INSURANCEDISPUTES LAWREVIEW

FIFTH EDITION

EditorsJoanna Page and Russell Butland

ELAWREVIEWS

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PREFACE

We are delighted that this is now the fifth edition of *The Insurance Disputes Law Review*. It is a privilege to be the editors of this excellent and succinct overview of recent developments in insurance disputes across 18 important insurance jurisdictions.

Insurance is a vital part of the world's economy and critical to risk management in both the commercial and the private spheres. The law that has developed to govern the rights and obligations of those using this essential product can often be complex and challenging, with the legal system of each jurisdiction seeking to strike the right balance between the interests of insurer and insured, and also the regulator who seeks to police the market. Perhaps more than any other area of law, insurance law can represent a fusion of traditional concepts (concepts almost unique to this area of law) together with constant entrepreneurial development, as insurers strive to create new products to adapt to our changing world. This makes for a fast-developing area, with many traps for the unwary. Further, as this indispensable book shows, even where the concepts are similar in most jurisdictions, they can be implemented and interpreted with very important differences in different jurisdictions.

To be as user-friendly as possible, each chapter follows the same format – first providing an overview of the key framework for dealing with disputes – and then giving an update of recent developments in disputes.

As editors, we have been impressed by the erudition of each author and the enthusiasm shown for this fascinating area. It has also been particularly interesting to note the trends that are developing in each jurisdiction.

An evolving theme in almost every jurisdiction is the increase in protections for policyholders. Much of the special nature of insurance law has developed from an imbalance in knowledge between the policyholder (who had historically been blessed with much greater knowledge of the risk to be insured) and the insurer (who knew less and, therefore, had to rely on the duties of disclosure of the policyholder). With the increasing use of artificial intelligence to assess data and more detailed scope for analysis across risk portfolios, the balance of knowledge has shifted; it will often now be the insurer who is better placed to assess the risk. This shift has manifested itself in tighter rules requiring insurers to be specific in the questions to be answered by policyholders when they place insurance, and in remedies more targeted at the insurer if full information is not provided. Coupled with these trends, however, is the increasing desire by some jurisdictions to set limits on the questions that can be asked so that, for example, in relation to healthcare insurance, policyholders are not denied insurance for historical matters. In light of the ongoing scourge of covid-19, and the complexity of its effects across the world's economies, this issue continues to be at the forefront of debate.

We can expect that this tussle between the commercial imperative for insurers to price risk realistically and the need to balance consumer protection, government policy and privacy will increasingly be at the heart of insurance disputes.

The past year has been tumultuous. The conflict under way in Ukraine, together with its impact on energy security and global supply chains, comes as a further shock on top of climate events and continued disruption from covid-19. This conflict is having a substantial effect on the aviation insurance market, particularly in relation to providing cover for war and contingency coverage. Business interruption issues, meanwhile, continue to be worked through across the affected legal systems; key areas of coverage have been addressed, but there are now more bespoke issues to deal with; for example, relating to application of policy limits.

There has in the past year been particular focus on directors' and officers' policies. These are under increasing pressure as directors are in the spotlight following strategic climate change litigation being conducted, particularly relating to greenwashing and transparency in the process of the transition to net zero. Similarly, cyber risks are ever increasing and again place directors and officers under scrutiny.

No matter how carefully formulated, no legal system functions without effective mechanisms to hear and resolve disputes. Each chapter, therefore, also usefully considers the mechanisms for dispute resolution in each jurisdiction. Courts appear to remain the principal mechanism, but arbitration and less formal mechanisms (such as the Financial Ombudsman in the United Kingdom) can be a significant force for efficiency and change when functioning properly. The increasing development of class action mechanisms, particularly among consumer bodies (e.g., in France and Germany) is likely to be an important factor.

We would like to express our gratitude to all the contributing practitioners represented in *The Insurance Disputes Law Review*. Their biographies are to be found in the first appendix and highlight the wealth of experience and learning that the contributors bring to this volume. On a personal note, we must also thank Lucia Craft-Marquez at our firm, who has done much of the hard work in this edition.

Finally, we would also like to thank the whole team at Law Business Research, who have excelled at bringing the project to fruition and in ensuring both a professional look and consistency in the contributions.

Joanna Page and Russell Butland

Allen & Overy LLP London October 2022

Chapter 17

SWITZERLAND

Christian Casanova and Martin Heisch¹

I OVERVIEW

The insurance industry is a major pillar of the Swiss financial industry. An important element in the provision of insurance services in Switzerland and out of Switzerland is the presence of international insurers. A consequence of the international nature of the insurance market is that wordings are often not specifically developed for the Swiss market, but rather are adoptions from foreign, often UK wordings, which regularly leads to conflicts with mandatory law and results in a construction that may not have been expected when drafting the wordings.

To provide the necessary certainty for the provision of insurance services, a functioning and reliable system for dispute resolution, which allows foreseeable results of the drafting of insurance contracts, is essential. This chapter intends to provide an overview on topics and developments that have an impact on insurance disputes. In addition to the evolution of the jurisprudence by the courts, a major development in Switzerland is the entry into force of the bill on the amendment of the Insurance Contracts Act as of 1 January 2022.

II THE LEGAL FRAMEWORK

i Sources of insurance law and regulation

The main body of law applicable to insurance contracts is found in the Insurance Contracts Act (ICA).³ In addition, general contract law (i.e., the Swiss Code of Obligations (CO),⁴ is applicable where the ICA has no specific provisions.

The regulatory framework for private insurance carriers is governed by the Insurance Supervisory Act (ISA),⁵ with important additional rules in the Insurance Supervisory Ordinance.⁶ The Swiss regulator is the Financial Market Supervisory Authority (FINMA).

¹ Christian Casanova is a partner and Martin Heisch is an associate at Prager Dreifuss Ltd.

² Of the 118 non-life insurers admitted for business in Switzerland in 2021, 70 were domiciled in Switzerland, whereas 48 insurers were branches of foreign insurers; see FINMA Insurance Market Report 2021 (https://www.finma.ch/en/documentation/finma-publications/reports/insurance-reports/).

³ Swiss Federal Act on Insurance Contracts of 2 April 1908, SR 221.229.1.

Swiss Code of Obligations of 30 March 1911, SR 220.

⁵ Swiss Federal Act on the Supervision of Insurance Entities of 17 December 2004, SR 961.01. A partial revision of the ISA was passed in parliament on 18 March 2022. The date for the entry into force is expected to be fixed once the necessary amendments to the Insurance Supervisory Ordinance have been decided.

⁶ Ordinance on the Supervision of Private Insurance Entities of 9 December 2005, SR 961.011.

As the ICA dates in essence from 1908, various attempts to modernise the act have been made in past years with one of the aims being to strengthen rights of the insured. These efforts ultimately led to the partial revision of the ICA that came into force on 1 January 2022. Even though there has been no significant case law available on the revised law since then, this change of the landscape will without doubt also impact on insurance disputes.⁷

ii Insurable risk

Switzerland does not traditionally follow a strict concept of insurable interest in insurance contracts, although the revised ICA takes up this notion. To date, there is no case law defining the essential elements of an insurance contract and no consensus in academic opinions. Consequently, in the absence of any existing definition, there are no clear restrictions to the insurable risk that might be deduced.

Nevertheless, it is largely uncontested that the contract of insurance is a contract for the transfer of a risk for a consideration, a concept that entails an element of fortuity. There must be some uncertainty as to whether, or at least when, the risk might realise. The amended ICA expressly provides for the option to conclude retroactive insurances. Accordingly, the effects of a contract may be referred back to a point in time prior to its conclusion if there exists an insurable interest. Retroactive insurance is, however, null and void where only the policyholder or the insured knew or had to know that a feared event had already occurred.⁸

An additional point to be noted is that the validity of the insurance contract is, according to the predominant legal doctrine, not dependent on the regulatory status of the insurer. Arguably, a contract that is to be qualified as non-admitted business in Switzerland may, thus, be valid and enforceable.⁹

iii Fora and dispute resolution mechanisms

Although Switzerland has had a unified Civil Procedure Code (CPC) since 1 January 2011, its federal system and history have left their mark on the court system, not only by providing different competent courts depending on the canton in which a claim is lodged, but also by distinguishing between the cantonal and the federal levels within the stages of a court proceeding, applying different rules to each stage.

In general, there is an obligation for the parties to enter into a mandatory conciliation procedure before being allowed to submit a claim to court. If no settlement can be found, the claimant can lodge the claim with the cantonal first instance court. A judgment from this first instance court can be appealed to the supreme court of the canton concerned. This appeal court is entitled to a full review of the first instance judgment on all legal and factual grounds. Following a judgment of the canton's supreme court, a further appeal is possible to the Federal Supreme Court; however, only on limited grounds. In particular, while the Federal Supreme Court will in most circumstances undertake a full review of the legal issues, only manifestly wrong factual findings can be challenged in the Federal Supreme Court.

In addition to this court system, four cantons provide for commercial courts, ¹⁰ which are competent to hear commercial claims if at least the defendant is registered in a commercial registry, the value of the claim (in insurance matters) amounts to 30,000 Swiss francs and the

A more detailed outlook on litigation-relevant changes is presented at the end of this chapter.

⁸ Article 10 ICA

⁹ cf. BSK VAG-Gerspacher/Stauffer von May, Article 3 No. 8 et seq.

¹⁰ Zurich, Bern, Aargau and St Gallen.

claim concerns the professional activity of at least one of the parties. ¹¹ Distinguishing features of the commercial courts are firstly an acceleration of the proceedings, as there is no prior conciliation hearing, and no appeal at the cantonal level. Also, the bench in the commercial courts include 'commercial' judges, who have particular experience in the industry (e.g., in insurance and reinsurance matters).

In addition to the court system, alternative dispute resolution (ADR) mechanisms are widely accepted in Switzerland. While mediation plays virtually no role in insurance disputes, arbitration is a commonly used ADR mechanism and is even predominant in the handling of reinsurance claims. In particular, in both domestic and international arbitration, the Federal Supreme Court as sole instance of appeal exhibits an arbitration friendly jurisprudence.

III RECENT CASES

i Coverage of business shutdown losses for covid-19

In the recent past, it has been highly controversial whether business interruption losses resulting from covid-19 shutdowns are subject to coverage under 'epidemic insurance' wordings. Epidemic insurance is often added as an extension to a basic property business interruption insurance.

In a judgment that has received considerable attention among practitioners, the Swiss Federal Supreme Court rejected insurance coverage for such losses. ¹² Given that it has the character of precedent in relation not only to the settlement of many covid-19 shutdown losses in Switzerland, but also in the interpretation of insurance contracts and their general terms and conditions, in particular, the judgment of the Swiss Federal Supreme Court warrants a closer look.

ii Background

In August 2018, a restaurant company concluded a business insurance policy for small and medium-sized enterprises (SME). The policy, inter alia, included property insurance, which covered losses of income and additional costs arising out of an epidemic. The general terms provided under the headings 'not insured are' and 'epidemic' listed various exclusions in the event of an epidemic. In particular, losses caused by pathogens for which the World Health Organisation (WHO) pandemic phases 5 or 6 were applicable at the national or international levels were excluded from coverage.

As a result of the (first) nationwide shutdown ordered by the Federal Council from 17 March 2020 until the end of April 2020, the restaurant company suffered an estimated loss of income of about 75,000 Swiss francs. In the aftermath, the restaurant company filed a claim for compensation of losses, which was upheld by the (first instance) Commercial Court. Following an appeal by the insurer against this judgment, the Federal Supreme Court had to decide whether the exclusion clause was applicable with regard to business shutdown losses due to covid-19.

¹¹ cf. Article 6 CPC.

¹² DFT 4A_330/2021, published as DFT 148 III 57.

Contested issues included, inter alia, that the exclusion referred to a definition of the WHO that was not further set out in the policy wording, was available only in foreign language and – more importantly – referred to a WHO pandemic scale no longer in use both at the time of the shutdown and not even at the inception of the policy.

iii Considerations

In the assessment of the validity of the clause, the Federal Supreme Court applied a three-stage test:

- *a* whether the exclusion had become part of the insurance contract;
- b whether the clause was ambiguous; and
- c whether an ambiguity, if found, had to be held against the insurer.

Under Swiss law, general terms and conditions only apply if the parties expressly or implicitly incorporate them into the contract. The party who agrees to such terms must at least have had the opportunity to become aware of their content in a reasonable manner (accessibility rule). According to the 'unusualness' rule, surprising clauses (i.e., contractual provisions that the policyholder does not reasonably have to expect), are not binding. Against this backdrop, the Federal Supreme Court considered the valid integration of the general terms and the exclusion by assessing their integration into the contract and a potential unusual nature.

Concerning accessibility, the Court found that the coverage exclusions had been properly adopted by the parties even though the definition of the WHO pandemic levels was not expressly reflected in the physical policy copy. According to the Federal Supreme Court, the fact that the WHO definitions could be found easily online provided sufficient access for the insured, so that it could be reasonably expected that the insured became aware of their content. Also, the fact that the definitions were only available in English (whereas the insurance contract was in German) did not hinder the Federal Supreme Court from finding that the insured had sufficient access to the WHO definition.¹³

The Federal Supreme Court further examined under the unusualness rule whether the exclusion clause was unusual, meaning that the provision would not form part of the contract. The Court found that the exclusion clause was one of many provisions in the supplementary terms and conditions limiting the insurance benefit and, thus, did not substantially change the character of the SME business insurance. Likewise, the Court held that the exclusion clause did not fall significantly outside the legal framework of this type of contract. As a result, the exclusion clause was not deemed objectively unusual and had, thus, validly been included in the contract.

In a next step, the Court had to assess the meaning of the exclusion. Although it was uncontested between the parties that the corona pandemic (covid-19) fulfilled all the requirements of a Phase 6 pandemic according to the relevant WHO definition, the issue remained that the policy effectively referred to a definition that was no longer in use. While the first instance court had found that in a context of this kind the wording was nonsensical and, consequently, denied the application of the exclusion, the Federal Supreme Court clearly held that the construction of a clause cannot stop at the wording: doing so would denude the exclusion of any applicability. Rather, the Federal Supreme Court found a clear intention to exclude high-scale pandemics, a level that covid-19 had reached. Against this background,

¹³ See cons. 4.1.2.

the Federal Supreme Court also refused to give importance to the fact that no authority had formally relied on the WHO definition of pandemic levels. Rather, the Court concluded that the construction of the exclusion clause led to an unambiguous result. By this finding, the Court could desist to apply the third part of the test – that is, the specific rule of ambiguity under the ICA, according to which risks otherwise insured under the contract can only be excluded from coverage via clear wording.

iv Impact

The decision is of importance for covid-19 litigation, as many policies will have a similar wording as the one assessed by the Federal Supreme Court. The broader impact lies, however, in the Court's reminder on the principles applicable to the assessment of general terms. While the considerations of the Federal Supreme Court have been met with some criticism, ¹⁴ it is to be welcomed that a judgment has been issued by the highest court in Switzerland that clearly distinguishes between the construction of the contract and the ambiguity of a clause. Contrary to some tendencies in legal literature that have created uncertainty, the Court has now confirmed that, before the application of the rule of ambiguity can take place, the scope of a disputed contract clause has to be explored by means of a construction, which has to consider all elements of a contract. Only if this construction still leaves ambiguity can legal presumptions of an interpretation against the insurer be applied.

IV THE INTERNATIONAL ARENA

Swiss international private law is generally open to a choice of law and of jurisdiction by the parties, and the courts have adopted a favourable approach towards the agreements of the parties in these matters.

i Choice of law

The general principles for determining the law applicable to an insurance contract are found in the Federal Act on Private International Law (PILA). For non-consumer contracts, the parties are free to choose the applicable law in the insurance contract. It should be noted that, although the determination needs to be clear and unequivocal, there is no requirement to make an express choice. Rather, the choice of law can also be implied.¹⁵ In the absence of a definite choice, the applicable law is determined by selecting the law of the country with the closest connection to the contract. This closest connection is represented by the characteristic services (i.e., in the case of insurance contracts, the services of the insurer). The Federal Supreme Court, thus, applies the law of the seat of the insurer to the insurance contract.¹⁶

The above principles may not apply to insurance contracts with consumers (i.e., contracts intended for the personal use of the consumer and not taken out in a professional capacity). In a nutshell, such contracts are governed by the law at the residence of the consumer if the contract has been marketed or sold at that place. A choice of law is excluded for consumer contracts.¹⁷

¹⁴ See among others Eisner-Kiefer Andrea, AJP 2022, pp. 643 et segg.

¹⁵ Article 116 PILA.

¹⁶ DFT 4A_58/2010 cons. 2.2; Article 117 PILA.

¹⁷ Article 120 PILA.

ii Place of jurisdiction

The place of jurisdiction is determined at the national level by the CPC and at the international level by the PILA or, in a European context, the Lugano Convention.¹⁸

The PILA has only one specific provision pertaining to insurance contracts in the case of a direct claim against the insurer.¹⁹ In general, the PILA allows for a choice of jurisdiction unless a contract is to be qualified as a consumer contract.²⁰ The parties to an insurance contract may, therefore, submit to a Swiss jurisdiction even though no party is resident in Switzerland. A sufficient connection allowing a Swiss court to accept the jurisdiction may in that case be created by the choice of Swiss law as the law applicable to the insurance contract.²¹

A somewhat different approach applies under the Lugano Convention, which provides for specific places of jurisdiction for disputes under insurance contracts and restricts in particular the venues available to the insurer. The Lugano Convention, however, allows for a choice of jurisdiction under certain circumstances, the most important carve-out being in cases of the insurance of large risks (i.e., if the insurer fulfils two of the following three criteria: minimum total assets of €6.2 million, minimum net turnover of €12.8 million and 250 employees on average during the business year).

V LITIGATION-RELEVANT ISSUES

As in the past few years, there remains strong claims activity under professional indemnity and directors' and officers' liability policies, but also, for example, under banker's blanket bonds. In spite of being a main growth line of business, claims under cyber insurance policies remain scarce to date, but these may increase in the future.

Apart from market developments, the amendment to the ICA, which entered into force on 1 January 2022, will give rise to litigation, partly also because of inconsistencies in drafting. In what follows, we would like to highlight some litigation-relevant issues that the new law brings with it.

i Direct right of claim for liability insurance

One of the most striking amendments to the ICA is the introduction of a direct right of claim against the insurer in the area of third-party liability insurance.²⁴ The third party suffering damage or its legal successor has a direct right of claim against the insurer within the framework of any existing insurance cover; however, this is subject to the objections and defences that the insurance company may hold against the insured on the basis of the ICA or the insurance contract. In the area of mandatory liability insurance, the right of claim goes even further. In cases of this kind, the ICA denies to the insurer defences arising from:

- a negligent or intentional causation of the insured event;
- *b* a breach of obligations;

¹⁸ Lugano Convention 2007, SR 0.275.12.

¹⁹ Article 131 PILA.

²⁰ Article 5 PILA, Article 114 PILA.

²¹ Article 5 PILA; DFT 119 II 167.

²² Article 8 et seqq. Lugano Convention.

²³ Article 14 No. 5 Lugano Convention.

²⁴ Article 60 Paragraph 1 bis ICA.

- c a failure to pay the premium; or
- d a contractually agreed deductible.²⁵

From the damaged party's point of view, the newly introduced direct right of claim certainly has some advantages. Most notably, the economic risk of the liable insured facing insolvency may be fully shifted to the insurer. To facilitate enforcement, the new ICA also grants the damaged party a right of information. Accordingly, the damaged party is entitled to request from the liable insured or from the competent supervisory authority the disclosure of the insurance company. The latter is obliged to provide information on the type and extent of the insurance cover.²⁶

In particular, the direct right of claim in the area of mandatory liability insurance with the exclusion of defences for the insurer may bring with it some change in the insurance litigation landscape. While not an unknown to Switzerland, a direct right of claim has existed so far only in a very few insurance lines, the most important being motor insurance. In a first step, however, courts will have to clarify – under a lack of a legal definition – when liability insurance is 'mandatory'. An additional point that will be litigated, probably in the near future, is the contested applicability of the new claims right on existing insurance contracts. The introduction of the direct claims right may also lead to an increase in international litigation, as more lawsuits against Swiss insurers are likely to be filed abroad.²⁷

Whether the direct claims right will lead to remarkably higher claims activity in general remains to be seen. A claim against the insurer still requires a potential liability of the insured and the frequency of events potentially giving rise to liability will not be affected by the revision of the ICA. In addition, (unsuccessful) claimants in Switzerland face considerable cost risks in the form of party compensation and court costs.

ii Mandatory provisions and professional insureds

The amended ICA consists to a large extent of mandatory provisions that may not be amended at all, or at least not to the detriment of the insured. Contrary to the prior ICA, for instance, it is no longer permissible for retail insurance contracts to draft obligations of the insured as condition precedent. Thus, the breach of such an obligation will have no consequence if the insured can establish that a breach had no negative impact on the occurrence of the feared event and on the amount of the insurance payment. Nevertheless, the ICA recognises that not all insureds need the same level of protection. The provisions of the amended ICA are, therefore, not mandatory for some types of large risks defined in the ICA. This concerns not only credit insurance but also, and more importantly, professional insureds. This notion includes, inter alia, regulated financial intermediaries, pension funds, entities with a professional risk management function and also entities that fulfil two of the following three criteria: total assets of 20 million Swiss francs, net turnover of 40 million Swiss francs and net assets or equity of 2 million Swiss francs. An uncertainty lies in the lack of definition of the professional risk management. Nonetheless, as a consequence of this

²⁵ Article 59 Paragraph 3 ICA.

²⁶ Article 60 Paragraph 3 ICA.

²⁷ Article 11 No. 2 Lugano Convention in conjunction with Article 60 Paragraph 1 bis ICA.

²⁸ Article 45 ICA.

²⁹ Article 98a ICA.

liberalisation for large risks, insurers may now gain the option to structure their policies in a much more flexible way than before, but will need to do so carefully by using clear wording in the case that they deviate from the solutions foreseen by the ICA.

iii Recourse and subrogation

Under the old ICA, the recourse of a first-party insurer was restricted through statutory law and court practice, in essence only granting the recourse against third parties liable for tort or, in the case of contractual liability, if the third party had acted grossly negligently. While the Federal Supreme Court had already started to move away from this practice in the recent past,³⁰ the amended ICA now provides for a fundamental change, which is supportive of the recourse of the insurer.³¹ With the new regime, the insurance company, in the amount and at the time of its performance, subrogates into the insured's rights for the items of damage of the same type it covers. This leads to a shift in the recourse landscape in Switzerland, transforming it from being a rather hostile environment to being a recourse-friendly one. Going forward, recourse proceedings are, thus, likely to be conducted more frequently (and more successfully).

iv Transitional provision

A further point that will be contested in courts is the scope of the transitional provision, which decides to what extent the provisions of the amended ICA will be applicable in pre-existing insurance contracts. Pursuant to Article 103a ICA, only two provisions of the new law apply to contracts concluded prior to the entry into force of the amendment: the form requirements and the consumer-friendly right of termination. Despite the wording of the transitional provision appearing to be conclusive, a discussion has arisen already in the build up to the entry into force of the new law. In particular, it is currently disputed whether the transitional provision should only be applied to provisions with a contractual character or also to those with a statutory character, or to provisions with effects on third parties. This issue is, inter alia, of significant relevance with regard to the newly introduced direct right of claim for liability insurance. In taking the position that provisions with statutory character must in any case be assessed under the new law, the direct right of claim would also be applicable to contractual relationships concluded before 1 January 2022. However, in our opinion, the distinction between provisions with a statutory or contractual character seems to be somewhat artificial in this context, and the clear wording of the transitional provision is a strong indication that the legislature did not intend to broaden the scope of application of the new law to contracts concluded before 2022 beyond the expressly mentioned provisions. In any case, this issue is also of considerable practical importance.

³⁰ DFT 144 III 209 of 7 May 2018.

³¹ Article 95c ICA.

VI TRENDS AND OUTLOOK

The general perspective of a changing economic environment will without doubt put pressure on companies and also lead to an ensuing rise in insurance disputes in the commercial area. From a purely domestic perspective, this chapter has only highlighted a few issues in the context of the amendment of the ICA, which will lead foreseeably to a rise in insurance disputes. As with any new law, it will take time for the courts to develop a sufficient body of case law to provide the necessary certainty to both insurers and insureds.

Appendix 1

ABOUT THE AUTHORS

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Christian Casanova is a partner in the dispute resolution, and insurance and reinsurance teams at Prager Dreifuss. He has particular experience in the area of complex insurance and reinsurance cases, as well as in liability and real estate matters. Christian acts for clients in a broad range of civil and commercial disputes before courts and arbitration tribunals, as well as in the protection and recovery of assets in insolvency and attachment proceedings.

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