CHAPTER

4

Switzerland

1. INTRODUCTION

Switzerland has a dual system of property insurance for fire and natural damage. Nineteen of the twenty-six cantons have cantonal insurance monopolies (CIM), from which owners have to buy this type of insurance. In the remaining seven cantons (most importantly Geneva, Ticino, and Valais[1]), there are no public suppliers, and insurance cover can be obtained only from private providers. Most of the CIMs have existed since the beginning of the nineteenth century, and can thus boast almost 200 years of experience. The two different systems coexisted largely unchallenged until the early 1990s, when Swiss private insurers started a large and sometimes violent debate with the aim of abolishing the state monopolies.[2] They argued that the centuries-old state monopolies were 'anachronistic' (Gretener 1993) and that it was the role of the private economy to provide property insurance against fire and natural disasters. The market for property insurance was claimed to be 'a market like any other', free from market failure and unsuitable for state intervention (Schips 1995).

The observations in the preceding chapters cast doubt on this point of view. As the Spanish example shows, a state monopoly

[1] The other cantons are Uri, Schwyz, Obwalden, and Appenzell-Innerrhoden.

[2] Günthardt (1993). See also von Ungern-Sternberg (1994; 1996*a*) and Schips (1995). An overview of the most important points of contention and a critical appraisal can be found in Kirchgässner (1996).

can operate with substantially lower administrative costs than private insurers. The examples of Britain and France show that problems of adverse selection, particularly for comprehensive natural damage cover, can lead to severe market failure.

Switzerland's (relatively) homogeneous geographical nature makes it possible to directly compare the customer service of a state monopoly with that of private insurers. Our main findings are as follows.

1. State monopolies have significantly lower commission and administrative costs. The nineteen CIMs on average spend only 6c/SFr1,000 of the sum insured (SI) to cover these costs, whereas the private providers use 33c/SFr1,000 SI.
2. The cantons with a state monopoly have solved the problem of prevention in an original fashion: the monopoly property insurer is also largely in charge of organising and financing prevention efforts. This is an elegant solution to the externality problem referred to in previous chapters: the principal beneficiaries are responsible for financing prevention efforts and directly overseeing their implementation. This vertical integration produces impressive results: the CIM invest almost three times as much in prevention as the private insurers (16c/SFr1,000 SI and 6c/SFr1,000 SI respectively) and they have considerably lower damage costs.
3. The CIMs have managed to build up considerable reserves over the years in spite of their substantially lower premiums. Since they have no shareholders, all reserves and capital income ultimately benefit customers. In recent years, the CIMs have further lowered their premiums. On average their premium income is now insufficient cover their costs. However, this is not a problem since the deficits are covered with interest income, and reserves continue to increase.

In view of their lower costs, it is not surprising that the CIMs can offer significantly less expensive insurance cover than private insurers. By the year 2000, their average premium rate was only half of that of the private insurers (45c/SFr1,000 SI and 108c/SFr1,000 SI respectively). Considering this large differential,

it is not surprising that the CIMs enjoy broad support among their customers (the populations of the cantons concerned).

In spite of this clear statistical evidence, the private insurers embarked on a massive public relations offensive in the early 1990s with the aim of abolishing the CIMs. Since the premium rates of the CIMs speak for themselves, the private insurers attempted to shift the debate to a more ideological level. They even managed to come up with the nice phrase: 'competition also has its price' (Gretener 1993: 220). Since private insurers in Switzerland (and in other countries) have a very strong lobby, it is conceivable that their rather vague arguments could have had a certain degree of political success. However, direct democracy plays an important role in Switzerland, and the voters tend to take a sober view of such questions. In the canton of St Gall, the private insurers prematurely withdrew their initiative for a referendum on the abolition of the monopoly so as not to face an embarrassing defeat at the ballot box. A similar initiative was launched, and a referendum held, in the canton of Zurich. The voters rejected the proposal by an overwhelming 75 per cent.

The private insurers have had scant success also in the courts. In a 1998 decision, the Federal Court established that the CIMs were in the public interest; their monopoly status meant that customers were offered significantly lower premium rates and that more was done for prevention. After this defeat, the Swiss private insurers put their efforts on hold. It would, however, be wrong to believe that they have abandoned their long-term aim: they have just moved the battlefield from Switzerland to Brussels, hoping that they will be able to bring down the CIMs if Switzerland moves closer to joining the EU. If they cannot get rid of the state monopolies through direct democracy, they try to resort to institutions which tend to show less consideration for the wishes of the population.

In this chapter, we examine and compare in some detail the price/performance ratios offered to customers by private insurers and by the CIMs. We also examine why the property insurance market is not 'a market like any other' and why the state monopolies can offer their customers such good price/performance ratios.

2. COSTS AND PREMIUMS

2.1. Insurance cover

In Switzerland both the CIMs and the private insurers offer home owners comprehensive insurance cover against fire and natural damage. In both cases, customers are offered new-for-old insurance: that is to say, owners receive not the market value of their (possibly old) property when damage occurs, but the amount necessary to build a new property.

Natural damage insurance in Switzerland covers not only the usual storm and hail segments but also events such as flooding, avalanches, snow-pressure, landslides, and falling rocks: risks that are often labelled 'uninsurable'. Both the CIMs and the private insurers have set up earthquake pools. The CIMs cover earthquake damage up to SFr2bn, while the private insurers cover up to SFr300m.

2.2. Premiums

Although the CIMs cover the same risks as private insurers, their premium rates differ greatly. Figure 4.1 shows a comparison between the average premium rates of the CIMs and those of the private insurers over the period 1986–95. The average premium rate of the nineteen CIMs is more than 40 per cent lower than that of the private insurers. Between 1995 and 1999 private insurance premiums remained more or less constant, while CIM premiums fell by a further 20 per cent to less than 50c/SFr1,000 SI (Fig. 4.2). The premium differential therefore by now exceeds 2 : 1.[3]

[3] In this chapter we shall concentrate mainly on the period 1986–95, since the Federal Office for Private Insurance no longer publishes detailed figures. However, we do know that private insurers' premium incomes in the total segment of fire, natural damage and non-life insurance (including property and vehicles) remained practically constant: SFr3.114 bn in 1996, and SFr3.124 bn in 1998. It thus seems reasonable to assume that property insurance experienced no significant decrease in premiums.

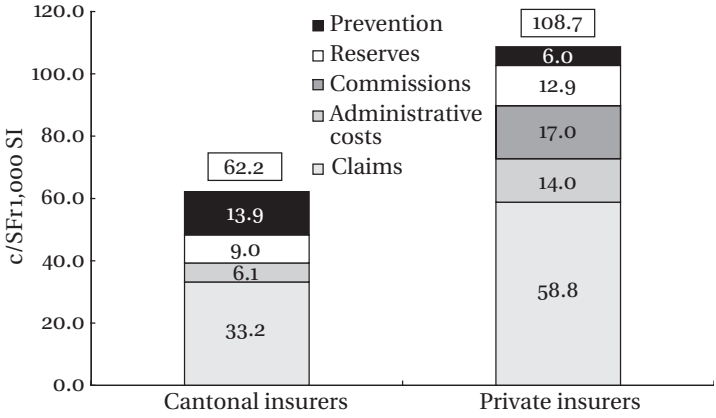

Fig. 4.1. Comparison of cantonal and private premiums (fire and elemental damage), 1986–1995

Source: VKF (various years), *Finanzstatistik*.

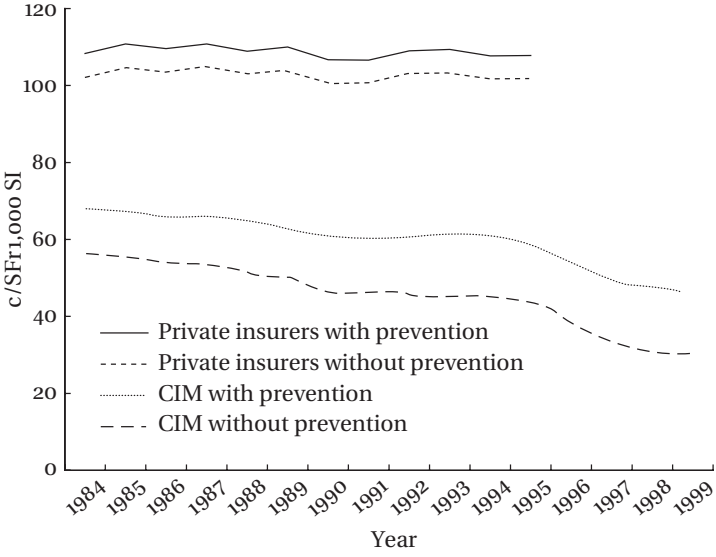

Fig. 4.2. Evolution of premiums in the housing insurance market, 1984–1999

Sources: For the CIM: VKF (various years), *Finanzstatistik*. For the private insurers: Bundesamt für Privatversicherungswesen (various years).

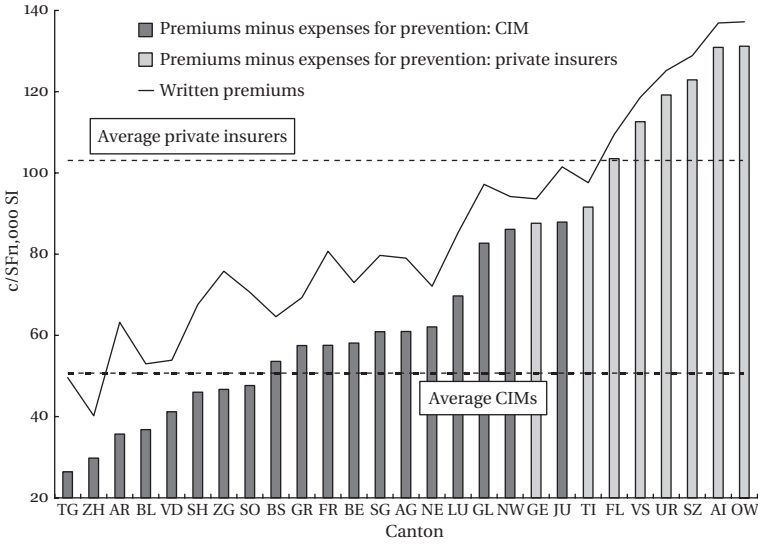

Fig. 4.3. Premiums minus expenses for prevention, by cantons (average for 1984–1993)

Sources: For the CIM: VKF (various years), *Finanzstatistik*. For the private insurers: Schips (1995).

It must be emphasised that the difference in average premiums cannot be explained by arguing that only some cantons with a monopoly system enjoy particularly low premium rates. As Fig. 4.3 shows, the CIMs are cheaper than the private insurers in almost all cantons. One of the main reasons behind this is the difference in cost structures.

Figure 4.1 shows that the commissions and administrative costs of the CIMs are only 6c/SFr1,000 SI, while for private insurers they total 33c/SFr1,000. This 1 : 5 differential is easily explained. First, the CIMs do not pay commissions: being compulsory monopolies, they do not need to attract clients. For the Swiss private insurers, competition for market share is very important. Approximately 15 per cent of premium income is used annually to cover commission costs. Their monopoly status allows the CIMs to make significant cost savings that they can then pass on to the customer. Second, the CIMs'

administrative costs account for 6c/SFr1,000 SI, less than half those of the private insurers, which stand at 14c/SFr1,000 SI. This difference arises mainly because the CIMs have solid customer bases and have no outlays on client acquisition techniques and advertising. Overall, the difference in commission and administrative costs is therefore 25c/SFr1,000 SI. In 1995, the CIMs insured a total capital of SFr1,370bn. If CIM costs were to reach similar levels to those of the private insurers, CIM customers would have to pay an extra SFr340m annually.

This simple comparison could be contested on grounds of potential bias: private insurers could have particularly high administrative costs because they have higher damage costs, and thus higher costs for processing claims. This objection is valid in principle. Looking at data from the nineteen CIMs, we can judge its relevance. Figure 4.4 shows the average administrative and claim processing costs for the CIMs. A

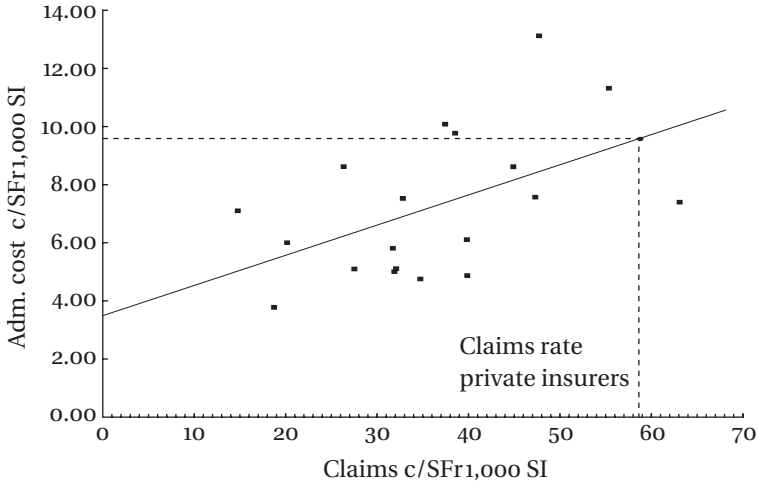

Fig. 4.4. Administrative costs as a function of claims rates

Note: Each dot represents the claims and administrative costs for one canton.
Source: VKF (various years), *Schadenstatistik*.

simple regression of administrative costs on damage levels yields:[4]

$$\text{Administrative costs} = \underset{(0.01)}{0.025} + \underset{(0.036)}{0.124}\ \text{damage.} \qquad R^2 = 0.42$$

Administrative costs therefore increase with damage costs at a rate of around 12.4 per cent.

This regression is of interest, because we can use its parameters to calculate the hypothetical administrative costs of an average CIM if it had the same damage rate as the private insurers. Private insurers' damage levels average at 58.8c/SFr1,000 SI, which corresponds to the CIMs with the worst incidence of damage. In Fig. 4.4, the level of damage is represented by the dashed line. If these numbers are introduced into the regression equation, we arrive at the corresponding administrative costs for an average CIM. (In Fig. 4.4, they are measured on the vertical axis.) The predicted administrative costs are 9.5c/SFr1,000 SI; that is, exactly 3.5c/SFr1,000 SI in excess of the actual administrative costs of the cantonal property insurers with their low damage levels. Only a very small part (approximately 10 per cent) of the high cost differential of 25c/SFr1,000 SI between the private insurers and the CIMs can be explained by the difference in damage levels.

2.3. **Prevention**

A further important difference that appears in Fig. 4.1 is the fact that the CIMs spend more than twice as much on prevention (13.9c/SFr 1,000 SI) as the private insurers (6c/SFr1,000 SI). It is the CIMs themselves, not the cantonal authorities, that decide on the level of prevention. From a theoretical point of view, this is a useful application of the Coase Theorem (Coase 1960). For

[4] The figures in parentheses are the standard deviations. Therefore all parameters are statistically significant.

an optimal provision of externalities, property rights must be defined in such a way that all externalities can be internalised. The benefits from prevention, although in principle a public good, can be internalised through state monopolies. Expenditure on prevention is decided in each canton by the institution that stands to benefit most, namely, the CIM. It is likely that the wide public support for the CIMs arises partly because customers know that a significant share of their premiums (approximately 30 per cent) is invested in prevention.

The CIMs try to play an active role in many aspects of prevention. They participate in town planning, thus preventing construction in areas at risk from natural damage. They are also in charge of setting building standards. These standards have by now also been adopted by the cantons with private property insurers. Finally, the CIM are heavily involved in training, coordinating, and financing the fire services.

Significantly less is invested in prevention in cantons that do not have a CIM. Private insurers provide very little additional funding to the fire service beyond their compulsory contribution of 5c/SFr1,000 SI fire tax. The cantonal property insurance monopolies can directly influence the level of expenditure on prevention and (probably more importantly) the effectiveness of its use. The direct benefit to a CIM from better prevention takes the form of fewer and smaller claims. There is no such direct connection in cantons with private insurance, where it is the public authorities that allocate the funds for prevention.

We have seen how difficult it is for the authorities to organise effective prevention, particularly in the case of France (Chapter 3). We explained this by the fact that local authorities do not have the proper incentives: the costs of prevention are borne by the inhabitants, the benefits accrue mainly to the insurers. The nineteen CIMs have elegantly solved this problem. The institutions with a direct financial interest in better prevention are in charge of its financing and organisation. It is reasonable to assume that prevention efforts not only reduce material damage but also lead to better protection of individuals. This is

Table 4.1. Fire deaths in North America and selected European countries, 1995–1999

Country	Annual deaths per million population
Switzerland	5.2
Spain	6.2
Netherlands	6.8
Austria	7.5
Germany	9.0
France	9.8
Britain	12.3
Canada	14.2
Norway	14.6
Sweden	15.0
Denmark	16.0
US	17.1
Finland	20.0
Hungary	25.1

Sources: World Fire Statistics Centre (2000; 2002); author's calculations.

confirmed by the fact that Switzerland has the lowest number of fire-related deaths in Europe (see Table 4.1).

2.4. **Claims costs**

The claims rate of the private insurers exceeds that of the CIMs by (0.588−0.332) = 25.6c/SFr1,000 SI. This difference can be subdivided into claims due to natural damage and claims due to fire. For natural damage, the level of claims of private insurers is about 16c/SFr1,000 SI higher (27c for private and 11c for public insurers). For fire damage, their claims are 10c/SFr1,000 SI higher (32c for private, 22c for public insurers).

It seems reasonable to assume that the differences in prevention efforts account for at least a share of this differential. Private insurers prefer to argue that their claims payouts are higher because they operate in areas with a higher exogenous incidence of damage. It is, of course, true that exogenous

differences in the burden of damage play an important role. This is also observed in comparisons among CIMs. For example, natural damage levels in Basel Town are only 2c/SFr1,000 SI, whereas in the rather more rural canton of Bern they are 14c/SFr1,000 SI.[5]

One way to examine the extent to which the difference between the private insurers and the CIMs stems from exogenous factors is to compare geographical areas that should have similar levels of damage due to their topography and location. For such a comparison, we collected data on damage levels in the Lausanne area (CIM) and in the canton of Geneva (private). Since both regions are on Lake Geneva and have a similar topography, exogenous differences should play very little part in explaining any difference between their respective claims costs. Over the period 1986–95 Geneva had fire damage of 27c/SFr1,000 SI, almost double that of the Lausanne area (14c/SFr1,000 SI). The difference was similar for natural damage: 10c/SFr1,000 SI in Geneva, 4c/SFr1,000 SI for the Lausanne area. It seems implausible to attribute such large differences to exogenous factors. However, the figures cannot 'prove' that the differences are a result only of the varying levels of prevention between the public and the private insurers; there may be other explanatory factors. An alternative reason could be that the private insurers compensate more generously. This would be understandable from the point of view of sales representatives, as it could entail greater customer loyalty. The additional claims costs are born by the insurer, but the sales representatives receive a percentage share of premium income.

To decide whether the greater generosity of private insurers is good or bad, we must examine whether CIM indemnities cover or fall short of damage costs. If they fully cover the damage (and to our knowledge there are no complaints in this respect), then the private insurers are paying out too much. All those customers who have not submitted a claim, or who claim only

[5] The figures for the CIM all come from VKF (various years). The data for the private insurers come mainly but not exclusively from the Bundesamt für Privatversicherungen (various years).

for actual damage incurred, lose out when the private insurers operate with such generosity.

2.5. Interpreting premium differences

Given the considerably lower administrative costs and claims payments, it should come as no surprise that the CIMs can operate with significantly lower premiums. As already mentioned, the premium difference is now more than 1 : 2. However, this sizeable difference still underestimates the real difference. Since the CIMs do not have shareholders, any profits they make are ploughed back into the reserves to allow for premium reductions at a later date; as a result of this, the CIMs were able to further reduce their premiums substantially during 1995–9. In spite of their low premium rate, the CIMs had accumulated around SFr6bn of reserves, and there was no reason for these to continue growing at the same rate. As Fig. 4.5 shows, the CIMs currently operate at a premium level at which they can barely cover their effective costs. However, since they draw healthy interest incomes from their reserves, they should be able to maintain their premiums at such levels for the foreseeable future.

Private insurers also need reserves in case of exceptionally high damage. Nevertheless, this does not alter the fact that their accumulated profits effectively are the property of their shareholders. A private insurance company lowers its premiums only if it expects this measure to yield higher future profits, but not because its past profits have been sizeable. For the customer, there is thus an important difference whether it is a CIM or a private insurer that registers a profit.

2.6. Premium structure

For economists, it is, of course, insufficient to look only at average premium levels; in some cases premium structures may

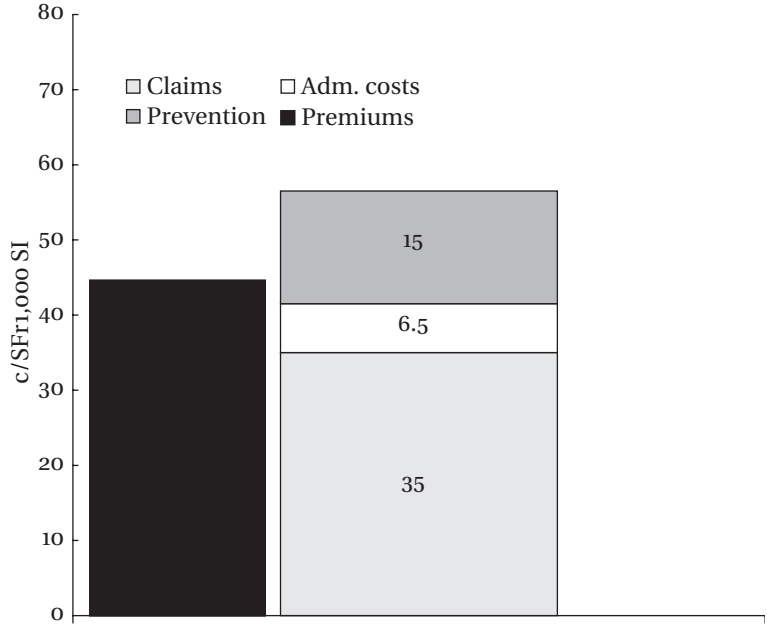

Fig. 4.5. Premiums and cost structure of the cantonal insurance monopolies, 1999

Source: VKF (various years), *Finanzstatistik* and *Schadenstatistik*.

be equally important. Since the aggregate demand for property insurance is almost completely inelastic, the distortion effects of a sub-optimal premium structure are minimal but the distribution effects may be non-negligible. The representatives of the interests of private insurers like to claim that competition leads to risk-related premiums, while state monopolies generally entail substantial cross-subsidisation. It is certainly true that the CIMs do not place a high priority on risk-related premiums, since they see themselves primarily as operating on the solidarity principle. Since each CIM establishes its own premium policy, it is difficult to make general statements. However, there is a certain truth in the claim that high risks (in particular in agriculture) pay lower premiums than what would

be warranted on grounds of damage incidence. The implicit redistribution in favour of agriculture is probably also supported at the political level. Premiums in the canton of Zurich are particularly weakly differentiated; there is currently only one (very low) premium rate of 26c/SFr1,000 SI.

One might be tempted to conclude from these observations that private insurance premiums better reflect effective risks. However, this would be erroneous, for two main reasons.

First, in a market economy prices are determined by two factors: marginal costs and the elasticity of demand. In the insurance market, this means that corporate customers generally pay lower premiums than do retail customers. This clearly emerges from Table 4.2. Private insurance is thus far from achieving the ideal of risk-related premiums. The main difference between the CIMs and private insurers is the customer group which benefits from particularly low premiums: with the CIMs it is the farmers, with private insurers it is the corporate customers.

Second, in property insurance, there is an additional, important form of cross-subsidisation by Swiss private insurers. We have seen that it is almost impossible to offer comprehensive cover against natural damage in an insurance market organised exclusively according to market principles. Since all CIM cantons enjoy such cover, Swiss private insurers have been for all intents and purposes forced to find ways to overcome this problem. They set up a natural damage pool, in which all members of the pool charge a (high) flat-rate premium for cover against natural damage of 45c/SFr1,000 SI. The costs of natural

Table 4.2. Premium and claim rates of the private insurance industry, retail vs corporate customers, 1989–1994

	Retail customers	**Corporate customers**
Premium rate	1.02%	1.44%
Claim rate	0.44%	1.14%
Premiums minus claims	0.58%	0.30%
Premiums/claims	232%	126%

Source: Bundesamt für Privatversicherungswesen (1995).

damage are borne not by the individual insurer but by the pool.[6] The insurers who make up this pool are prepared to accept even the bad risks, and the problem of adverse selection is solved. This solution implies a significant redistribution from areas with lower levels of damage, particularly Geneva, to areas with higher damage levels, such as Valais and Ticino.[7] Taking these two effects together, the redistribution between good and bad risks is probably more important for the private insurance sector than for the CIMs.

2.7. **CIM reinsurance cover**

Although the CIMs collectively boast substantial reserves, the individual cantonal monopolies are financially too weak to cover the costs of damage resulting from a large-scale natural disaster. For a long time the only protection they had was the reinsurance cover they bought from a jointly owned company, the Intercantonal Reinsurance Association (Interkantonaler Rückversicherungsverband, IRV), which was in turn reinsured on international markets. In 1995, a further agency was established to complement this system: the Intercantonal Risk Community (IRC). The IRC operates on the following principle. If a CIM has an unusually high cost burden as a result of natural damage in one year, these costs are assumed by the other CIMs, according to a predetermined allocation. It is a type of reinsurance based on the principle of risk-sharing. The introduction of the IRC means that the maximum potential claim cost for an individual CIM has greatly decreased. As a consequence, the CIMs have less need for high reserves, and they could further lower their premiums for their customers.

[6] Of course, the pool may reinsure against high claims incidence on the international reinsurance markets.

[7] For the period 1984–93, the private insurance sector released the following figures (fire and natural damage): Geneva, premium rate 94c/SFr1,000 SI, damage rate 38c; Ticino, premium rate 98c, damage rate 47c; Valais, premium rate 119c, damage rate 80c (Schips 1995).

3. WHY IS THE MONOPOLY SO EFFICIENT?

It is not common for an economist to conclude that a state monopoly leads to a better price/performance ratio for consumers than a (more or less) competitive market. Thus, it is interesting to explore the features of the property insurance market that underlie this rather surprising verdict. We will argue that in this sector a number of factors converge in favour of the public monopolies.

3.1. Insurance as a credence good

First, an important explanation for the difference in premium rates is the fact that property insurance is a textbook example of a credence good (Nelson 1974). As a general rule, the customer realises how good his insurance cover really is only when he submits a claim for damage. According to the Swiss Association of Non-Life Insurers (SSV), 'a simple change in wording in the terms and conditions of an insurance contract may have serious consequences for the customer's insurance cover' (Kartel-commission 1988: 32). Our example of Monserrat in Chapter 1 illustrates this. The importance attached to 'goodwill' in the insurance business indicates that the average small customer does not really know what he or she is entitled to once damage occurs. It is, then, unsurprising that a convincing sales representative and a reputation of generosity are stronger attractions for many customers than 10 per cent lower premiums. There is good reason to assume that, in the case of property insurance, where customers can risk losing most of their worldly possessions if damage occurs, the sales representative plays a more important role than the price. The fact that the private insurers in all the countries examined in this book spend between 30 per cent and 40 per cent of their premium income to cover commission and administrative costs shows quite clearly that the above statement is not empty speculation.

Property insurance monopolies have no need for expensive sales staff. Furthermore, since they do not have shareholders who pocket part of the profits, they have little incentive for denying customers their legal entitlements. Monopolies have a sizeable head start in the 'cost race'.

3.2. Salaries

It is often claimed that public-sector employees do less than their private sector counterparts to earn their salary. This is a moot point. Even if it were true, however, it is of little empirical significance for property insurance. Only a very small share of CIMs' premium income goes to cover their employees' salaries.

3.3. Product standardisation

Experience teaches us that state monopolies usually perform better when it comes to offering highly standardised products to a large number of customers; this is exactly what is required of property insurance. All customers want comprehensive cover against fire and natural damage. The problem of a possible over-standardisation on the part of the monopoly is limited because private insurers may offer complementary insurance to supplement the cover provided by the monopolies. As yet, no market for such complementary insurance has been established; instead, private insurers offer practically the same insurance cover as the CIMs. This would seem to confirm that the cantonal monopolies meet the needs of their customers.

3.4. Innovation

It has often been observed that state monopolies are not particularly innovative. Technology-intensive sectors should therefore

be liberalised. In the property insurance market innovation does not play an important role; in fact, the most important innovations in the Swiss property insurance market have been introduced by the cantonal monopolies and then copied by the private insurers.

In the 1920s and 1930s, comprehensive natural damage insurance was introduced incrementally by the CIMs. In the 1920s, they also introduced indexing of property values. At the beginning of the 1970s it was the CIMs that first set up an earthquake pool. There is only one case in which the private insurance sector was first: the introduction of new-for-old insurance in the late 1950s and early 1960s. It is well known why the CIMs resisted this development so vehemently: they feared possible abuse. In the case of an owner of a dilapidated building who realises that he would receive the costs of a new building should damage occur, the unintended incentive effects are obvious.

3.5. Integrating prevention and insurance

As previously mentioned, regional property insurance monopolies have made great efforts and invested substantial resources in the area of prevention. All the available evidence points to the fact that these measures have reduced the insurers' burden of claims.

3.6. Competition among institutions

Finally, it should be remembered that, while the Swiss monopolies and private insurers do not compete for the same customers, they are nevertheless in fierce competition. Each time that the CIMs made an innovation of which their customers approved, the private insurers were forced to follow suit. And

when the CIMs noticed that the new-for-old insurance, introduced by the private insurers, was a success, they had to follow suit in spite of their reservations.

Switzerland is the only European country in which private insurance companies offer comprehensive natural damage cover. A likely explanation is that they could not let the scope of their cover lag behind that of the neighbouring CIMs for too long.

It is certainly no coincidence that the CIMs in the second half of the 1990s once again reduced their premiums and at the same time introduced their new reinsurance concept. Given pressure from the private insurers, they had to focus on their competitive advantage and innovate.

The Swiss property insurance market holds valuable lessons for the EU. The wave of privatisation and market liberalisation that characterised the 1980s and 1990s has greatly reduced institutional diversity in Europe. Institutions that had developed over centuries were abolished at the stroke of a pen, and not always for the better. Comparison among institutions is a valuable way of reducing the risks involved with institutional innovation. Social acceptance of such measures would be greater as a result.

4. CONCLUSION

We have seen that the cantonal property insurers offer their customers substantially better price-performance ratios than Swiss private insurers. The premium differential is in excess of 2:1. Lower commission and administrative costs alone save the CIMs' customers SFr 300m annually. The benefits from higher prevention efforts are less simple to quantify, but are just as significant. There are also good theoretical reasons why state monopolies should perform particularly well in this specific sector.

The private insurers like to argue that, if the CIMs were really so advantageous for the customer, then there should be no need

for them to worry about market liberalisation. This argument is invalid for two reasons. First, coordination of insurance and prevention within the same company is possible only if the insurer is a monopoly. If the market were opened to competition, an institution which is unique in Europe and which has provided customers with excellent service would be destroyed. Second, the CIMs can offer their exceptionally low-cost cover only because, as monopolies, they have very low commission and administrative costs.

The latter claim has repeatedly been questioned by Swiss private insurers. Fortunately, one can test it using empirical observations. Until 1994, a number of German *Länder* had public property insurance monopolies. The EU's third non-life insurance Directive abolished these monopolies, leaving the companies to compete in the free market. The developments in Germany since then provide a sobering lesson in just how expensive market liberalisation can be for the customer. These developments are studied in detail in the following chapter.