



Swiss Re Says Inflation May Pose 'Real Problem' for Reinsurers

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By Jamie McGee

Nov. 13 (Bloomberg) -- Reinsurers will face higher claims costs in the next few years if "rampant" inflation erodes reserves and rates for coverage fail to keep pace, [Swiss Reinsurance Co.](#) executive [Pierre Ozendo](#) said.

"Inflation is a destroyer of reserve adequacy and destroys economic value in a business that measures its economic success over multiple years," Ozendo, head of Zurich-based Swiss Re's Americas division, said yesterday in an interview at an [Ernst & Young LLP](#) conference in New York. "There is a very real fear of inflation ramping up."

Insurers and reinsurers can pay claims years after setting prices, causing inflation to add to costs for injuries and legal claims. Casualty reinsurance, which protects against liability costs and has a longer lag before claim payments, would face larger increases than property coverage, consulting firm Towers Perrin said in a [statement](#) last month.

The difference between rates on 10-year notes and Treasury Inflation Protected Securities, which reflects the outlook among traders for consumer prices, was 2.17 percentage points, up from as low as 0.04 percentage point a year ago. Consumer prices increased 0.2 percent in September and have climbed each month since April, according to the Labor Department.

"Historically, inflation has caused larger future claims, and, in the current climate, the industry is not likely to be able to factor this into pricing," Ross Howard, chief operating officer of Towers Perrin's Europe reinsurance brokerage business, wrote in the Oct. 23 statement.

Prices Decline

Reinsurance prices have fallen as corporations reduce spending and companies compete for policyholders amid the recession. [Swiss Re](#), the world second-largest reinsurer, posted a 36 percent revenue decline in its casualty segment in 2008. Ozendo said casualty rates dropped over the last two years and property reinsurance prices increased gradually in 2009.

If inflation "is not contained and becomes rampant, then it will become a real problem," Ozendo said, adding that the industry needs to gradually raise rates for coverage to counter the effects of consumer price increases.

"The danger is real," [Bob Hartwig](#), president of the Insurance Information Institute, said yesterday at the conference. "The rates you put out on the street anticipated a certain amount of increase in frequency and severity and they end up higher than what you anticipated."

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