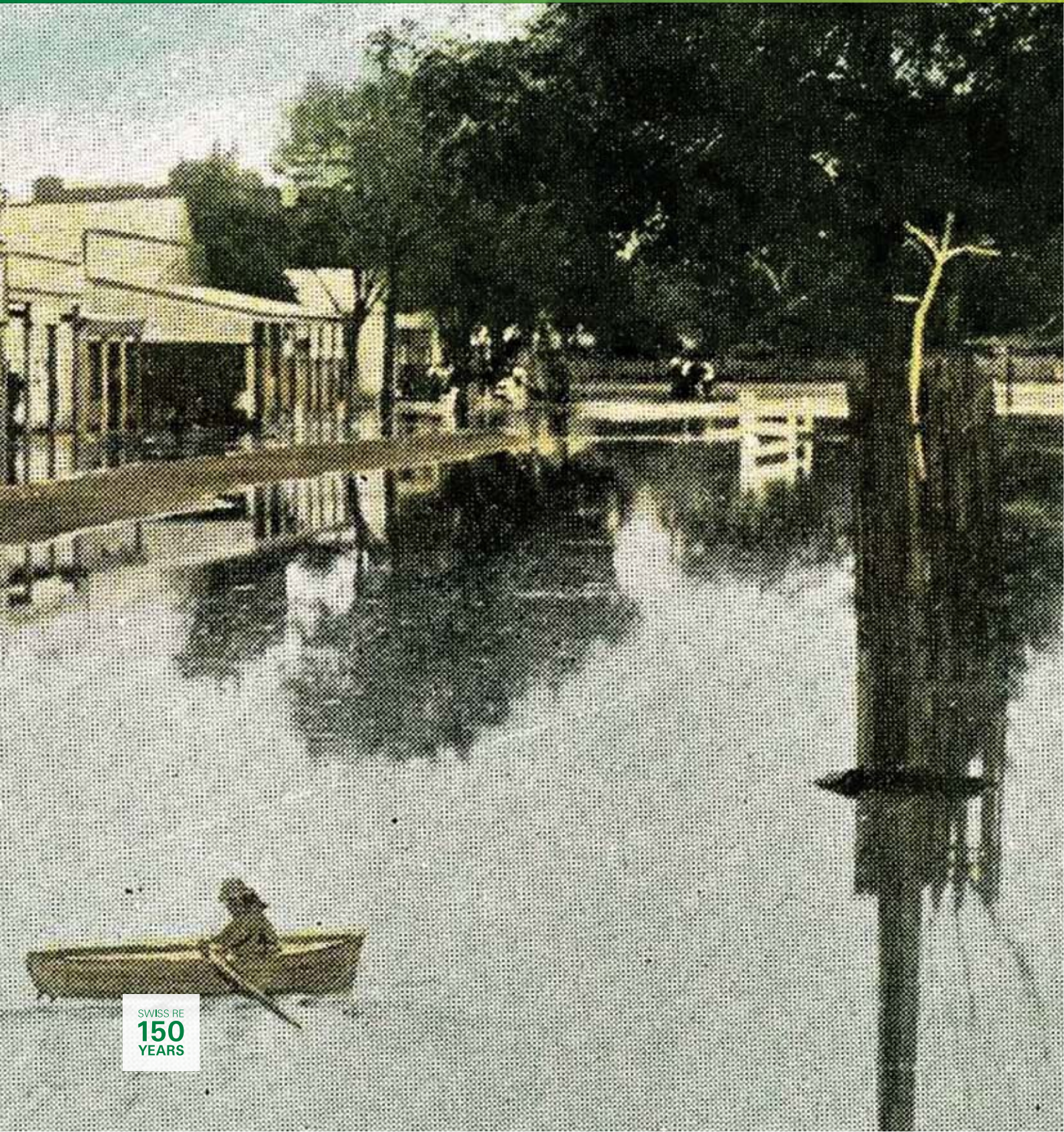


A History of Insurance in Australia and New Zealand



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Foreword

On 19 December 2013, Swiss Re celebrated its 150th anniversary.

Since our founding in 1863 the world has changed radically. Insurance has played an instrumental role in its progression, as without risk protection no skyscrapers could be built, products marketed or goods shipped. Insurers and reinsurers have become key risk takers and ultimately vital shock absorbers in today's evermore interconnected and volatile world. In addition, the insurance industry has been a stable source of funding for the real economy as it invests its premiums on a long-term basis, providing capital for a vast range of goods and services. Swiss Re is proud to be part of this process.

A key principle in the insurance industry is the capacity to share and distribute risk across borders and companies. With the expansion of global trade, the pace of industrial development and the need for social security and pension services, the management of risk has progressed and Swiss Re has evolved with it. Certainly, our own past and present would not have been possible without our clients and their efforts to develop insurance markets globally. We feel the history of insurance has been an important but rather neglected story and that is why we are keen to shed more light on it and celebrate it in the form of a series of history brochures.

Swiss Re started covering risks in Australia and New Zealand in the early 1900s. Early relationships were maintained through mutual connections in the London market. The first direct business relation "Down Under" was made in 1925 when Swiss Re signed its first contract with a New Zealand company. It was after the Second World War that Swiss Re grasped the opportunity to intensify its local links, opening a branch office in Melbourne in 1956. Visiting senior management reports from this time all confirmed the vibrancy and prospects for both Australia and New Zealand in the decades ahead. Australia also played an important role for Swiss Re during the Cold War when extensive plans were made to relocate services in the event of an invasion of Switzerland. Copies of all key documents were deposited at our Australian office and emergency legal and commercial procedures agreed in case of a crisis.

By 1962 there were over 60 active client relationships in Australia and New Zealand, with more Swiss Re offices opening. As the economy and cedants grew, Swiss Re was able to make the transition to being an integrated part of the Australia and New Zealand insurance and reinsurance industry, following the fortunes of its clients and bringing the benefit of its international experience to the domestic market.

We trust you will enjoy this publication on the history of the Australia and New Zealand markets. We look forward to contributing further to the development of the industry, be it by diversifying risk, growing client balance sheets or offering knowledge and expertise. Our aim in doing this is to benefit our clients and ultimately our economies and societies, protecting this generation and the generations to come.

Most sincerely,



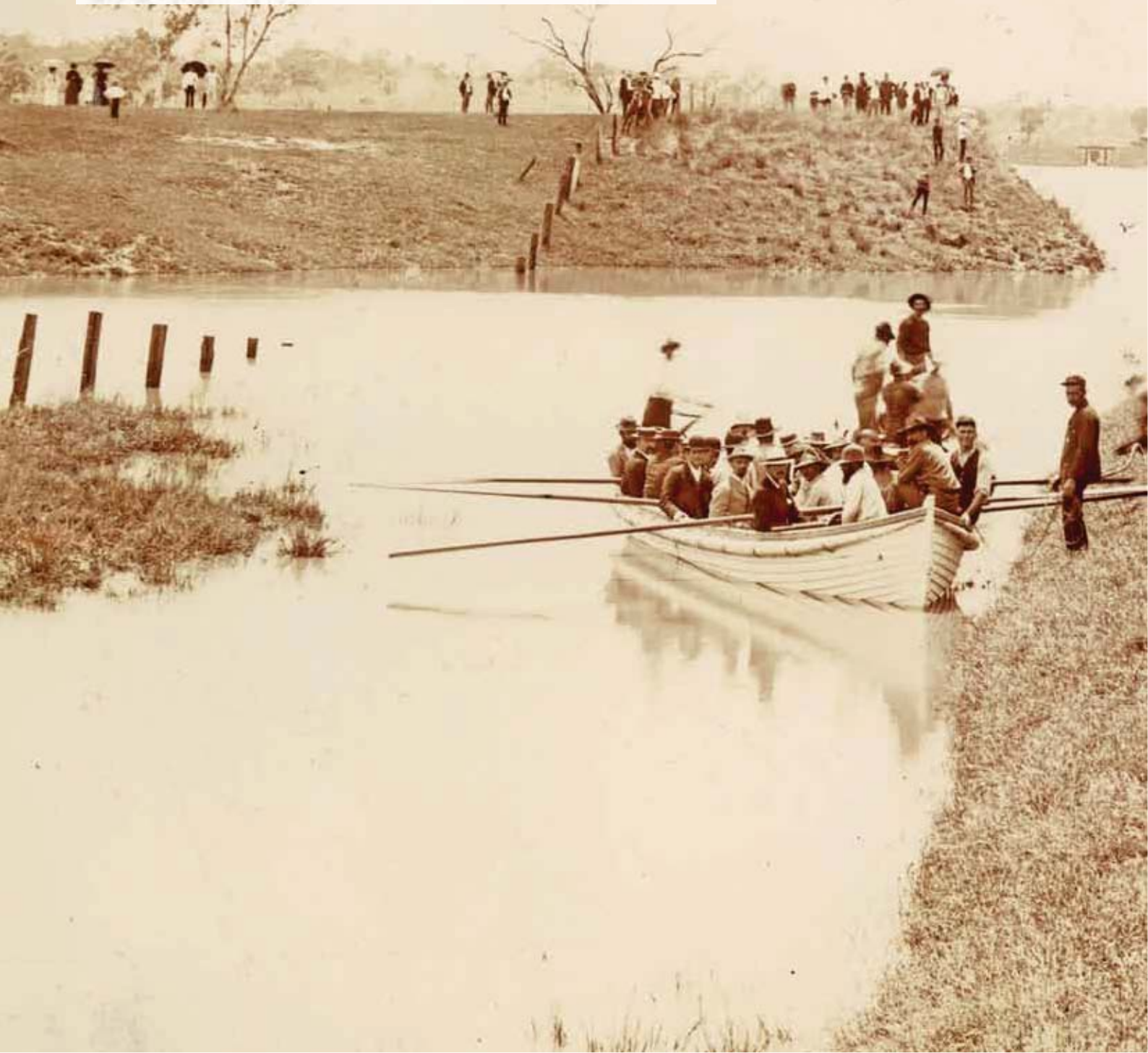
Michel M. Liès
Group CEO



Mark Senkevics
Head Australia & New Zealand

Introduction

The history of insurance in both Australia and New Zealand reflects the broader story of how strong national identities and thriving economies emerged from the waves of immigrants that have come to call these countries home. Despite geographical distance, they have long been connected with the rest of the world through global networks of trade and culture, and yet they have maintained a fierce independence. The latest ongoing chapter in this journey has of course seen a transition in external economic focus from Europe and the US towards Asia. In both Australia and New Zealand, vast natural resources and stunning natural beauty are balanced with exposure to natural disasters, from earthquakes and cyclones to bushfires. It is a tribute to the resilience of both countries and their insurance industries that solutions continue to be found to these challenges.







ZSNAID
ALBANCE COMPANY
1897

346

JOHNSON & SONS

HAIRDRESSING SALON

THE
ISU

The Re/insurance Industry in Australia and New Zealand



Reaching critical mass

British insurers tried to set up agencies in Sydney and Hobart as early as 1830, but it was only with the discovery of gold in New South Wales and Victoria in the 1850s that the economic conditions needed to sustain insurers really emerged. It was at this time that both Sydney and Melbourne grew into major cities of a scale to rival those developing in North America. Ongoing urbanisation and industrialisation acted as a magnet for new investment and generated the type of risks in fire and transport that made insurance a necessity. The predominantly British settlers brought with them a culture of associations and societies where one could collectively save towards the costs of funerals and respond to hazards such as fire. In the life market, domestic mutual insurers emerged out of these early saving societies. In 1849, the Australian Mutual Provident society was established. By 1890, domestic mutual insurers dominated the life industry, the top seven accounting for 90% of the market.

It appears the primary interest of the British colonial government in the nineteenth century was to expand the role of the Australian economy as a supplier of raw materials for the growing UK manufacturing and finished goods industries. Though remote from the economic powerhouses of the time, Australia and New Zealand were very much part of the global economic network. British insurers benefited from their existing international commercial relationships and the dominance of the British navy across the major trade routes. They provided the marine, fire and transport insurance required to safeguard the major capital projects and investments needed to expand Australia's export production.

The domestic Australian markets were, however, also attractive, at least until the economic problems of the 1890s. In 1861 there were 26 fire and marine insurance businesses and by 1870, there were 48.

Preceding pages:

Burdekin River, Queensland, flooded in 1875.

Left:

Queen Street, Brisbane, ca 1906.

Below and opposite page:
Insurance office buildings in Australia
at the turn of the 19th century.



As Melbourne and Sydney boomed, there was fierce competition and inevitable rate cuts, leaving aggressive insurers potentially unable to payout in the face of major catastrophes in the longer term. Early attempts to use reinsurance also came under scrutiny, as it was felt unscrupulous insurers were exploiting it to cut short-term rates. The larger British firms such as the Royal, the Commercial Union and the Liverpool, London and Globe favoured bringing more structure to the market through tariff agreements. These, however, proved difficult to sustain and led to the blocking of newcomers to the market. One form of cooperation among insurers was the financing of fire brigades, critical to reducing the scale of losses in the event of fire, but also a useful mechanism to facilitate agreement on pricing in certain areas of the burgeoning cities.

There were also benefits for Australian companies in being part of the dominant British Empire. Similarities of origin, language and legislative system allowed expansion into other colonies. New Zealand Insurance, founded in 1859, was active abroad and Mutual Life, set up in 1873 in Melbourne, opened a branch in the Cape Colony in 1883. Additionally, Australian companies could gain access to the latest actuarial and technical advances through the subsidiaries of British companies and their contacts to the leading London insurance market.

Regulation and the tariff agreement
In Australia, the banking crisis, which followed the speculative bubble in land prices in the early 1890s, strongly affected

the relatively young insurance industry. A staggering three quarters of the local insurers exited the market in the following ten years as the value of investments tumbled, although the market still lured a further 20 foreign players.

Many countries, including those heavily influenced by the British system, had faced these challenges of fluctuations in the fortunes of insurance players in the 19th century. Some responded with strong regulations, imposing deposits and capital reserves, often higher for foreign insurers, in a bid to safeguard policyholders and keep insurers' investment capital within their own economies. In Australia and New Zealand, the renewed dominance of foreign insurers and the strong influence of Britain, led to private companies playing the role of bringing additional order to the market and avoiding destructive price competition. The ensuing tariff agreements defined the structure of the non-life insurance markets until beyond the 1950s.

Under the auspices of the Fire Offices Committee in London, a conference was held in Melbourne in 1895 at which insurers in the New Zealand market set out tariffs and classified risks. The smaller New Zealand market was struggling due to too many insurers chasing business. With Victoria leading the way and heavily influenced by the British insurers, in 1897 an Australian tariff agreement was worked out, using the New Zealand model and a Fire Underwriters Association of Victoria was formed. Other Australian states followed. In 1909 a Federal Association of Fire and Accident Underwriters (FAUA) was created to oversee the various agreements and coordinate the flow of information. Members of the tariff agreement dominated the market, working exclusively with one another and setting strict rules for discounts and the activities of agents and brokers. Reinsurers were also affected through pressure to only provide services to tariff signatories. The influence of such tariff agreements on the Australian market is much debated. Whilst they brought order to the market by the setting of rates based on shared experience and hard data, they had a tendency to reduce competition and innovation within the industry and invite state intervention.



The response in New Zealand to the tariff structures was in stark contrast to Australia. Calls were made for state intervention to manage market rates. A New Zealand Government Insurance Office had opened to sell life insurance as early as 1869 and this provided the model for the State Fire Insurance Office of 1905, which competed directly with tariff firms by offering rates 10% lower.



Although marine insurance in Australia was regulated in 1909 through the Commonwealth Marine Insurance Act, the domination of the tariff structure in the market led to surprisingly low levels of government regulation in the life and general markets for many decades. Indeed, New South Wales did not regulate insurers at all and other states varied in how they demanded a deposit in return for a licence to trade. The Commonwealth government passed the Insurance Deposits Act in 1932, requiring deposits to be made to the Commonwealth Insurance Commissioner, Canberra, who answered to the Treasury, but tighter supervisory and solvency requirements only emerged with the Insurance Act of 1973.



New entrants

Whilst the structure of the tariff agreement dominated the market, there were consistent attempts to challenge it, most notably from Lloyd's brokers and the government itself. Australian insurers had long had contact with Lloyd's, using the London brokers to cover part of the risks too big for the Australian market. In 1921 the Lloyd's broker Bennie S. Cohen and Son established a branch office in Melbourne quickly expanding to other state capitals. The logic of the Lloyd's broker was clear. They were willing to undercut the pricing structure of the tariff market, bring product innovation and work on a large scale. Particularly in the new motor markets they offered insurance to the automobile associations at between 80% and 90% of the tariff rates. To overcome the distance from London, so-called "binder" agreements were made, allowing the local office to accept risks at pre-defined prices and settle smaller claims directly. Despite these apparent advantages, the non-tariff companies only achieved small market shares. The roots of the tariff structure remained strong due to their network of agents and powerful commercial ties, including the cross membership of boards between clients and insurers.



Australian Gold Rush

The Australian economy received one of its most important boosts with the discovery of gold. This eventually created the wealth that called for insurance.

It took the threatened exodus of people from Australia to booming California in 1848 for the colonial government to permit prospecting and offer a reward for whoever first found gold in New South Wales. The concern of the government was that a general gold fever and lawlessness would grip the country. Previous reports of deposits had deliberately been kept quiet, but after Edward Hargreaves found gold near Bathurst and met with the Colonial Secretary in Sydney to claim his reward, an announcement was made in 1851. Huge deposits were found in Victoria turning Melbourne into a boomtown. In practice, gold proved to be a major catalyst in transforming the country, bringing in considerable wealth to the Treasury and leading to the creation of the Sydney Mint in 1854. The attraction of Australia for European immigrants increased and the population in some states more than tripled in a decade.

The rough conditions of the gold fields also contributed to social aspects of Australian culture, including that sense of independence, and the right of all to have a "fair go". Aggrieved with their treatment by the government, who brutally levied taxes as they sought to bring order to the towns of the gold fields, the "mates" organised themselves and fought for their rights, achieving considerable rights and a degree of self-determination.

Above:
"Gold digging", by David Tulloch, ca 1852.

Right:
A goldminer who cycled a round trip of 1 000 miles to a gold rush in Western Australia in 1895.



They did, however, play an important role in bringing new initiatives and types of policies to the market at a time when the tariff companies were motivated to stick to their existing model.

State insurance

Another important factor in Australia was the development of state insurance offices. Created initially to offer worker compensation insurance at sustainable prices, some state offices went into, at times, fierce competition with tariff companies and extended their services into compulsory third-party motor vehicle insurance and eventually into many fields. Caught between keeping compulsory rates down and proving their efficiency and economic viability, the state offices reached their peak in 1988, capturing 42% of the Australian market, before privatisation changed the structure of the market.

It can be argued that the state insurers played an important role in stopping the tariff companies having everything their own way and ensuring the public

authorities had some understanding of commercial rates in the market. Certainly the role of the tariff agreement in Australia will remain a topic of discussion for years to come. On the one hand there was a clear tendency to support existing companies, especially British ones, with their entrenched commercial networks and to reduce the role of price competition in bringing value for money to consumers. On the other hand, in the absence of a strong regulatory function, the comprehensive classification of risks and prices played a role in protecting policyholders from under-capitalised insurers who could not settle their claims.

The 1950s: The long boom and increased competition

The long boom that followed the Second World War lasted for nearly 25 years. For insurance companies conditions were very favourable as economic growth was strong, averaging almost 5% per annum.

(Continued on page 14)



Clockwise from top left:

Although Australia is possibly the driest inhabited continent it has enormous variations in rainfall, often resulting in severe flooding. The vast, flat land is flood-prone unlike New Zealand where flood perils differ due to the mountainous geography.

Ross River, Queensland, 2011; Ships stranded in the Brisbane Botanic Gardens during the 1893 floods; Reefton, New Zealand, flooded by the Inangahua, 1975; Albion Park, Brisbane, 1941; Flooded farmland in Berrigan, NSW, 2012; Kangaroo Point, Queensland, floods, 1893.

Mining

The significant increase in commodity prices has led to a boom in Australian mining. Today, mineral exports represent around 35% of the Australian total and it is one of the leading exporters of a range of natural resources from gold to coal, especially to Asia. Areas such as the iron-ore rich Pilbara area and the vast coal reserves of southern Australia have seen major investment in recent times to support this important industry.

identified and calculated using loss histories, mining presents real difficulties for the insurance industry.

As the scale of operations has increased, there has also been a concentration of risks, shown by the Western Australia gas crisis in 2008. Supply of natural gas was severely disrupted after corroded pipelines led to a gas plant explosion on Varanus Island off the north-west coast. The resulting gas supply reduction of 35% had a major effect on the gold, nickel and coal industries, interrupting business and highlighting the vulnerability of only having a single source of energy supply.

Future risk mitigation will rely upon the mining industry developing an integrated perspective on the risk landscape it faces as it seeks to mine in more remote and complex terrains.

Below:

"Neales's Stopes Burra Burra Mine, April 12th 1847" by Samuel Thomas Gill.

Opposite page top:

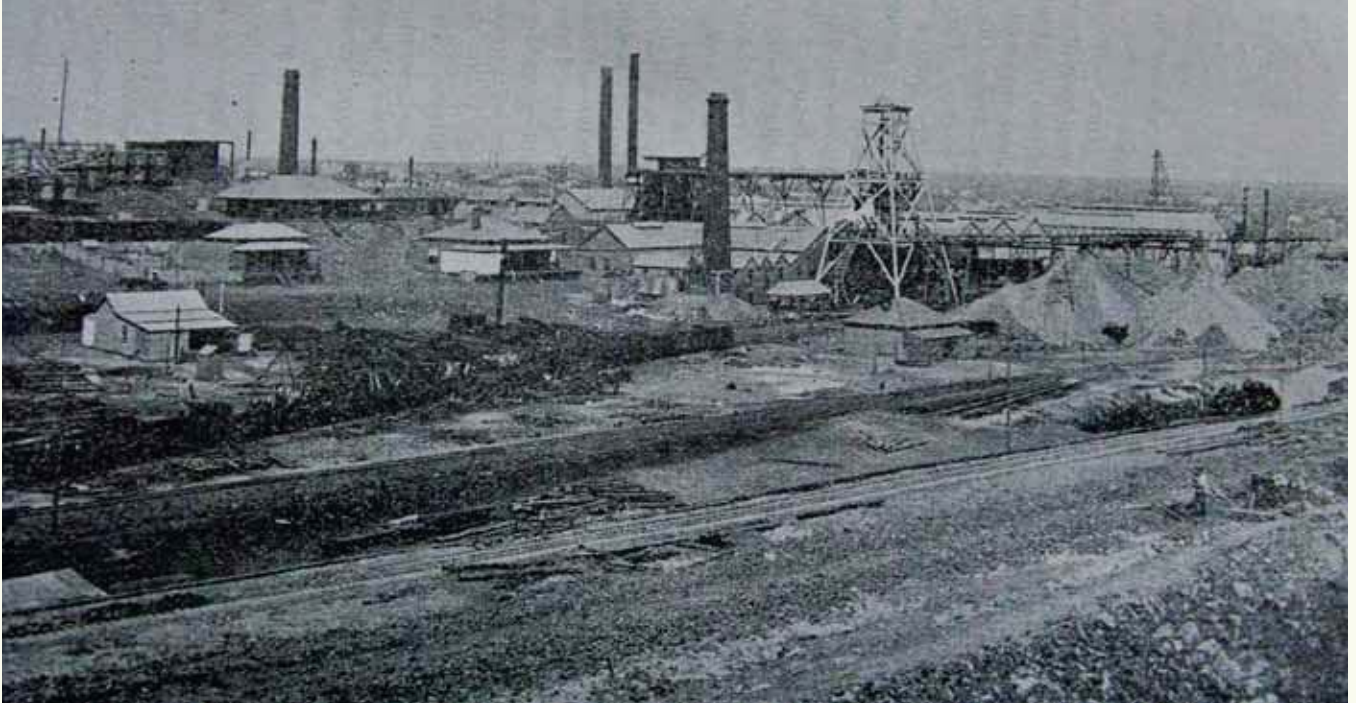
The Great Boulder Mine, Boulder, WA, in 1902.

Opposite page bottom:

"Seven unidentified asbestos workers: taken on a survey trip undertaken in 1927 by Rev. J.A. Barber and Dr. George Simpson for the Flying Doctor Scheme."

From a risk perspective, the mining industry has presented a unique set of challenges since its onset in the 19th century. Mines are often to be found in remote areas, far from emergency services and maintenance teams, and operate in extreme climates. They also leave behind waste material, tailing dams and old shafts, which present large environmental problems of their own. Unlike a factory then, where the risks involved can often be







The population of Australia almost doubled to 13 million and the demand for a broader range of products grew. However, with this growth came increased competition and a new phase in the development of the market. Australia was an attractive place to invest, in stark contrast to the uncertainties created by the Cold War between the new superpowers, the US and Russia. Local mutual life companies faced an influx of overseas competitors. There were also structural changes in the market. As reinsurers created domestic branches, access to capital and the relationship with the London market began to change and technical know-how could be more easily transferred.

More than 30 international brokers also entered the Australian market, led by several Lloyd's brokers in the early 1950s. These mostly joined the tariff agreement and acquired local brokers. Their business model, however, placed further pressure on the tariff policy as they needed to provide better market prices to their clients through their risk management, scale and negotiation skills.

As the range of potential insurance products grew, the lines between sectors of the finance industry became more blurred. In 1957, the British firm Legal and General applied for the licence to sell life insurance in Australia, starting a period of greater integration of the life and general insurance markets. Life companies founded general insurance arms and extended



Top:
Flood relief stamps issued after the 2010/11 Queensland floods.

Above:
Collapse of the Fremantle Rail Bridge on 22 July 1926.

into other financial businesses within their domestic markets. In response, banks used their existing clients and credit and mortgage products to offer insurance. This increasing competition and complexity was one of the factors that led to the slow dissolution of the prevailing tariff agreements.

1970s: Destabilisation and new regulation

Across the globe, economic pressures that were bubbling under the surface in the 1960s burst through and had a deep effect on the Australian and New Zealand insurance markets at the beginning of the 1970s. New Zealand was in the process of shifting from an agrarian economy heavily dependent on exports to Great Britain to a more industrialised economy capable of competing internationally, particularly in Australia. This was symbolised by the shift of the share of exports to Great Britain from 65% in 1955 to 27% in 1973, when Britain joined the EEC, and 7% in 1990. But the strong government intervention and import controls in the 1970s could not stop the influence of the oil crisis, rising inflation and unemployment.

(Continued on page 32)

UNION
Assurance Society Limited
Established A.D. 1714.

HEAD OFFICE FOR AUSTRALIA :
59 QUEEN STREET, MELBOURNE.

Motor Car,
Fire & Accident,
Consequential Loss

SPECIAL DEPARTMENT :
Sheep and
Fencing
Insurance

DALGETY & Co. Ltd.
Agents and Attorneys for Queensland.

Above:

Advertising Sheep and Fencing Insurance in the *Queenslander Annual*, 1938.

Overleaf:

Floods at Riverstone, NSW, 1961.





Swiss Re History

The evolution of a global risk expert

Swiss Re's rise to become the global expert in taking and managing risks mirrors the dramatic social, economic and political development of the last 150 years. Swiss Re was established in 1863 to meet demand for an independent reinsurer that would spread risk in a rapidly changing world. The following 150 years, a period of unprecedented change driven by a revolution in science and technology, have seen Swiss Re become a leading international provider of reinsurance capital and risk expertise.

Rising from the ashes

Rapid industrialization and urbanization throughout the 1800s were creating concentrations of risk, requiring insurers to diversify their exposures. A clear role was emerging for independent reinsurers that could shoulder and spread insurers' risks, develop expertise and provide capital when it was critically needed.

The world's first dedicated and independent reinsurer, Cologne Re, was established in the aftermath of the Hamburg fire of 1842. Swiss Re was to be the first such company outside of Germany.

Swiss Re's beginnings are often associated with the devastating fire that destroyed the thriving Swiss town of Glarus in May 1861. The fire, which hit some local insurers with claims five times their reserves, highlighted the threat of major catastrophes to the Swiss insurance industry and demonstrated the need for reinsurance to provide protection for events with a low frequency, but a yet unknown severity. Immediately after the fire, the insurance industry discussed setting up a cantonal reinsurance pool but the plans never materialized.

Instead, the St. Gallen-based insurer Helvetia set up a new fire insurance company and shortly after its director Moritz Ignaz Grossmann proposed that a Swiss Reinsurer should be founded in Zurich. The main reason for doing so, Grossmann wrote, was to keep reinsurance premiums in Switzerland rather than reinsuring with French and English insurers.

The Swiss Reinsurance Company first opened its doors in Zurich on 19 December, 1863, with CHF 6 million of share capital raised from a diverse group of investors, including two Swiss banks.

Below:

Swiss Re's offices in 1983.





Fundamentals of success

Swiss Re's early leaders established the sound principles of reinsurance that have been followed by successive generations of Swiss Re managers ever since. From the very start, Swiss Re was to be an international reinsurance company that spread its risks geographically, built strong client relationships and developed access to a diverse capital base.

The early years were difficult for Swiss Re – reinsurance was a new concept that lacked the sophisticated risk management tools of more recent times. The primary insurance market was far from transparent. As a consequence, client relationships had to be rooted in trust and “utmost good faith” rather than knowledge and facts.

In these first challenging years, Grossmann turned to Giuseppe Besso, a member of the famous Besso family associated with the Italian insurer Assicurazioni Generali. Besso accelerated Swiss Re's international diversification and continued to build the company as a financially robust and independent reinsurer.



Clockwise from top left:

Giuseppe (Josef) Besso (1839–1901), brother of Marco Besso from Trieste, director of Generali insurance. Giuseppe Besso was general manager of Swiss Re from 1865 to 1879.

Charles Simon (1862–1942), general manager of Swiss Re from 1900 to 1919 and later chairman of the board of directors.

Erwin Hürlimann (1880–1968), the first Swiss general manager of Swiss Re from 1919 to 1930. Later chairman of the board and honorary chairman.

Moritz Ignaz Grossmann (1830–1910), director of Helvetia Insurance and founder of Swiss Re.

Diversified from the start

Right from the start, Swiss Re had an international outlook, with only two of its 18 early contracts written with Swiss insurers.

By the turn of the 20th century, Swiss Re was already reinsuring risks in Europe, the US, Latin America, Russia and Asia. It was also beginning to establish a global network, opening an overseas office and looking to underwrite directly in key international markets.

The reinsurer also looked to spread risk across an increasing number of lines of business, writing its first contracts in marine reinsurance in 1864, in life reinsurance in 1865, in accident and health reinsurance in 1881, and in motor reinsurance in 1901.

The form of reinsurance contracts also evolved – in 1890 Swiss Re underwrote its first excess of loss contract, a type of reinsurance that pays claims above an agreed level of losses, rather than a proportion of all an insurer’s losses.

This change in approach would enable reinsurers to focus on the less frequent catastrophic risks. In a sense, the modern age of reinsurance had begun.

Catastrophe losses

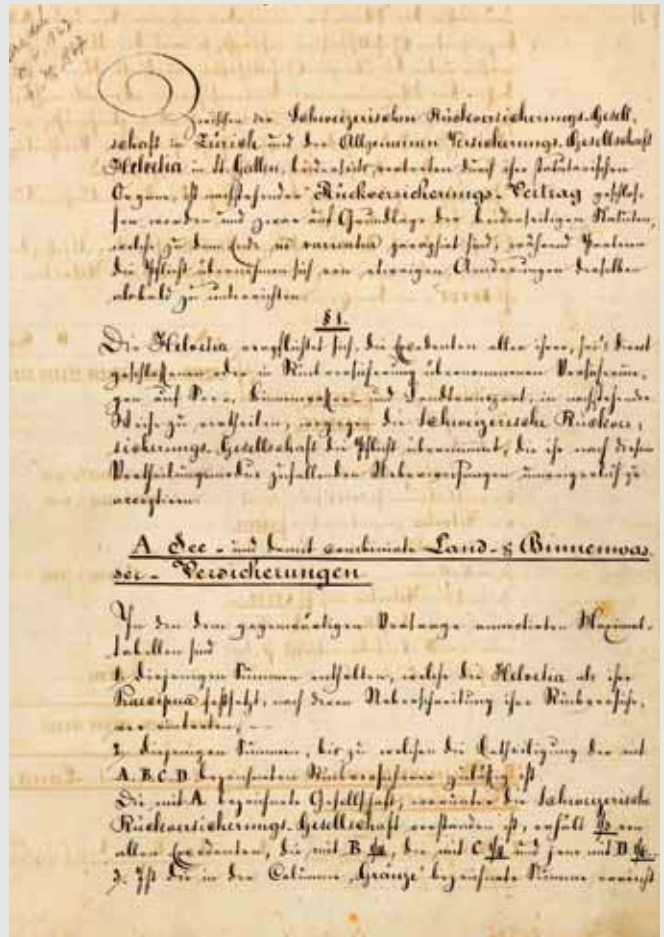
The first few decades of the 20th century were marked by growth in both international exposures and single large risks – demonstrated by the Spanish Flu epidemic in 1918, which led to a CHF 1 million loss for Swiss Re, and by the sinking of the Titanic in 1912, also reinsured by Swiss Re.

Below left:

The company’s articles of association were approved on December 19, 1863, and signed by the famous Swiss author Gottfried Keller as a clerk of the Canton of Zurich government.

Below right:

Swiss Re signed its first reinsurance contract with Helvetia, one of its founding companies, in 1863.



However, it was the catastrophic 1906 San Francisco Earthquake that was to be the insurance and reinsurance industry's wake-up call. The earthquake and subsequent fire that swept through San Francisco was a market-changing event. The extent of the damage made insurers rethink the potential size of losses, as well as the importance of seeking well-capitalized counterparties.

Within three years of the quake, San Francisco had been largely rebuilt thanks to payments made by the insurance and reinsurance industry. The majority of claims were paid by foreign companies, demonstrating just how globalized the industry had already become.

For Swiss Re, the earthquake generated the biggest single loss as a percentage of net premiums in the company's history, but reinforced Swiss Re's reputation as a financially secure and reliable counterparty in the US and the UK, where the reinsurer honoured its contracts to cedants.

Global market access

Above all else, the San Francisco earthquake highlighted the need for further geographical and product diversification, leading Swiss Re to make a number of acquisitions.

Acquisitions were to feature early on in Swiss Re's history, and continue well into modern times. In addition to helping spread risk internationally, acquisitions give access to new business, particularly where strong relationships between local insurers and reinsurers make it difficult to grow.

Early acquisitions saw Swiss Re gain footholds in the all-important UK and German markets through stakes in Mercantile and General Insurance Company (M&G) in 1915 and Bayerische Rückversicherung of Munich in 1924.

Financial crisis

The 1929 stock market crash in the US and subsequent Great Depression showed insurers and reinsurers for the first time that they were exposed to significant risks on the asset side of the balance sheet.

The crash led to write-downs of assets at Swiss Re amounting to almost CHF 26 million, although the company was saved by its accumulation of special reserves – some CHF 30 million were taken from these reserves in 1931 to cover record losses. However, Swiss Re learnt valuable lessons, and the crisis marked the birth of a more prudent asset liability management at Swiss Re, an important risk management tool that continues to be used by insurers today.

Redrawing the map

While German and Russian reinsurers were expelled from international business around the time of the two world wars, Swiss Re was able to capture a market-leading position in the US. However, the radically different world that would emerge after the Second World War constrained reinsurers' ability to spread risk.

A number of markets were now off-limits – with those in Central and Eastern Europe slipping behind the Iron Curtain. Others, such as Brazil and India, became state-owned. At the same time, other markets were enjoying a boom in consumer spending, leading to higher concentrations of risk in markets like the US and Europe.

Swiss Re continued to seek geographical and product diversification, developing a leading presence in new markets, including Canada, Australia, South Africa and then Asia.

Post-war boom

The technology boom and growing concentration of risk in mature markets after the Second World War led to growing demand for risk management, and for greater expertise from insurers and their reinsurers. In response, Swiss Re looked to share its risk expertise through training and communication, a key part of the reinsurer's business culture and brand ever since.

It opened the Swiss Insurance Training Centre (SITC) in 1960 to provide technical training, particularly to insurers in emerging markets. Swiss Re's *sigma* unit began publishing its trademark economic research in 1968, and the unit continues to generate some of the most valued data and analysis available on the insurance market.

Focus on core business

In response to the growth in risk management and the trend towards greater self-retention in the 1980s, Swiss Re began expanding its range of services, acquiring insurance service companies, as well as increasing its participation in the primary insurance market.

However, although dependent upon each other, Swiss Re discovered that the actual management of a primary and a reinsurance company had little in common.

In 1994, a new management team refocused the company's operations back on reinsurance, reinvesting the proceeds from the sale of its primary insurance businesses in achieving its strategic goal of becoming the world's largest reinsurer. Growing catastrophe exposures and an increasingly complex and globalized risk landscape were beginning to drive demand for large, highly rated managers of capital and risk.

Swiss Re History

Swiss Re sought to grow its life reinsurance business, headquartered in London, and develop its insurance-linked securities offering. It also developed its direct corporate insurance unit and further globalized its non-life reinsurance operations.

In the 1970s, Swiss Re had been one of the first reinsurers to recognize the importance of emerging markets. Later, it began opening offices in key markets, seeking to build strong relationships and expertise through a local presence – Swiss Re obtained licenses in Korea in 2002, China in 2003 and Japan and Taiwan in 2004.

During the 1990s, Swiss Re took on much of its current corporate form – it adopted a single brand operating from one global capital base, providing the highest levels of financial strength, expertise and tools to clients whilst remaining attractive to a wide range of capital providers.

New risk frontiers

Following Hurricane Andrew in 1992, which was the largest insurance industry loss at that time, Swiss Re began working with Swiss bank Credit Suisse to develop alternative financial and risk transfer solutions.

Developments in actuarial modelling and a growing interest in hedging risk in the 1980s led Swiss Re to explore developments in capital markets and bring new financial products to existing and new clients. The growth in Swiss Re's financial products business helped forge lasting relationships between reinsurers and capital markets that had not really existed before.

A new era was beginning, and capital markets had been opened up as a source of additional and complementary capacity. Innovative products were also being developed, including some of the first insurance-linked securities and public-private partnerships.



Above:

Swiss Re's first office on the first floor of Schoffelgasse 1 in Zurich (house in the middle).



Top:
Mythenquai 60 in Zurich, Swiss Re's first purpose-built offices, opened in 1913.

Above:
Swiss Re's new office building at Mythenquai 50 in Zurich, planned for 2017.

Market consolidation and expansion

With strategy firmly fixed on its core reinsurance operations, Swiss Re strengthened its position by buying competitors in a number of markets during the 1990s and 2000s.

The company made a series of acquisitions in the life reinsurance market between 1995 and 2001, mostly in the US but also reacquiring M&G. These acquisitions formed the basis of Swiss Re Life & Health, the company's global life reinsurance business centred in London, which includes AdminRe®, an operation specializing in the acquisition and administration of run-off business.

Swiss Re's largest acquisition was the USD 7.6 billion deal in 2006 for GE Insurance Solutions, the fifth largest reinsurer at that time. The transaction reinforced the reinsurer's leading position in the US reinsurance market, but also in other markets such as the UK or Germany.

Challenging times

The opening decade of the 21st century was challenging for global insurers and reinsurers, including Swiss Re.

The terrorist attack on the World Trade Center in 2001 not only cost three thousand lives and billions of dollars in property damage, it also changed insurers' thinking about the possible size of losses and the interconnectivity and accumulation of seemingly unrelated risks.

Swiss Re in London underwrote half of the USD 3.5 billion coverage for the WTC, and insurance claims from the attack contributed to Swiss Re's first net loss since 1868. It took five years before a New York jury ruled in favour of Swiss Re and other insurers in the largest insurance litigation process ever, confirming the attack was one event and not two, as the owner of the WTC had claimed.

The first decade of the 21st century put into question the insurability of some large risks. Hurricane Katrina, which produced the highest damages of any natural disaster in history, cost Swiss Re USD 1.2 billion. Although it demonstrated the ability of the industry to absorb devastating losses, within six years the toll of the 2005 hurricane season was equalled by a string of natural catastrophe events in the Pacific region. It started with floods in Australia, which were followed by a sequence of earthquakes first in New Zealand and later in Japan, followed by a tsunami, and the year finished with yet another flood in Thailand.

The financial crisis of 2008 was also tough on Swiss Re. The company made a loss of CHF 864 million in 2008, mainly the result of investment losses and the performance of two credit default swaps.

By de-risking its asset portfolio and concentrating on its core reinsurance business, the company emerged from the crisis as a leading participant in the reinsurance market.

Preparing for the future

In 2011, Swiss Re implemented a new legal structure to support its strategic priorities and refine its business model. It created three separate business units, namely Swiss Re's existing reinsurance business, along with two new entities for Corporate Solutions and AdminRe®.

The company also continues to invest in the future. In 2004, Swiss Re opened its award-winning St Mary Axe building, affectionately known as the Gherkin, while work began on a new building at Swiss Re's headquarters in Zurich in 2012.

By staying true to the fundamentals of reinsurance championed by Swiss Re's early leaders – the importance of diversification and long-lasting client relationships – Swiss Re has weathered many storms in its 150-year history, continuing to provide its clients with a secure partner in risk.

The history of the company shows the pivotal role reinsurance has played in the management of risk. And with Swiss Re at the forefront, it remains well-positioned to carry on doing so.



Above:
30 St Mary Axe, London, was opened in 2004.





Swiss Re in Australia

Already at the beginning of the 20th century, Swiss Re covered risks in Australia via the London market but it took some more years before contracts were written with local insurers

The first Swiss Re visit to Australia and New Zealand to assess whether and how business could be done in the region was in 1921, partly using connections with the British insurer Mercantile and General, which Swiss Re acquired in 1915. At this time, the only Australian and New Zealand business done was treaties with British companies, arranged in London, mainly affecting what were defined as the “congested districts” of the larger towns.

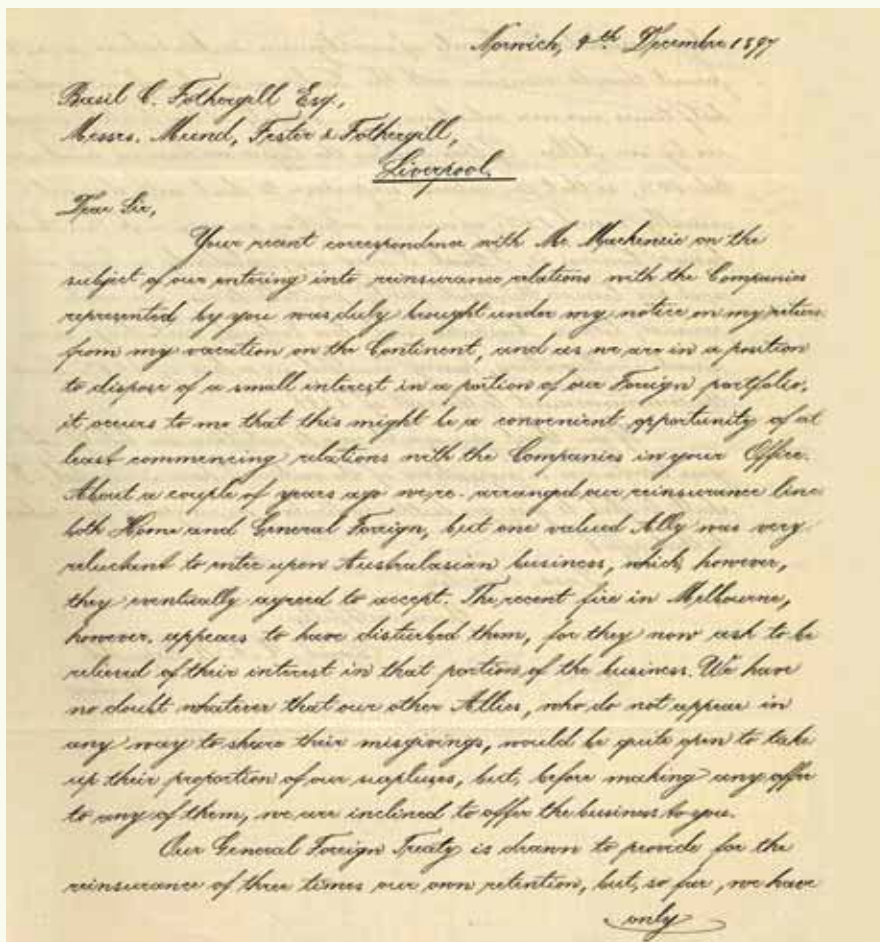
The first excess treaty was written in 1925 with the New Zealand Insurance Company (NZINsCom), founded in Auckland in 1859. The contract was signed in London and covered the fire risks of the Japan Office of NZINsCom.

The feedback from these early visits tended to be cautious because of the dominance of the British insurers and the loyalty of businesses to their existing commercial relationships with London.

It was in 1948 that Swiss Re sent a representative to the region to establish relationships and seriously assess business potential. The feedback to Zurich was overwhelmingly positive:

“This was as you know my first trip to Australia, and it will remain in my memory as a unique experience. I have travelled quite extensively since boyhood, and I think that I have nowhere met people who are more friendly, more wide-awake or more interested in all that goes on around them than the Australians... the prospects for the future also seem very bright.” (Rehsteiner, Report on Visit to Australia, 1949)

Swiss Re was responding to an increased need for local reinsurance on account of the discovery of new natural resources. In the face of the changing post-war world order, the tendency of Australian insurers to look almost exclusively to London for reinsurance was less attractive.



Preceding pages:

Aerial view of Melbourne in the late 1950s. Swiss Re opened a Melbourne office in 1956. Otto Hofstetter, who had founded the “Principal Offices” together with Bill Wylie operated out of an apartment in Queen Street.

Above:

Swiss Re was offered Australian risks as early as 1897. Norwich Union tried to place the risk via brokers in Liverpool but was eventually not accepted by Swiss Re.

Opposite page, from top:

John H. Winter in a photograph from 1962, Swiss Re’s CEO for Australia and New Zealand from 1960 on. Besides Australia and New Zealand, business in Fiji and Papua New Guinea was written out of the Australian office.

Swiss Re’s manager C.P. Rehsteiner who visited Australia in 1948 to prepare the opening of a local office.

Accompanying letter for Swiss Re’s first recorded contract with an Australian company, the Mercantile Mutual from Sydney, in 1950. Some sources indicate that a first Australian contract was signed in 1948 but no record in Swiss Re’s archives survives. The first life treaty was signed in 1955.

The probably first contract to cover Australian risks was made with the Phoenix in London in 1907. First page and signatures shown here.



The Swiss Re representative noted that whilst the life insurers were “masters in their own house”, domestic general and fire insurers were still outvoted by their English competitors in all the existing associations and committees. The local market was reaching a size that could justify branches for reinsurers and the Australian economy was beginning the long transition to trading with Asian and US partners rather than as part of the Commonwealth.

The beginnings of a domestic reinsurance industry

It was in the 1950s that a domestic reinsurance market developed and players such as Munich Re, Mercantile and General and Swiss Re opened branches. Before this, reinsurance had continued to have a very British flavour, supported by the dominance of British primary insurers in Australia and the ongoing strong trade and administration links between the two countries. This meant that whilst Australian insurers could negotiate treaty agreements and gain access to the London market, the benefit of having reinsurers evaluate big risks locally, optimise capital allocation and transfer expertise from other markets internationally was more limited.

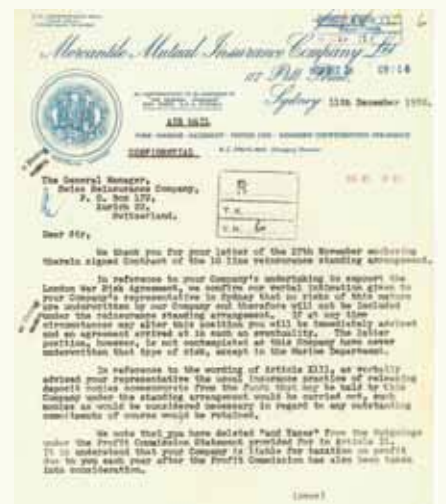
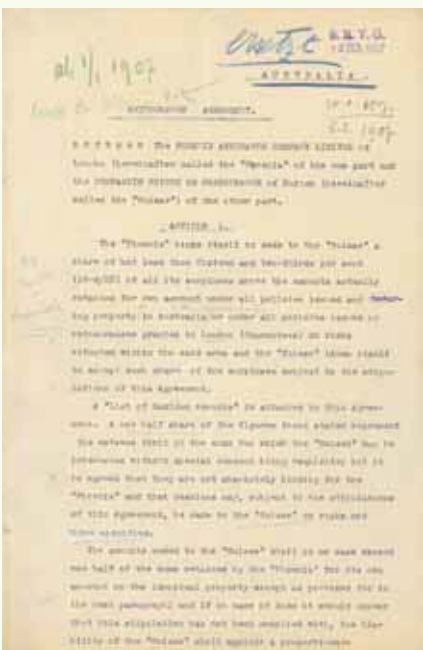
business in the expanding market, Swiss Re opened an Australian Branch in Melbourne in 1956, the second such branch for Swiss Re outside of Europe and North America. Whilst Swiss Re played a pioneer role, it was not alone in establishing an office. In 1955 two other British reinsurers, the Victory and Mercantile and General had entered the market and, a year later, Copenhagen Re, New Re and Munich Re followed. For the first time, Australia and New Zealand had domestic access to international reinsurers.

For Swiss Re, a representative office in Sydney swiftly followed that in Melbourne in 1958 and by 1962, Swiss Re reported business relationships with 60 different insurers in Australia and New Zealand.

In New Zealand, Swiss Re began with representation on the ground in 1965, using Campbell Cook and Eagle as agents. Increasing involvement, with a full Swiss Re branch established in Auckland in 1974, and a life department founded in Wellington in 1981 followed. With the threat of conflict diminished in Europe and in an effort to develop a single global brand, Australian Re was renamed Swiss Re Australia in 1995.



The first recorded Swiss Re contract is with the Mercantile Mutual of Sydney in 1950, a standing arrangement providing cover for ten lines. Confident it could do



Swiss Re's Emergency Plan

Amid the uncertainties of Cold War Europe, Australia played an important part in Swiss Re's risk management. Whilst Switzerland had remained neutral in the Second World War, the years of conflict had made the vulnerability to both attack and occupation clear. In the aftermath of the war, the glowering presence of the Soviet Union in Europe continued this state of alertness, fed by events in Berlin and Cuba in the early 1960s.

Below:

Swiss Re offices on at Union House, 51 Queen Street, Melbourne.

Opposite page:

Switzerland General Insurance Co., in Queen Street, Melbourne. Swiss Re later acquired Switzerland General.



With the blessing of the Swiss Government, this led to the creation of a Swiss Re Emergency Plan in the 1950s, setting out the strategic response to a number of hostile threats. The plan was maintained and adjusted according to the prevailing conditions of the day until 1993, when political developments following the collapse of the Soviet Union in 1991 suggested it was no longer needed.

The core of the plan was ambitious and as befitted a risk management company, very thorough. Several scenarios needed to be planned for, including the occupation of Switzerland, the destruction of the Zurich headquarters and, by 1957, a confidential concern about a democratically elected communist government in Switzerland itself. The difficulty was that



Swiss Re needed to protect its position both from a potential foreign occupier of Switzerland and from governments that might determine that a foreign Swiss Re subsidiary was controlled by "enemy forces" and should therefore be blocked from trading or have its capital confiscated.

There needed to be the potential to relocate the headquarters temporarily and to separate the subsidiaries from the Zurich company, both legally and by removing the word "Swiss" from their titles. This would avoid any attempt by a foreign power to claim ownership. To achieve this Swiss Re borrowed the legal form used in Anglo-Saxon countries of a "trust". It transferred ownership of its subsidiaries to new trusts in Australia, Canada, the US and South Africa. Hence, when Swiss Re's branch in Australia started business in 1956, it was known as the Australian Reinsurance Company.

By 1959, Swiss Re had introduced Microfilm technology to record key business and legal documents and store them in Meiringen (CH), Toronto (CAN) and Melbourne (AUS). The following year, safes were built into the basements of the houses of two trusted colleagues in Melbourne and Toronto, where these documents could be secretly stored and Toronto was chosen as a safe site to transfer the headquarters, if an emergency struck.

The Emergency Plan continued to be a point of discussion at board level within Swiss Re through the 1970s and 1980s, partly because of the complexity of maintaining the various holding and subsidiary trust structures within the changing global commercial and taxation landscape. It was not until a global branding exercise in 1995 that the use of "Swiss" became standard in the title of subsidiary companies and the Australian Reinsurance Company became Swiss Re Australia.



(Continued from page 15)

Insurers were faced with rising liability claims as the scale and complexity of risks grew, inflation soared and the legal process began to champion the consumer and increase payouts from claims.

It was these factors that brought the era of the tariff agreement to a formal close, although its influence had been declining for some time. There was increasing concern that the control of prices exercised by the members of the tariff agreement was actually holding back new entrants to the market and reducing the level of product innovation available to business clients and consumers. Reinsurers were also offering new ways for insurers to manage their capital reserves and to support more price competition and variation in pricing according to their own risk portfolios. But without stronger state regulation, the role of the tariff agreement still had its proponents concerned by new entrants trying to win share with low prices. As the value of investments stalled in the late 1960s, smaller undercapitalised insurers who had bought market share with cheap rates, especially in the motor sector, again struggled to match their potential liabilities and a total of eleven companies failed.

(Continued on page 38)



Top:

In 1890 the New Zealand Government authorised a special set of stamps to be produced for use by the New Zealand Government Life Insurance Department.

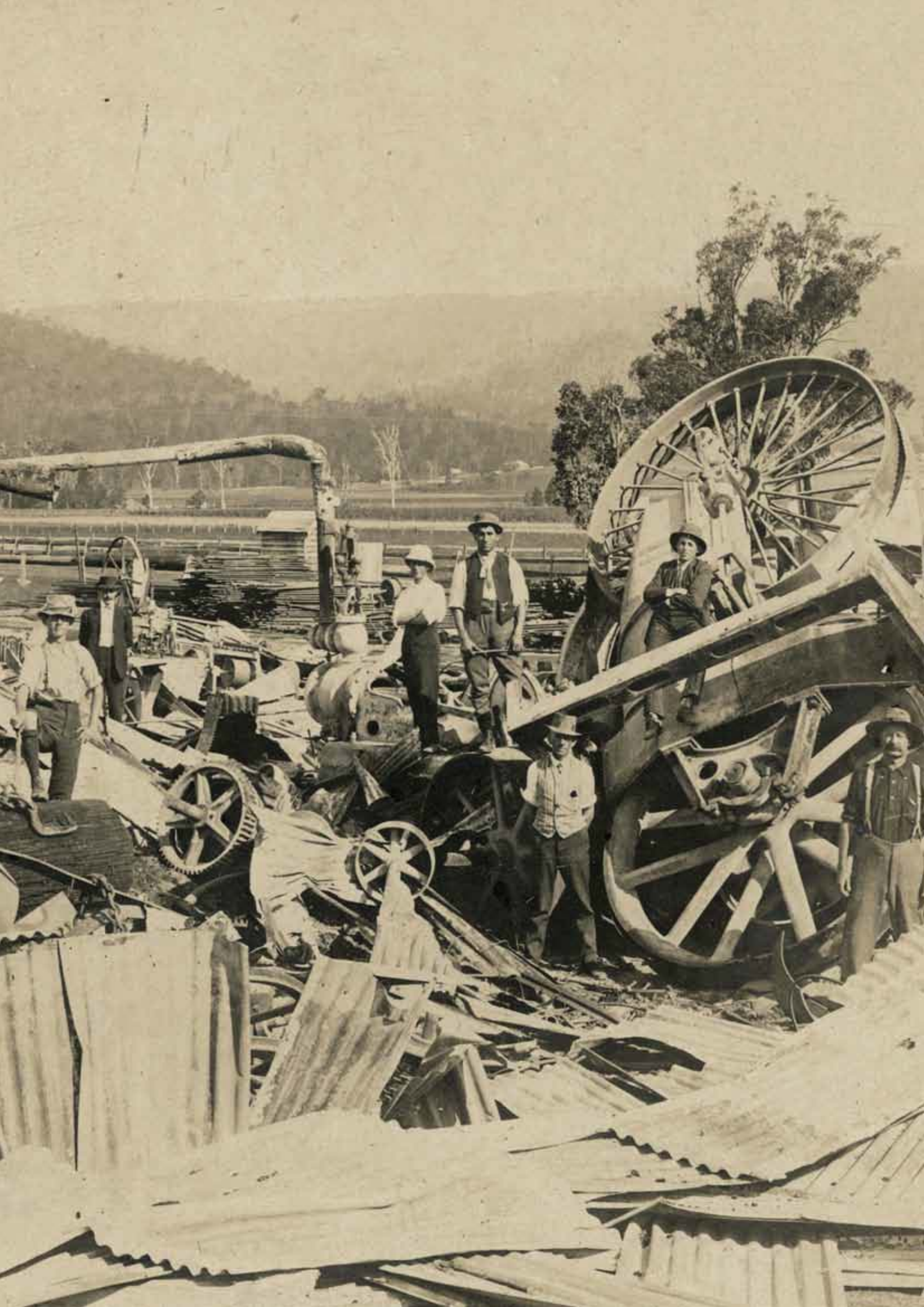
Right:

A letter from the United Insurance Company, one of the early domestic companies in Australia. It used the emu and the kangaroo for their crest 40 years before they were used in the official coat of arms of the new Commonwealth of Australia.



Opposite page:

Effects of fire at McIntosh and Dumigan Sawmill, Killarney, Queensland, 1912.



Townsville Sugar Fire

Townsville is the largest urban centre and port on the north-eastern coast of Queensland, bordering the central section of the Great Barrier Reef. The port had grown in the early 1900s to service the export of Australian agricultural goods, offering transport, refining and shipping critical to success. As growth resumed after the Second World War, a major Townsville Bulk Sugar Terminal was completed in 1959. In May 1963 the largest structural fire in Queensland had destroyed it.

The cause of the fire was a minor human error. The coroner concluded that hot welding slag had fallen on an exposed rope as welders worked on the building,

high above the stored sugar. Left unseen, these hot sparks were fanned by air, turning the rope into a large wick that eventually set the building ablaze. Contrary to the then popular belief that sugar does not burn, the 77 000 tonnes of sugar that were awaiting shipment for Japan proved a major fire hazard. It took a total of five days to control the fire. The resulting burnt molasses polluted the entire port killing all the local fish stocks and filling the town with a powerful stench for weeks.

The fire authorities were severely challenged. Fire fighters from surrounding districts were found to have different hoses and connectors making coordination

difficult and the placement of water sources were too far from the terminal building. In addition, the building had been deliberately strengthened with steel to withstand the threat of cyclones of up to 130mph. This meant instead of collapsing, the core structure of the building remained and prevented access for the fire crews. The experience led to standardised training and fire equipment being implemented throughout Queensland. Insurers and reinsurers paid over AUD 5 million in claims for the fire and the facility was quickly rebuilt in 1963, with a second sugar shed being added in 1965.

Right:

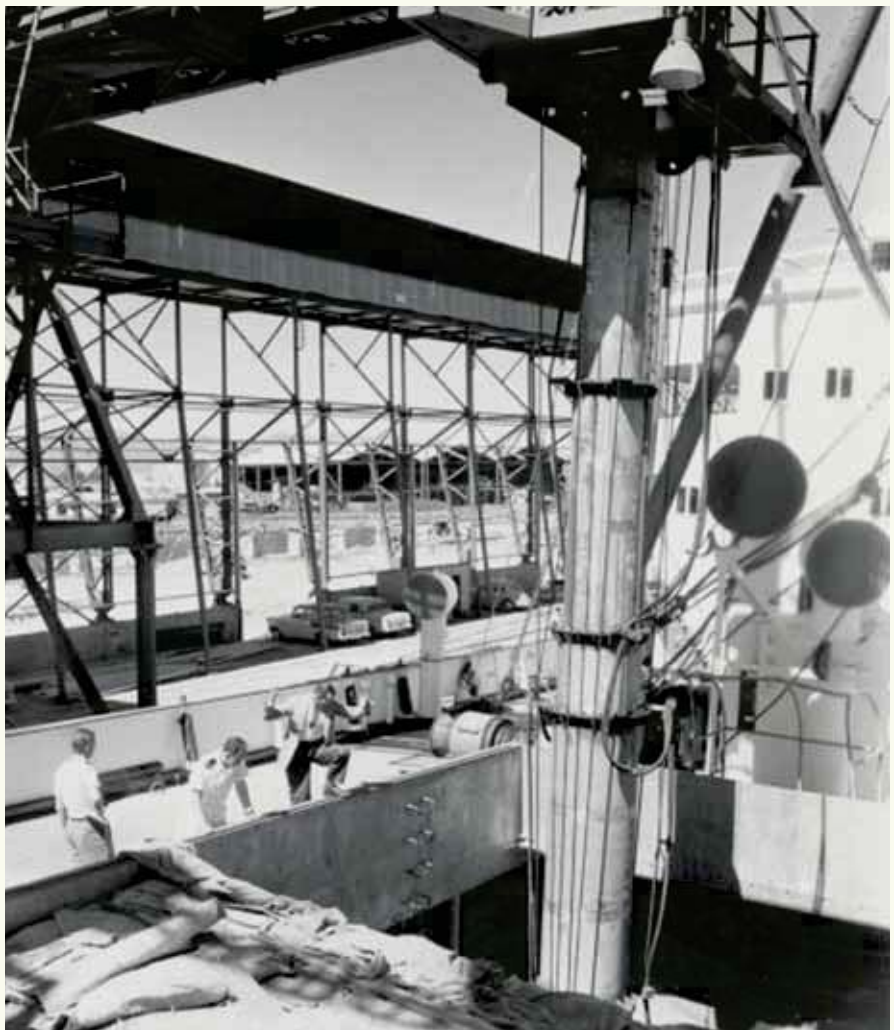
Chefoo in port, bulk sugar terminal Townsville Queensland, October 1960.

Below:

Loading bulk sugar Townsville, Queensland, October 1960.

Bottom:

Sugar shed after the fire.

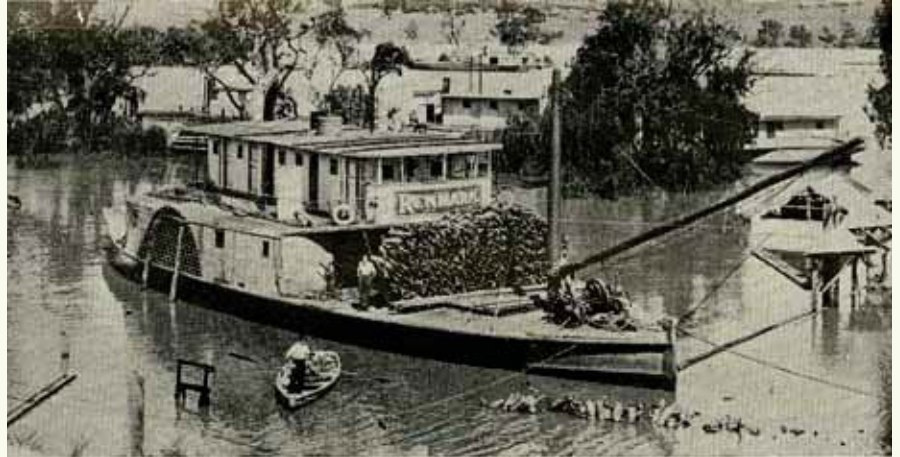


Australia – Exposure to Secondary Perils

Secondary perils are generally weather-related events such as floods, hailstorms and bushfires, which happen more often and are generally not as severe as earthquakes or tropical cyclones. Australia is particularly exposed to these so-called secondary perils, which can cause widespread harm to property and infrastructure. Australia's vast scale and differing climates exacerbates the range of events that must be faced.

Certainly recent events have led to debate about the influence of climate change, as these types of secondary perils are sensitive to shifts in global large-scale weather patterns. Especially Queensland has been exposed to repeated flooding recently. Prolonged and heavy rainfall in December 2010 and January 2011 in Queensland led to severe flooding across the state. In January 2013, cyclone Oswald again caused severe floods.

In addition to the harm caused when these perils reach large urban areas, they also severely affect agricultural production. As Australia is a key global exporter of wheat and other products, insurance is increasingly playing a role in minimising the effects of weather-induced volatility in agricultural output.



Steamer "Renmark" moored in Randell Street below what is now Ween's Garage, 1917.



Looking down Randell Street, 1931.



Recreation Ground, Mannum, 1890 Flood.

Right:
Floods in Mannum, SA.

Cyclone Tracy, Darwin 1974



Above:
The aftermath of Cyclone Tracy, 1974.

Opposite page:
Front Cover of a special publication
by the Sydney Morning Herald

Darwin, the capital city of the Northern Territory, with its tropical climate was used to adverse weather and had already experienced cyclones in 1897 and 1937. However, when Tracy hit on Christmas Eve 1974, the city was not prepared. Residents had become used to weather warnings, including Cyclone Selma, which was predicted to hit Darwin earlier in the month but veered north at the last moment. When news was broadcast of another compact storm early on 24 December (Tracey stretched only 30 miles from the centre, a pinprick in the vast Northern Territory) its potential effect was discounted.

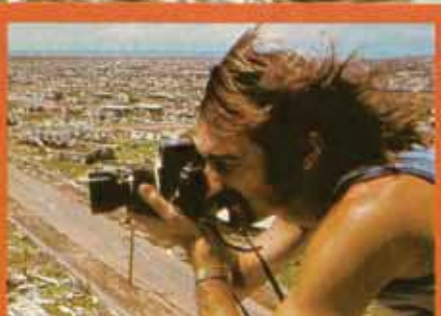
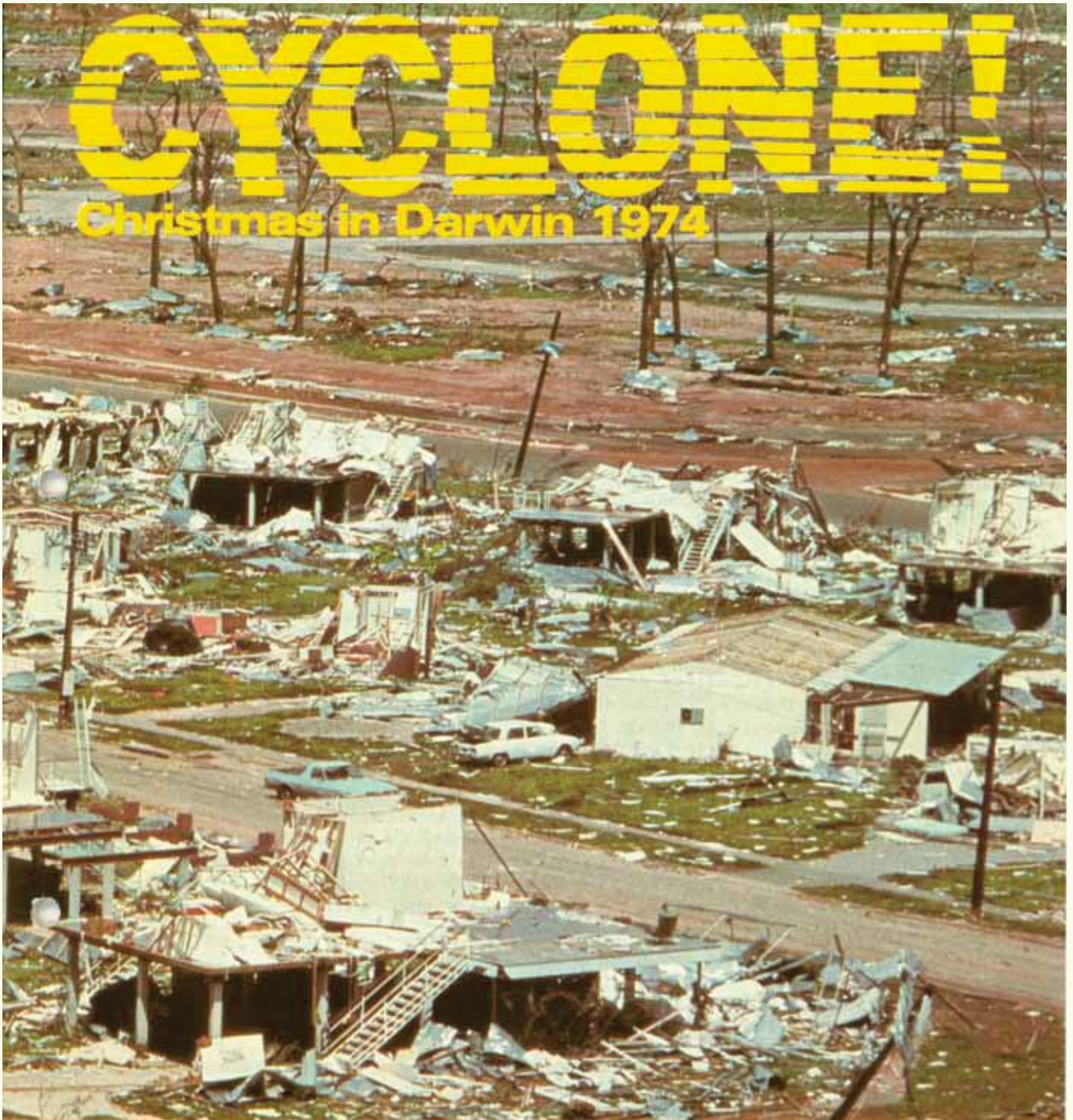
Sadly, as the eye of the cyclone swept over the city between midnight and 7am on Christmas morning it was to leave a



trail of devastation not previously seen in Australia. Sixty-five people were killed, with 16 lost at sea. 70% of Darwin's homes were severely damaged or destroyed. Alongside torrential rain, the highest recorded wind gust was 217kph recorded at Darwin Airport, one hour before the measurement system was destroyed by the storm.

Without water, electricity or basic sanitation, the city faced severe risk of typhoid and cholera epidemics. More than 30 000 people were evacuated in a bid to reduce the population to one needed to undertake the clean-up and reconstruction. For six months, entry to Darwin was by permit only and the population was kept to around 10 000 people.

Reconstruction was an enormous challenge as there was an urgency to create new homes, but also to rebuild using better quality housing able to withstand powerful cyclones. As Darwin grew, the rapid expansion of housing had led to construction standards falling below those needed to survive a cyclone. Insurers also played their part, paying out over AUD 200 million in claims, reflecting the level of property damage. The role of reinsurers in covering natural catastrophes also came to the fore, as international reinsurers and insurers paid over 60% of the total cost. One of the difficulties faced by insurers was establishing the scale of damage and the losses that needed to be paid out. A central loss adjustment office was created and over 30 000 hours invested in assessing the damage, with 40 full-time loss adjusters. An Insurance Emergency Services unit was created which could be mobilised during future natural catastrophes. Darwin emerged from the devastation a new city, almost unrecognisable from its previous incarnation. Today it has grown to 130 000 inhabitants, an important hub in the Northern Territories and has positioned itself as a strategic gateway to the emerging markets of the East.



The Insurance Act of 1973 filled the regulatory gap that had opened as the iron grip of the tariff agreement had loosened in the post war marketplace. It formally introduced the mechanisms needed to supervise insurance companies and define the needs for transparency and consistency in their accounts. 264 of the 474 registered companies applied for a new licence as some players consolidated their business under a few brands and others could not meet the solvency requirements. By 1984 this number fell to 180, both simplifying consumer choice and the tasks of regulators.

Deregulation after the mid-1980s

Australian insurers were looking for ways to grow after a period in the 1970s of rising claims and slower premium growth. A new period of globalisation was getting underway with a drive to liberalise and deregulate world markets, symbolised by the GATT negotiations and the increasing integration of financial markets. Technology was also beginning to become a decisive factor in finance as real-time, round-the-clock trading brought Australia closer to the European, US and Asian markets. In New Zealand the new Labour government in 1984 pushed through deregulation and restored free market processes.

Cross sector competition from the banks increased as the markets were deregulated. Banks saw the opportunity to integrate an insurance offering with their retail banking services and could satisfy the capital solvency requirements of the regulator. Smaller insurers were at a considerable marketing and sales disadvantage, just as the consumer was starting to invest directly in the stock markets rather than through traditional life insurance policies. Size was set to play an increasingly important role in the capacity of insurers to compete driving consolidation and creating a new generation of financial conglomerates.

In 1985, four big banks entered the life insurance market, most others followed, at the same time as state insurance offices were privatised and government agencies withdrew from the insurance markets. Whilst the three major mutuals dominated the market in 1990 with 72% of industry assets, within 10 years the banks share of industry assets had grown from 9% to 44%.

New Zealand's insurance market followed a similar trajectory with considerable consolidation and the exit of the government from some markets, through both privatisation and no longer offering some

Below

A speeding Sydney tram derailed in 1952. From Swiss Re's collection of catastrophe images.



Newcastle 1989 – An Unexpected Earthquake

Earthquake was considered a relatively low risk in Australia because the continent lies in the middle of a tectonic plate. Whilst minor tremors were felt in the south of Australia, this effectively meant cover for earthquakes was offered as a free extension of fire policies from 1927. It was only with the Adelaide earthquake of 1954 that the insurance industry became aware of how earthquakes can lead to the accumulation of risks all dependent on a single event, but earthquakes continued to be covered.

In a country severely affected by fire, flood and storm, few anticipated the levels of damage caused by the moderate earthquake that hit the city of Newcastle, New South Wales on 28 December 1989. Thirteen people died, nine of whom perished at the Newcastle Workers Club when the floor collapsed. Extensive property damage to over 35 000 homes and 3 000 commercial buildings led to overall losses of over AUD 4 billion with over a AUD 1 billion of insured losses. This loss led to a re-evaluation of how natural catastrophes were assessed from an insurance perspective.



Above:
The Newcastle Workers Club after the earthquake.

products such as commercial and industrial earthquake cover. NZI, one of the major drivers of consolidation in New Zealand, was itself acquired by the Insurance Australia Group in 2003.

Stock markets were also beginning a long period of growth. The relatively self-contained domestic insurance industry had to come to terms with capital rich companies from Japan and Europe, using their rising share price to fund acquisitions. Australian mutuals needed access to capital and a stock market listing to make acquisitions if they were to take part in the process of industry consolidation and expand overseas. This strong commercial logic was in some cases supported by the opportunity to access capital reserves from generations of prudent, low risk accounting practices. By 1999 all the major mutual assurance companies had been listed.

For the first time, Australian life insurers focused on overseas expansion. Reflecting the shift in trade and general economic growth both the Colonial Mutual and the National Mutual looked to the Asia-Pacific region, whilst AMP acquired in the mature British life insurance market.

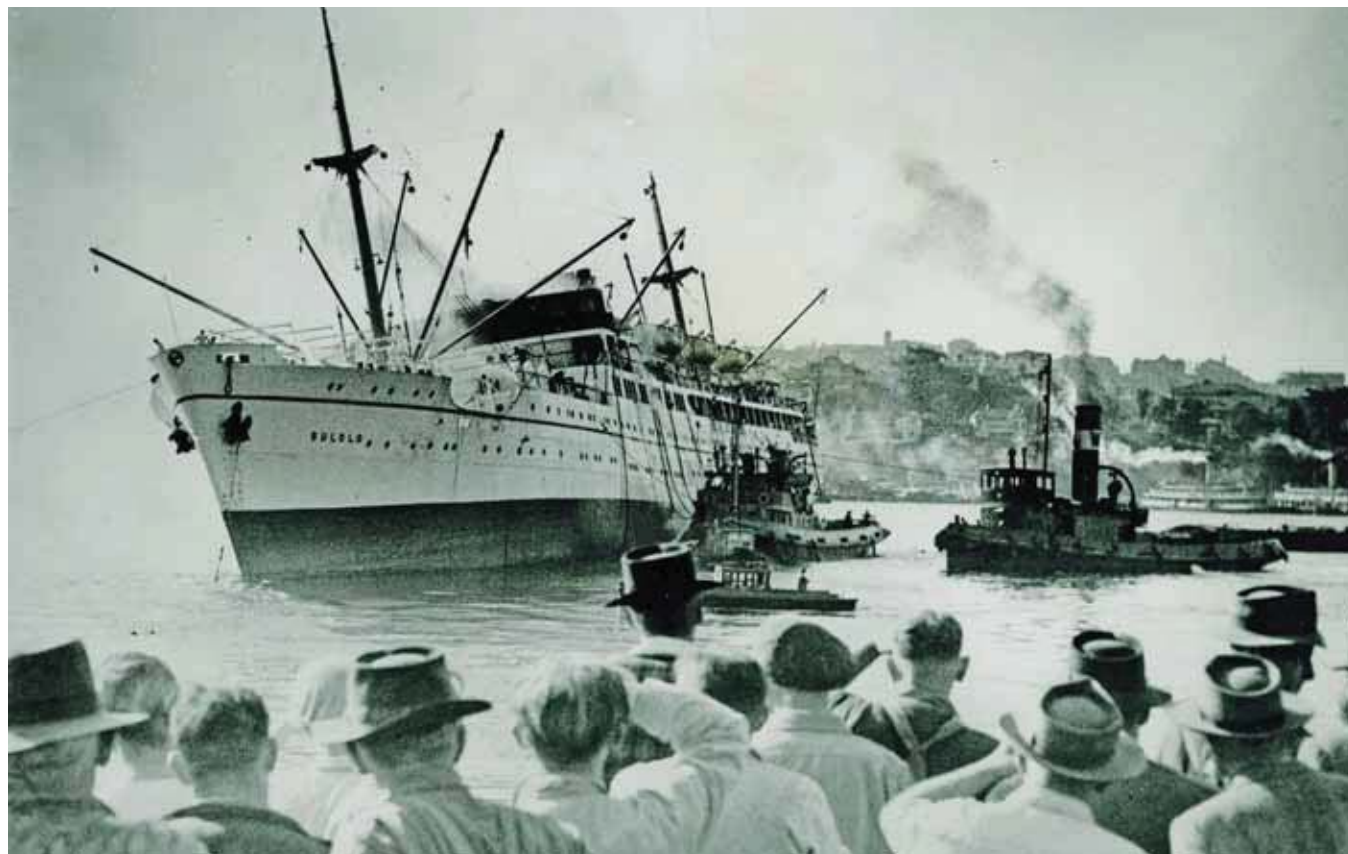
The new millennium

The new millennium did not start well for the insurance industry in most parts of the world. The economic downturn in the wake of the terrorist attack in the USA in 2001 was felt both in Australia and New Zealand, mostly though by internationally active insurers. In Australia, the failure of HIH Insurance Ltd was one of the largest corporate collapses the country has experienced. The consequences were felt in other markets as well. The merger and acquisition trend of the 1990s continued to be a significant factor in the 2000s.

But the difficulties insurers faced in the late 1990s and through the decline in stock markets in 2001 helped the industry at the time of the global financial crisis in 2008. Overall, insurance in Australia and New Zealand appears to be doing better than in other mature markets. Australia's real growth in direct non-life premiums has been estimated at 3.6% for 2013, much higher than the average of advanced markets which only grew at an average of 1.4% (sigma, *Global insurance review* 2013).

Below:

In September 1951 the HMS Bulolo, carrying a cargo of dried coconuts worth £14 000, caught fire in Walsh Bay, Sydney. From Swiss Re's collection of catastrophe images.



Black Saturday, Victoria 2009

As the fires raged on “Black Saturday” in February 2009 the authorities were already aware of the seriousness of the situation. An intense heat wave had prevailed for more than two months in the Melbourne area with little rain and strong winds. As the weather cooled before 7 February, the wind veered to the southwest and reached gale force, fanning the long eastern flank of existing fires, causing them to spread at great speed. The death toll of 173 was double that of the Ash Wednesday bushfire in 1983. Although there were over 400 fires raging on Black Saturday, 120 of these deaths occurred from a single firestorm in the Kinglake area.

The cause of the fires varied from power lines falling in the high winds to arson, lightning and cigarette butts. In a broader context, the extreme temperatures of 46C recorded in Melbourne at the time led to discussion of the contribution of the manmade effects of climate change. In response to the devastation, new building codes were rushed through for bushfire-prone areas and improved integrated fire management protocols, aimed at reducing the spread of fire.

As often happens with such severe disasters there has been much discussion as to whether an appropriate response has

been made. Some argue that Black Saturday was exceptional and that people should be allowed to re-build their homes in areas around Melbourne at high risk to bushfire. Others predict that the increased severity of conditions due to climate change will lead to a marked increase in such events and that stricter building zones are required. The insurance industry naturally has a strong interest in keeping premiums affordable in these high-risk areas, but needs to be able to cover estimated future losses. The estimated insured loss of Black Saturday was AUD 1.2 billion.

Below:

2009 Victorian bushfires, Warrandyte, Victoria.





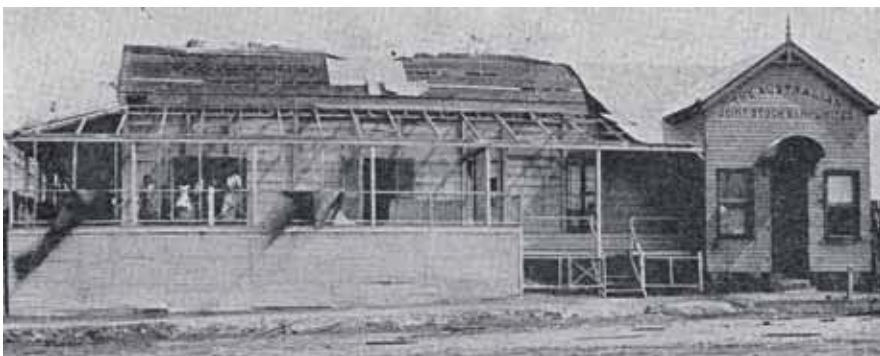
The life market has continued to become more concentrated, with the top ten life insurers accounting for 95% of premium income and the top five over 65%. The role of the broader financial services businesses has also become more prominent as they own three of the top five life insurers. In-force real premium income growth for life insurance was back to positive numbers in 2013 with 6.5% as opposed to a drop in 2012 of 5.3%. New challenges for the life insurance sector in both countries include solutions for longevity and the resulting protection gap. A recent Swiss Re study showed that the mortality protection gap in Australia has expanded from AUD 540 billion to AUD 972 billion between 2000-2010.



The recent series of severe natural catastrophes has emphasised that whilst the Australian industry is in good health relative to many other countries, it does face a challenge if the trend of more frequent and severe catastrophes continues. In the period of June 2010 to November 2011 alone, the Insurance Council of Australia estimated insurance claims from major events of AUD 4.2 billion. The floods caused by Cyclone Oswald in January 2013 are among the ten most costly insured catastrophe losses in the world during that year. Bushfires in New South Wales in October 2013 again forced people to evacuate their homes and destroyed hundreds of properties. Given the extensive use of reinsurance, the primary insurers did not carry these entire burdens, but the challenge to provide adequate insurance cover for hazards such as fire and flood at affordable premiums will continue.



But also man-made disasters continue to be a challenge to the insurance industry. The Rena oil spill off the coast of Taranaki in New Zealand in October 2011 was the country's worst ever maritime environmental disaster.



There are plenty of ongoing and new challenges ahead but the healthy shape of the insurance industry in Australia and New Zealand makes them well prepared for the future.

From top
Storm damaged Australian Joint Stock Bank at Bowen, 1884.

Tidal wave waters after cyclone in Abbott Street, Cairns, Queensland, undated.

Beach at Bowen, Queensland, after a cyclone, 1903.

Cyclone damaged bank in Bowen, Queensland, 1903.

New Zealand Earthquakes

The people of New Zealand are no strangers to earthquakes. The country has experienced several major quakes since 1840, the largest being the magnitude 8.1 Wairarapa earthquake of 1855. A magnitude 7.8 event also occurred in Napier in 1931, causing the loss of 256 lives and extensive damage. New Zealand's first earthquake design codes were introduced four years after this catastrophe.

The potential scale of damage from earthquakes in New Zealand has tested the limits of insurance. After a series of damaging earthquakes from the 1920s onwards the premiums required to cover the risk were simply too high for a normal

commercial market. The government created the New Zealand Earthquake Commission (EQC) in the early 1940s, initially as the Earthquake and War Damage Commission. Eventually, cover for war damage became unnecessary and certain other natural disasters were included in the scheme. Today, EQC cover is automatically provided when home and contents' fire insurance is purchased from a private insurance company. This means that as much as 80% of the economic losses caused by an earthquake are insured, securing funding for reconstruction.

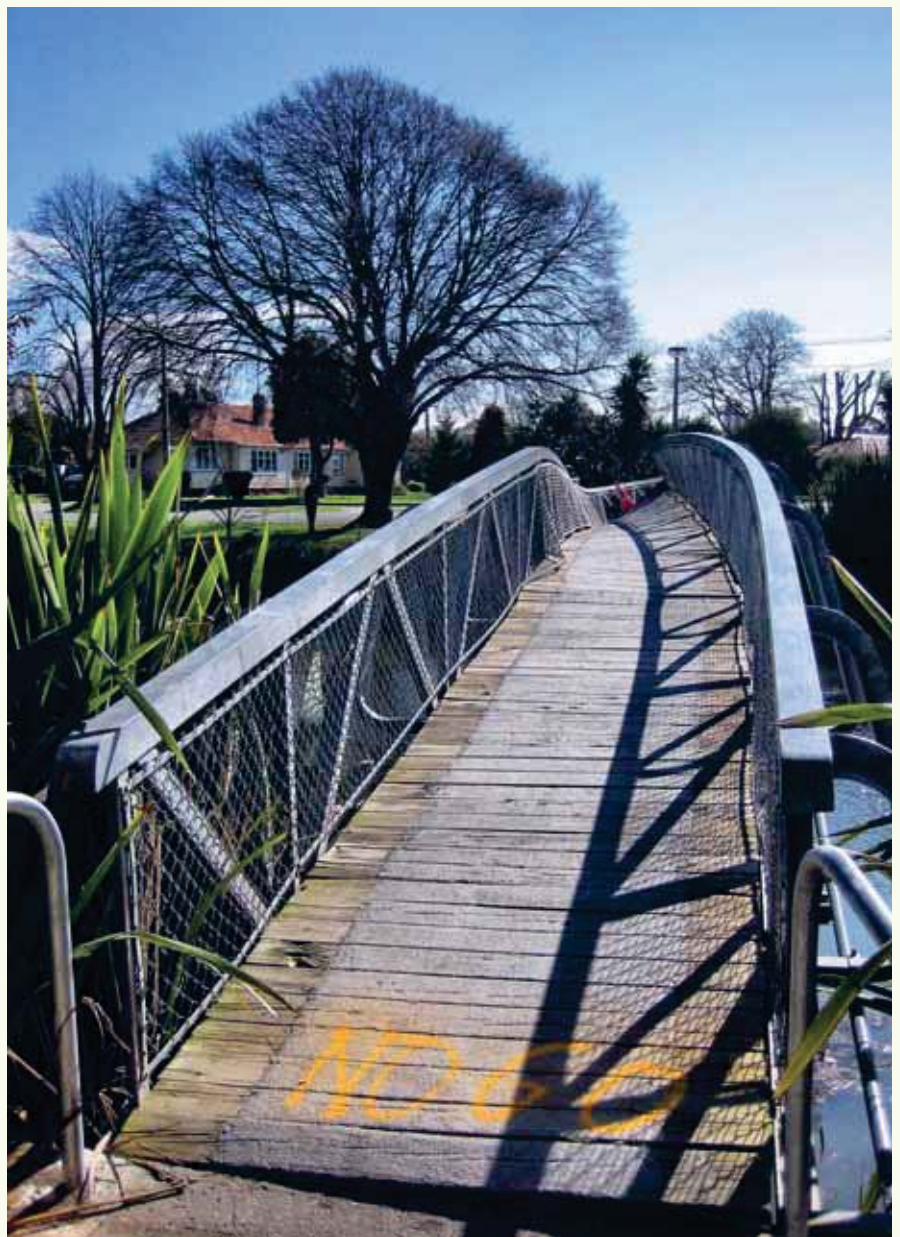
More recently, New Zealand suffered a series of earthquakes from September 2010 to December 2011. From a loss perspective, the most damaging events were 4 September 2011 in Darfield, Canterbury (magnitude 7.1) and 22 February 2011 in the city of Christchurch (magnitude 6.3). Both earthquakes had several thousand aftershocks.

One of the major challenges posed by these earthquakes was soil liquefaction, where the shaking of the earthquake reduces the stability of the soil, making it act like a liquid. This can cause severe damage to all types of infrastructure – 80% of the water and sewage system, for example, was severely damaged during the earthquakes.

The response to the February 2011 earthquake was immediate and a state of emergency was declared within hours despite difficulties in communication. Of the 185 people that died, 115 were lost in the Canterbury Television building. The quake resulted in wide-spread damage, with the CBD cordoned off for many months. International reinsurers played

a major role in recovery funding via catastrophe reinsurance which was purchased by private insurers and the EQC.

Overall the economic losses caused by these events are in the tens of billions of New Zealand dollars and will affect the national economy for decades to come.



Above: Footbridge over the Avon River damaged during the 2010 Canterbury earthquake.



Clockwise from top:

McTaggart's butcher shop after the Cheviot New Zealand earthquake, 1901.

ChristChurch Cathedral, Christchurch, New Zealand. Damage to the spire from the 1901 earthquake is being repaired. Christchurch, Canterbury, 2011.

Hastings, New Zealand post office damaged by the earthquake of 1931.

Opposite page:

Earthquake damage to the road from Cheviot to Port Robinson New Zealand, 1901.

Overleaf:

Ballarat Street, Queenstown, New Zealand, flooded 1878.







HART, CAMPBELL & CO.
PHOTOS

35 BALLARAT STREET, QUEENSTOWN, N.Z. FLOODED 1878

The Value of Reinsurance

Today, insurance is an integral part of our lives. Building a house, marketing a product, driving a vehicle, all would be unthinkable without taking appropriate insurance cover.

By contrast, reinsurance remains virtually unknown by the general public, even though it plays a key role in taking on risk and enabling economic growth and progress.

Reinsurance is "insurance for insurers". It carries out one of the fundamental principles of insurance, namely that risks need to be spread as widely as possible. The more broadly they are shared, the more cost-effective it becomes to cover them.

From the very beginning, the reinsurance business was international, helping its clients offset

their risks across the globe. Similarly, its breadth of activity across lines of life and non-life business, let specialized insurers diversify their risks over a wider range. And through its long-standing client relationships, some dating back to the 19th century, a third dimension has opened up of distributing risk over extended periods of time.

Reinsurers accept risks of virtually every kind, from natural catastrophes to higher mortality and motor insurance to aviation liability. These risks are transferred to them by the primary insurers, who then need to keep less risk capital tied up and can write more business as a result.

As the premiums paid for reinsurance are invested via the financial markets, both primary insurers and reinsurers contribute significantly

to the economy, which helps drive growth and benefits society in general.

Reinsurance naturally researches risks and the nature of risk more than any other part of the financial services industry. Knowledge accumulated over centuries today is harnessed in statistics and state-of-the-art models to better understand the risks of the 21st century. This effort directly benefits clients and society as a whole.

And reinsurers are also an active voice in the public discussion on risk. For addressing the big issues of our time and coping with natural perils or epidemics, insuring large-scale projects and consumer products, and, ultimately, insuring our everyday lives, reinsurance has become indispensable.



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umn top, right column; 45)

Photograph by William P. Hart. Museum of
New Zealand / Te Papa Tongarewa (46–47)

Cover:

Main Street, Mooroopna, Victoria,
during flood (undated).

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