Running like clockwork

Last month, *The Review* reported on the increasing number of insurance and non-insurance companies redomiciling in Switzerland from Bermuda. Kai-Uwe Schanz and Henner Alms spoke to a host of chief executives to find out why it is on the up. And it's not just about the tax...

Switzerland has long occupied a prominent place among the world's reinsurance marketplaces. From the very beginning, the country's strong position was rooted in its unique stability, ranging from its political system and neutrality to its currency.

Starting from the 1990s and accelerating since the beginning of this decade, numerous small and and medium-sized players have established a presence in Switzerland and increasingly put their mark on the marketplace.

Therefore, from a historical perspective, the current rebound should be viewed as a return to previous glory, rather than a genuinely new development, said Walter Kielholz, vice chairman, Swiss Re and the company's CEO from 1997 to 2002.

INTERNATIONAL COMPARISON

Swiss Re estimates that the global reinsurance market expanded from $117bn in 2000 to $192bn in 2007.

Over the same period, according to rating agency Standard & Poor's, reinsurance premiums written out of Switzerland more than doubled to $13bn which corresponds to a global share of close to 7%.

The actual weight of Switzerland, however, is closer to 10% as only subsidiaries are covered by the Swiss supervisor's and Standard & Poor's statistics. Branch offices, for example, the major operations of Partner Re in Zurich, do not show up in the figures.

Therefore, Switzerland, as a matter of fact, most likely ranks third in the global league table (*see box below*).

THE LARGEST REINSURANCE MARKETPLACES

LOCATION	NPW 2007 IN $BN
Germany	45.3
US	35.9
Bermuda	15.0
Switzerland	12.6
United Kingdom	11.9

Source: Standard & Poor's

SWITZERLAND'S LARGEST REINSURERS

LOCATION	NPW 2007 IN $BN
Swiss Re	8.816
Scor Switzerland	1.650
Partner Re	1.500
Paris Re	1.150
New Re (part of Munich Re Group)	1.046
Axis Re Europe	0.525
Deutsche Rück Schweiz	0.446
Glacier Re	0.351

Sources: Standard & Poor's, Swiss Financial Market Supervisory Authority, company data. All figures describe premiums written out of Switzerland.

IMPRESSIVE STRENGTHS

Karl Mayr, head of European reinsurance at Axis Capital, praised 'the ease of doing business in Switzerland'. In terms of solvency regulation and the Swiss Solvency Test, Mark Byrne, executive chairman, Flagstone Re, saw Switzerland in the role of a global leader.

Bruno Meyenhofer, chairman, Partner Re Global, highlighted another key attraction of Switzerland: the availability of highly skilled, multi-lingual underwriting and finance professionals.

The tax environment is another, long-standing competitive advantage of Switzerland. However, Hans-Peter Gerhardt, CEO, Paris Re, cautions that attractive tax levels only matter if they are not offset by other significant weaknesses such as inferior international flight connections or a lack of underwriting talent. In addition, the gap between Switzerland and other OECD countries narrows as those jurisdictions adopt less onerous tax codes.

And last but not least, the very subtle benefits of 'Swissness', equated with stability, solidity and reliability, should not be underestimated, says Robbie Klaus, CEO, Glacier Group. Jürgen E. Gerhardt, CEO, Echo Re, confirms that these intangible aspects have played a key role for its parent company, the German DEVK Group, to establish a reinsurance subsidiary in Switzerland.

ANY RELEVANT WEAKNESSES

Of course, Switzerland has chosen not to join the European Union (EU). As such, it enjoys some significant latitude in terms of regulation and taxation. However, these degrees of freedom come at a price. Benjamin Gentsch, CEO, Scor Switzerland, for example, pointed to the potential fragility and instability surrounding the contractual agreements between the EU and Switzerland.

The high level of salaries, on the other hand, is no relevant disadvantage against the backdrop of the location's overall attractiveness, said Bertrand R. Wollner, CEO, Signal Iduna Re, expressing the view of the large majority of the interviewees.

OPPORTUNITIES AND CHALLENGES

The new administration of President Obama is widely expected to increase the pressure on offshore locations such as Bermuda. Accordingly, a growing number of Bermuda-based players are likely to evaluate alternative locations, primarily Switzerland.

Another opportunity for the Swiss reinsurance market is the increasing demand by ceding companies for properly diversified reinsurer panels. Strongly capitalised small and medium-sized reinsurers are poised to benefit from this development which has been fuelled by the financial crisis.

And Switzerland is widely believed to be the preferred location for this segment of the reinsurance market, said Hans-Joachim Guenther, head of European and Asian reinsurance at Endurance.


Zurich, Switzerland

On the other hand, many Switzerland-based reinsurance heads consider the country's limited clout in international politics as a challenge. Despite a skilled approach to forging bilateral agreements, the country remains, in principle, vulnerable to unilateral protectionist moves.

In addition, some reinsurance executives, such as Helmut Söhler, CEO, Arch Re Europe, warned that Switzerland could also feel the heat as some foreign politicians view it as a tax haven.

Certain weaknesses and challenges notwithstanding, almost all of the interviewees see realistic prospects for Switzerland to further strengthen its prominent global reinsurance position. ®

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