group healthcare insurance ↗
International employee benefits ↗

Dag Zwikker
Practice Leader
International
Employee Benefits

ABOUT KESSLER

Kessler is the leading Swiss enterprise specializing in comprehensive risk, insurance and pension fund consulting. We advise over 1,000 medium-sized and large Swiss companies from the service, trading and manufacturing industries, as well as the public sector. Thanks to our expertise in each of these economic sectors, our highly qualified staff and our leading market position, we contribute significantly to the long-term success of our clients. As a reliable partner, we inspire our clients and open up new perspectives through the safe and successful management of risks. Founded in 1915, Kessler has 300 employees working at its headquarters in Zurich and its other sites in Basel, Bern, Geneva, Lausanne, Lucerne, Neuchâtel, St. Gallen and Vaduz.

As the Swiss partner of Marsh since 1998, we are part of a network with specialists in all areas of risk management and with great experience in handling global insurance programs. Marsh, the world's leading insurance broker and risk advisor, operates in more than 130 countries and is part of Marsh McLennan (NYSE: MMC).

Further information can be found at www.kessler.ch, www.marsh.com, www.mmc.com.

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