KESSLER

MARKET VIEW 2022

CURRENT INSURANCE MARKET PERSPECTIVES

A SECURE FUTURE.

We are delighted that "Market View" is celebrating its tenth anniversary. The idea was, and still is, to provide you with an insight into what we make of developments on the insurance markets. In particular, the focus is on the main premium due date for a large number of insurance policies, January 1.

Join our Practice Leaders as they take a look at their specific markets and the development in the risks faced by Swiss companies. "Market View" combines the experience of our specialists from their day-to-day work with global dialog with Marsh McLennan.

LIABILITY INSURANCE
INITIAL FINDINGS FOLLOWING ENTRY INTO FORCE OF THE REVISED INSURANCE POLICIES ACT (IPA)

The revised version of the Insurance Policies Act (IPA), which entails significant changes in the liability sector, particularly with regard to direct and recourse claims, entered into force on January 1, 2022.

So far, we have not observed any difficulties in renewing liability insurance. The premium increases announced by insurers have not yet been implemented either. For major clients, the calculation is still based on the required premium, i. e., the premium required to cover the compensation costs and fees. The long-term profitability of the insurance policy thus remains the decisive factor in the premium calculation, not the costs involved. No particular trend has been observed for SMEs either.

LIABILITY: WHAT SHOULD THE LIMIT OF LIABILITY BE?

Our society is constantly changing. In parallel with the strengthening of consumer rights, we are also seeing a slow but steady increase in claims for damages. There are many factors behind this trend, in particular social, legal, economic and political aspects. Legal advice is increasingly being sought. This is due to the complexity of legislation, but also to the availability of legal protection insurance products. If it is not possible to find a quick solution, disputes are quickly referred to experts. Claims are also on the increase in general, either as a result of the rise in the cost of living and in the financial needs, or as a result of the development in court decisions and the general increase in financial pressure. This means that the limits of liability need to be reconsidered and set at a minimum threshold of CHF 10 million. This threshold can be increased, of course, depending on the economic sector and the activities insured.

$ DEVELOPMENT OF PREMIUMS	NATIONAL	INTERNATIONAL
Liability insurance	↗	↗

Andreas Strässle
Practice Leader
Liability Insurance

PROPERTY INSURANCE
ELEMENTARY LOSSES AND VULNERABLE SUPPLY CHAINS

Severe storms in 2021 resulted in an increase in elementary losses, while current global developments are leading to supply bottlenecks.

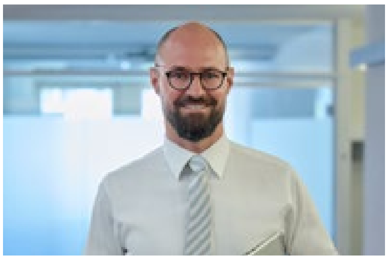
BUILDINGS SUSCEPTIBLE TO ELEMENTARY LOSSES

2021 was characterized by severe storms in Switzerland. But why are the loss amounts so much higher than they used to be? Certain regions have always been hit hard by elementary losses. Buildings are being constructed increasingly near riverbanks, in avalanche corridors and in flood-prone locations. What is more, some buildings are outdated. These factors go some way to explaining the increase in risks in Switzerland. Climate change is accelerating this trend. Improvements in technology, materials and construction techniques should reduce the average loss amount in the future, but past and future losses caused by natural forces will reinforce the current hard market. As a result, it is crucial for companies to evaluate their own risk exposure in relation to natural hazards.

IMPACT OF GLOBAL DEVELOPMENTS ON SUPPLY CHAINS

The world has been suffering from a global pandemic since late 2019, followed by Russia's attack on Ukraine. These events have highlighted just how vulnerable our supply systems are: the reliance caused by globalization and the increase in just-in-time production are creating a shortage of certain products – a clear inflationary trend can be identified. Companies are grappling with delivery delays. There is a risk that warehouses might be set up in unsuitable locations. These factors increase risk and are forcing companies to rethink how they organize their supply chains. We recommend checking your existing insurance cover and the period of indemnity for business interruption and carrying out a revaluation of the goods in order to adjust the sums insured to reflect the current inflation.

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



Pascal Schneider
Practice Leader
Property Insurance

PENSION BENEFITS
THE EFFECTS OF RISING INTEREST RATES

The market environment is challenging – for private investors and pension funds alike. Bond yields have risen significantly since the beginning of the year. Are the golden years of occupational pensions coming to an end?

At the beginning of the year, the yield on 10-year Swiss government bonds was still sitting at 0.045 %. Since then, yields in this asset class have increased significantly. This has far-reaching consequences for pension funds. Rising interest rates lead to short- or long-term price losses. The shorter the duration, the lower the book loss if interest rates rise. The book loss primarily affects the assets side of the balance sheet. The rise in interest rates has no impact on the liabilities side unless the technical interest rate is revised upwards. As a result, a pension fund's coverage ratio can be expected to decline for a short time.

IS THIS CAUSE FOR CONCERN?

No, rising interest rates will also increase yields going forward. Another positive effect is the reduction of future redistribution thanks to higher interest rates.

The regulator for pension funds is adopting a stringent and cautious approach. Broad diversification of the investment strategy is essential. Depending on the fund concerned, real estate accounts for a considerable proportion of the overall portfolio. The returns generated by rental income in this segment remain in positive territory. Funds have other investment vehicles at their disposal in the form of shares and alternative investments.

And let's not forget: The second pillar is dynamic. As active members make regular payments, fresh money keeps flowing into the pension funds. It is now up to pension funds to invest the money entrusted to them by the insured persons profitably.

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

Cédric Deprez and Nadine Wieland
Practice Leaders
Pension Benefits

PERSONAL INSURANCE
HARDENING MARKET DUE TO UNCERTAINTY

Insurers with a risk appetite are becoming scarcer. Many are keeping exclusivity lists. Risks for clients in sectors with higher absentee rates, such as sports, restaurants, hotels and retirement and nursing homes, are proving difficult to place. More and more insurers are hitting their capacity limits.

DAILY SICKNESS ALLOWANCE

The insurance market has hardened further due to the coronavirus crisis and the war in Ukraine. Many insurers are struggling with rising daily sickness benefits and high loss ratios due to mental illness and musculoskeletal disorders. Most insurers already have a very high claims burden, and the pressure to increase premiums to boost profitability is high. In addition, for policies with waiting periods, there are virtually no offers for less than 30 days or more than 90 days.

We do not expect to see any relaxation in premium rates. The focus is on absences related directly to accident and health insurance. A lower absence rate is the only way to counteract this. It is up to employers to keep their staff healthy, prevent absences or manage them as effectively as possible. We expect to see more mental health problems due to mounting stress in the workplace. One reason for this is the shortage of skilled workers, which is likely to become more pronounced.

In the key account business, insurance is shifting towards self-financing. This is bolstering demand for alternative financing solutions, which are currently only available to large companies.

ACCIDENT INSURANCE

While the frequency of accidents fell during the coronavirus crisis, case costs remain on an upward trajectory. The knock-on effects vary. Insurers are generally trying to keep their premiums constant. Premium increases are impossible to rule out.

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

Thomas Roggo
Practice Leader
Personal Insurance

SPECIAL RISKS AND CYBER INSURANCE
EASING IS ON THE HORIZON

A large number of indications suggest that the extreme market hardening is coming to an end. We believe that the D&O market has reached a turning point.

Renewals can once again be achieved with minimal premium surcharges or even at the same premium – in some cases even at reduced premiums. These developments are being driven by an inflow of new capacity from new providers, while insurers continue to benefit from the claims situation. The market for financial institutions has also stabilized. A number of insurers that have increasingly retreated from this segment over the past three years are once again proving more willing to offer higher capacities. The EPLI, fidelity and cyber segments tell a different story. These segments continue to be characterized by a limited number of providers. What is more, the increased claims burden in these lines of insurance is prompting insurers to adopt a restrictive underwriting policy.

The Marsh Global Insurance Market Index confirms this picture. Premiums in the special risk segment, for example, increased by 26 % as of the first quarter of 2022, a downward trend compared to the previous quarters (Q4 2021 +31 %). The cyber market is the main factor driving what are still pronounced premium increases.

Like other insurance segments, the special risks segment is affected by the revised Insurance Policies Act (IPA), which entered into force on January 1, 2022, and the war in Ukraine. The new Article 60 IPA, which grants injured parties a direct claim against their insurer, is particularly relevant. With regard to the Ukraine crisis and the associated international economic sanctions, most insurers are reacting by imposing territorial exclusions. These exclude companies and individuals domiciled in the sanctioned countries from the scope of cover.

CYBER INSURANCE

The cyber insurance market has hardened significantly. This can be traced back to four years marred by heavy losses, combined with the process of profound digital transformation and increasing numbers of ransomware attacks. 80 % of losses can be attributed to malicious attacks. In early June 2022, the National Council adopted the postulate entitled "Measures for better protection against ransomware attacks." This means that what is currently the main cause of losses to the insurance industry has finally entered the political arena. This raises the question as to whether cover should still be provided for ransomware payments. These political, legal and, most importantly, economic factors have motivated an increasing number of companies to introduce cyber risk management systems. This means that they are increasingly looking at insurance solutions. These developments are fueling a significant increase in demand. Insurers are becoming more restrictive as a result of claims developments, reducing their capacities and increasing deductibles and premiums.

With the foundation created by cyber risk management, insurance can now be used effectively for its original purpose: catastrophic events. Insurers have also agreed on minimum criteria. These must be met so that the risk can be passed on to the insurance industry. It is therefore possible to continue to develop robust cyber insurance solutions for companies that meet these minimum criteria and make use of insurance as an additional form of protection.

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

Til Siegmann and Manuel Pachlatko
Practice Leaders Special Risks and Cyber Insurance

INSURANCE FOR TRANSPORT AND LOGISTICS
MARKET DOMINATED BY GLOBAL UNCERTAINTIES

Marine insurance is dominated by global delivery delays. The motor vehicle insurance market has hardened further. And aviation is feeling the effects of the war in Ukraine and the damage incurred due to the aircraft that were grounded during the pandemic.

MARINE INSURANCE

COVID-19 was the all-encompassing story of 2021. The rather pessimistic predictions have proved true. COVID-19 is, and will continue to be, a major driver of transport delays. In Asia in particular, new coronavirus outbreaks have been combated with lockdowns, as witnessed most recently in Shanghai and Japan. This is having a direct impact on supply chains. Delivery delays now often span a period of 70 to 90 days or are completely impossible to predict.

The war in Ukraine continues to have a major impact on the industry. On the one hand, supply chains have been hit hard, with a particular impact on raw materials: cereal exports have restarted, but in more difficult circumstances. In addition, the country's largest steel plant lies in ruins, which will have an impact on the construction industry in the medium term. The prices of many goods are also expected to rise sharply. On the other hand, shipments to Russia and Belarus are nearly uninsurable.

Brexit is also leaving its mark: Inefficient customs processes are resulting in long traffic jams at the borders, which further exacerbates the problem of resources – as does the lack of Ukrainian workers. This, too, has negative consequences for supply chains. In short, delivery delays are likely to translate into rising prices, work delays and lack of order fulfillment in a large number of areas over the coming months.

MOTOR VEHICLE INSURANCE

The motor vehicle insurance market has hardened due to the millions in claims payments made by insurers. These were triggered primarily by the numerous hailstorms witnessed in 2021. As a result, we expect to see more restructuring measures than in previous years. Risks with a good claims history can be continued under the same conditions. Premiums savings are possible for risks with a very good claims history in individual cases.

In addition to rising petrol and diesel prices, companies are also being asked to cough up for premiums for their fleets. This is an area in which it is worth switching to an electric vehicle fleet in the long term. The increased use of online meetings has the potential to help defuse the situation further.

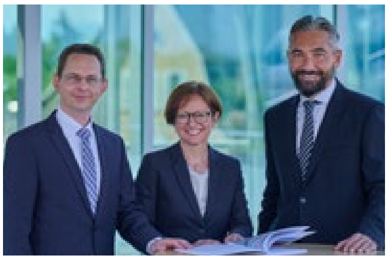
AVIATION

The insurance market outperformed the previous year. Insurers are providing more capacity and risk appetite has increased slightly. These prospects are, however, looking gloomier due to the war in Ukraine, among other factors. Insurers are faced with hefty claims due to the loss of passenger aircraft belonging to leasing companies. As a result, the comprehensive war rates for premiums are likely to increase in the coming months. Some of them have already been increased.

The pandemic has also led to an increase in claims, despite the fact that there were fewer aircraft in the sky. The large number of aircraft parked resulted in an above-average number of claims on the ground worldwide. This will mean that insurance premiums will remain at least at their current level or are likely to increase slightly for the most part.

The strong upward trend in commercial aviation following the coronavirus pandemic is an encouraging development. Travel restrictions have been lifted in many countries, masks are no longer mandatory, and people are showing an increasing interest in travel.

$ 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
EMPLOYEE HEALTH AND WELL-BEING

Employers' ability to have a positive impact on employee health and resilience by providing a wide range of health and well-being resources is one of the most important findings of the 2021 Mercer Marsh Benefits Health on Demand study.

Investment in employee well-being has increased by 60 % as a result of the COVID-19 pandemic. Employees who had access to a wide range of health, risk protection and well-being resources were more engaged at work and also more confident they could afford the healthcare they and their families needed. Flexible working emerged as the most valued aspect of health and well-being support: employers supporting this approach will reap the rewards of having more loyal employees, a stable workforce and the ability to attract and retain talent.

In response to this emerging trend, the seven main global employee benefit networks strengthened their focus on developing solutions that enable employers to support employee well-being, such as telemedicine services and apps to help people self-manage health conditions. Other key developments among the networks that are not directly related to health and well-being include further geographical growth in the number of local partner insurers and the evolving shift away from multinational pooling arrangements and towards global underwriting and captive fronting programs.

INVESTMENT INCREASES AFTER BENEFITS PROVE THEIR WORTH DURING THE PANDEMIC

Instead of responding to the pandemic by cutting employee benefit budgets, many organizations have increased their spending on benefits in the wake of COVID-19. The majority of changes made as a result of this have been to value-added, specialized benefits rather than companies' core offering of pensions, life insurance, accident insurance and medical insurance. C-level executives will be looking for evidence that this additional expenditure on benefits is yielding results. In tandem with an increase in spending on employee benefits, there has also been an increased focus on investment in technology, which similarly needs to be covered by HR budgets. The major benefit of investing in digital platforms is that employers have been able to adapt their benefits offerings to cope with a globally diverse workforce, one that is often working remotely.

$ 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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