

Insurance against damage by natural forces

I. Summary

Insurance against damage by natural forces covers damage to chattels and buildings arising from high water, floods, storm, hail, avalanche, snow pressure, rockslide, rockfall, and landslide. The scope of coverage and the scale of premiums are uniform and binding for all private insurers in Switzerland. In view of its great socio-political and economic importance, this principle was legally enshrined in 1993.

The significant increase worldwide in the risk of damage by natural forces and the storms in the summer of 2005 in Switzerland showed that the current coverage limits of CHF 250 million for insurance against damage by natural forces to buildings and to chattels are not sufficient.

The Swiss Insurance Association (SIA) therefore requested an increase of these coverage limits. For purposes of the necessary adjustment of the coverage limits, FOPI initiated amendments to the Supervision Ordinance (SO).

In its meeting of 18 October 2006, the Federal Council adopted and approved the requested increase in the coverage limits and the changes in the deductibles. The changes to the ordinance will enter into force on 1 January 2007.



II. Insurance against natural forces

In 19 cantons, insurance against fire and damage by natural forces with respect to buildings is offered by cantonal building insurers through a monopoly. In the cantons of Nidwalden and Vaud, the cantonal monopoly also applies to the insurance of chattels (household effects and other chattels). In the other cantons, private insurers offer insurance of chattels, and in the GUSTAVO cantons (Geneva, Uri, Schwyz, Ticino, Appenzell Innerrhoden, Valais, and Obwalden), the private insurers also insure buildings against fire and damage by natural forces. The private insurers, but not the cantonal building insurers, are subject to supervision by the Federal Office of Private Insurance (FOPI).

With respect to private insurance, the Insurance Supervision Act (ISA) stipulates that coverage against natural forces must be included under fire insurance. As governed by the Supervision Ordinance, it covers damage to chattels and buildings arising from high water, floods, storm, hail, avalanche, snow pressure, rockslide, rockfall, and landslide. Events such as damage caused by theft, water, or broken glass are not covered by insurance against natural forces. The scope of coverage and the scales of premiums are uniform and binding for all private insurers.

III. The system

Insurance against natural forces is based on the principle of dual solidarity among insurers on the one hand and policyholders on the other hand. The premiums are not determined on the basis of the concrete exposure to loss, but rather according to uniform rates for each solidarity circle (household effects, other chattels, and buildings). This entails that insurance against natural forces is also offered at the uniform rate in exposed areas, thereby preventing losses that could endanger livelihood.

According to the Insurance Supervision Act (ISA), coverage against natural forces must be included under fire insurance. The scope of coverage and the scales of premiums are uniform and binding for all private insurers in Switzerland. In view of its great socio-political and economic importance, this principle was legally enshrined in 1993. Without a new legislative basis, the solidarity system of natural forces insurance based on the private sector, which had functioned from the late 1950's until

then, would have been endangered by the liberalisation of the Swiss non-life insurance market and the increasing deregulation of insurance markets throughout Europe.

By law, the responsibility of FOPI consists in verifying whether the premiums derived from the scales and calculation materials submitted by the insurance undertakings are appropriate to the risks and costs.

IV. Higher coverage limits

The significant increase worldwide in the risk of damage by natural forces and the storms in the summer of 2005 in Switzerland showed that the current coverage limits of CHF 250 million for insurance against damage by natural forces to buildings and to chattels are not sufficient. According to data provided by the Swiss Insurance Association (SIA), storm damage in the summer 2005 amounted to about CHF 1,335 billion for private insurers, CHF 950 million of which fell to natural forces insurance. The Swiss Insurance Association (SIA) therefore requested an increase of these coverage limits.

According to current findings, an increase of the coverage limits to CHF 1 billion francs each for buildings and for chattels is indicated. This coverage limit applies to all damage arising from a natural hazards event for buildings in the GUSTAVO cantons and for chattels insurance in all cantons except for Nidwalden and Vaud. The coverage limits for damage arising from natural forces in the other cantons is individually determined by the cantonal building insurers.

Because of the different forms of funding, the dualism in natural forces insurance leads to different coverage, premium, and deductibles rules for cantonal insurance solutions and for private insurers.

V. Amendments to the SO

For purposes of the necessary adjustment of the coverage limits, FOPI initiated amendments to the Supervision Ordinance (SO). In its meeting of 18 October 2006, the Federal Council adopted and approved the requested increase in the coverage limits and the changes in the deductibles. The changes to the ordinance will enter into force on 1 January 2007.

The simultaneous increase of the coverage limits and the changes in the deductibles ensures that the insurance premiums for natural hazards insurance only need to be increased modestly, despite the quadrupling of the coverage limits.

The scope of coverage and the scale of premiums are uniform and binding and the latter must be approved before being applicable. On 3 November 2006, FOPI sent the decree with the tariff changes to the insurance undertakings which offer insurance against damage by natural forces. The changes to the scale of premiums will be published in the Federal Gazette of 28 November 2006. The tariff change requested by FOPI will lead to changes in the premiums in all insurance undertakings and all insurance contracts.

The adjustment to the benefit thresholds is therefore being funded by a modest increase in premiums and an adjustment of the deductibles. Attention was paid to maintaining balanced premiums and deductibles, so that the solidarity among the participants is not overly strained.

VI. Deductibles, premium rates and limitations of liability

Deductibles, premium rates and limitations of liability until 31.12.2006:

	Deductibles	Uniform premium rates in parts per thousand of the insurance sum	Limitations of liability
Household effects	200.00	0.20	250 million per event for damage to chattels
Agricultural inventory	10% of the claims amount minimum 200.00 maximum 2,000.00	0.30	
Other chattels	10% of the claims amount minimum 500.00 maximum 10,000.00	0.30	
Residential and agricultural buildings	10% of the claims amount minimum 200.00 maximum 2,000.00	0.45	250 million per event for damage to buildings
Other buildings	10% of the claims amount minimum 500.00 maximum 10,000.00	0.45	

Deductibles, premium rates and limitations of liability from 1.1.2007:

	Deductibles	Uniform premium rates in parts per thousand of the insurance sum	Limitations of liability
Household effects	500.00	0.21	1 billion per event for damage to chattels
Agricultural inventory	10% of the claims amount minimum 1,000.00 maximum 10,000.00	0.35	
Other chattels	10% of the claims amount minimum 2,500.00 maximum 50,000.00	0.35	
Residential and agricultural buildings	10% of the claims amount minimum 1,000.00 maximum 10,000.00	0.46	1 billion per event for damage to buildings
Other buildings	10% of the claims amount minimum 2,500.00 maximum 50,000.00	0.46	

VII. Example calculations

Scenario 1

A major loss event (e.g. a flood) causes damage to chattels in Switzerland totalling CHF 500 million.

According to **current law**, if the total compensation by the private insurers exceeds the threshold, then the compensation paid to each claimant is reduced so that the total compensation no longer totals more than CHF 250 million, i.e., the amount is reduced by 50% for each claim.

A policyholder has insured his household effects in the amount of CHF 50,000. The loss amounts to CHF 10,000.

In this case, the private insurer calculates the claimant's compensation as follows:

Damage	10'000.-
Deductible	200.-
Subtotal	9'800.-
Reduction (50%)	4'900.-
Compensation	4'900.-
Damage borne by claimant	5'100.-

Under the **new coverage approved by the Federal Council and which will come into force on 1 January 2007**, no reduction is made in this example, since the new benefit threshold will amount to CHF 1 billion per event for chattels.

In this case, the private insurer will calculate the claimant's compensation as follows:

Damage	10'000.-
Deductible	500.-
Subtotal	9'500.-
Reduction (0%)	0.-
Compensation	9'500.-
Damage borne by claimant	500.-

Scenario 2

A loss event (e.g. landslide) causes damage to chattels in Switzerland totalling CHF 25 million.

According to **current law**, the compensation awarded to each claimant is not reduced, since the total damage is less than CHF 250 million.

A policyholder has insured his household effects in the amount of CHF 100,000. The loss amounts to CHF 30,000.

In this case, the private insurer calculates the claimant's compensation as follows:

Damage	30'000.-
Deductible	200.-
Subtotal	29'800.-
Reduction (0%)	0.-
Compensation	29'800.-
Damage borne by claimant	200.-

Under the **new coverage valid from 1 January 2007**, there will also be no reduction in this example, since the new benefit threshold will amount to CHF 1 billion per event for chattels.

In this case, the private insurer will calculate the claimant's compensation as follows:

Damage	30'000.-
Deductible	500.-
Subtotal	29'500.-
Reduction (0%)	0.-
Compensation	29'500.-
Damage borne by claimant	500.-