

## Insuring the chemical industry

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The chemical industry posed particular challenges for insurers. Its factories handled flammable, explosive and toxic substances, operated high-pressure and high-temperature processes and stored large quantities of raw materials and products. A fire or explosion could destroy a plant, kill workers and residents, contaminate the environment and interrupt production for months. The potential losses were large, uncertain and correlated, since a single event could cause damage to property, persons and the environment at the same time.<sup>1</sup>

The Basel insurers developed expertise in the insurance of these risks, in cooperation with the chemical companies and with reinsurers. They inspected the factories, advised on fire prevention and safety measures, and set premiums according to the risks of each plant. The chemical companies, in turn, built their own fire brigades, adopted safety rules and invested in prevention. The cooperation between the insurers and the industry contributed to the development of industrial safety in Basel.

The largest chemical risks exceeded the capacity of any single insurer. They were shared among several insurers through coinsurance, in which several insurers each took a share of the risk, and transferred to reinsurers, who assumed part of the risks of the primary insurers. Swiss Re in Zurich, founded with the participation of the Basler Handelsbank, became one of the principal reinsurers of the chemical risks of Basel and of the world. The fire at Schweizerhalle in 1986, which Part G examines, showed the scale of the losses that a single chemical accident could cause and led to changes in the insurance of environmental risks.

The chemical companies also developed their own insurance arrangements. They created captive insurance companies, owned by the industrial group, which insured the risks of the group and reinsured them in the reinsurance market. Captives allowed the companies to retain part of their risks, to reduce insurance costs and to gain access to the reinsurance

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market directly. Part I examines the modern use of captives by the Basel pharmaceutical groups.

### 1 Notes

1. On the insurance of chemical industry risks (fire, explosion, business interruption, liability, environmental damage), see the literature on industrial insurance. To be verified. ↩

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