

# Munich Re press conference Rendez-Vous de Septembre in Monte Carlo 2007

Perspectives for Munich Re's profitable fields of  
business

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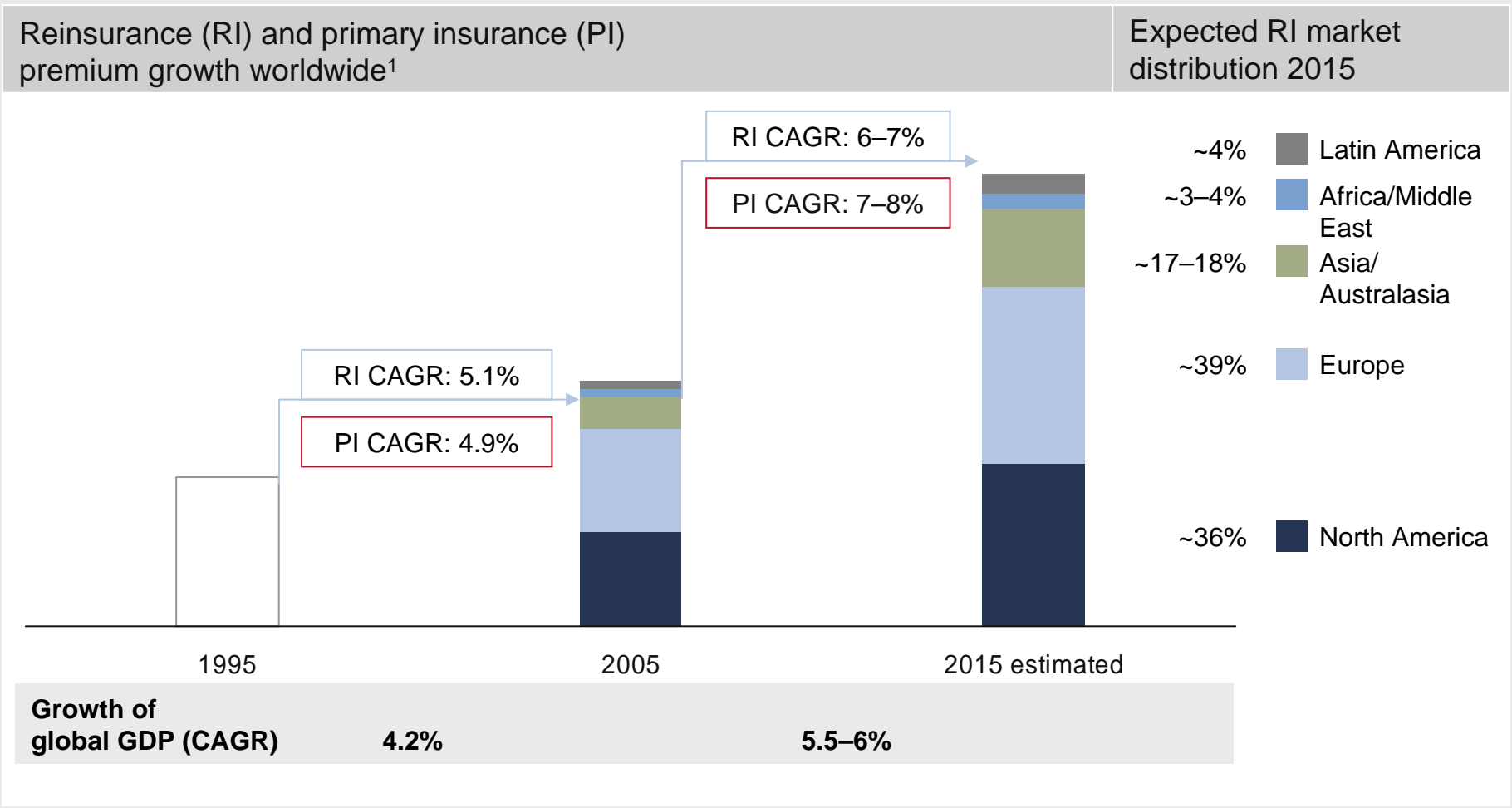
# Agenda

## 1. Growth perspectives in the insurance industry

- Global prospects
- Munich Re growth perspectives as a result of Changing Gear

## 2. Market environment and renewals

# RI and PI growing more strongly than the global economy



**A key premise of Changing Gear is the resolute utilisation of market opportunities**

# Changing Gear

## Utilising scope for profitable growth

### Ambitious growth targets

- 15 growth initiatives in reinsurance

Examples of the Changing Gear approach:

- Reinsurance closer to the original risk – Acquisition of Bell & Clements
- Innovative solutions – Catastrophe cover for Caribbean states in cooperation with the World Bank
- Strengthening of sales – Expansion of collaboration between ERGO and the UniCredit Group

### Best in class

- Focusing of underwriters on operative business
- Practising risk awareness makes simpler processes possible
- Optimised cycle management
- New incentive systems
- Business plan competition – Promoting entrepreneurial thinking

### Capital efficiency

- Hybrid bond with a volume of €1.5bn placed
- Share buy-back programme 2007/2008 half completed
- Dividend payout of at least €1bn continues to be the target

## Changing Gear

### New initiative – Special Enterprise Risks

- As the significance of enterprise risk management grows, so does the need for insurance solutions
- Munich Re develops a new field of business: Special Enterprise Risks -> focuses on enterprise risks over which a company's management has no influence (off-strategy risks)
- Special covers at the interface between traditional insurance and enterprise risk
- Innovative solutions as protection against risks resulting from political influences, unexpected market developments, in the supply chain or from loss of reputation
- Greater planning certainty for industrial enterprises, for instance with regard to long-term investments or very long product development processes

**The considerable expertise needed creates a high barrier to market entry**

**→ Competitive edge for Munich Re**

# Special Enterprise Risks

## Better risk management for companies

### Examples

First client: Company dependent on many suppliers in various countries

Problem: Loss of a key supplier following insolvency

Consequence: Loss of production; severe limitation of earnings capacity

Second client: Energy company that procures its raw materials from politically unstable countries

Problem: Suspension of deliveries as a result of political changes

Consequence: Higher procurement costs for raw materials combined with subsequent reduction in company's creditworthiness and increase in refinancing costs (double trigger)

**Customised solutions to individual risk situations**

# Special Enterprise Risks

## New business potential

- In Europe, potential premium income from such enterprise risks is expected to total approximately €5bn in the next five years
  - Munich Re expects its premium income from European business in that period to reach hundreds of millions of euros
  - Product development by dedicated special unit to commence in the fourth quarter of 2007
  - New field of business will contribute to a further diversification of our portfolio. The risk capital employed for this business will therefore be relatively low
- Special Enterprise Risks -> Added value for clients and Munich Re

**Further opportunity for profitable growth**

## 2007 renewals

### Reinsurance trends in 2007

- ▶ **Markets harder than certain sections of the industry expected**
- ▶ **Price levels generally risk-adequate, despite mounting pressure**
- ▶ **Varied trends in individual branches and regions**

<b>Renewal date</b>	<b>Regions</b>	<b>Renewable business</b> (% of Munich Re's total property/casualty business)
1.1.2007	Worldwide (primarily Europe and the USA)	64
1.4.2007	Mainly Japan, Korea, India and the USA	6
1.7.2007	Principally the USA, Latin America and Australia	8

**Reinsurance markets still attractive**



# Outlook for the main renewals at 1.1.2008

## Claims experience thus far in 2007

- Up to now, numerous regional natural hazard events
  - Winter Storm Kyrill: €4.5bn<sup>1</sup>
  - Floods in the UK (in June and July): €2.2bn each<sup>1</sup>
  - Hurricane Dean: €730m–1.5bn<sup>1</sup>
  - Storm in New South Wales, Australia: €750–900m<sup>1</sup>
  - Storm Cat 96, USA: €370m<sup>1</sup>
  - Earthquake Peru: €150–200m<sup>1</sup>
  - Floods in Switzerland: €200m<sup>1</sup>
  - Typhoons Man-Yi and Usagi, Japan: €35m each<sup>1</sup>
  
- Due to increased retentions and a trend towards non-proportional reinsurance, the primary insurers' share in small and medium-scale accumulation events is higher than in the past
  
- Significant man-made losses:
  - TAM airplane fire São Paulo: US\$ 260m + x<sup>1</sup>

<sup>1</sup>Insured losses

## Outlook for the main renewals as at 1.1.2008

### Transparency and prices – Basis for sustained profitability

- Weather events illustrate the relevance and topicality of climate change and the resulting loss potentials in the top and ancillary scenarios
- Increasing loss potentials in the liability sector (e.g. quality assurance for products from emerging countries, pharmaceutical product liability in the case of serial losses, recalls in the automotive industry)
- Implications:
  - ➔ More transparency necessary regarding exposure and cover
  - ➔ Risk-adequate prices, terms and conditions indispensable for sustained risk protection

**Munich Re continues to support trends towards differentiated prices, terms and conditions in reinsurance**

# Outlook for the main renewals as at 1.1.2008

## Terrorism pools under discussion

### Discussions in progress on

- a continuation of the terrorism pools in the USA (TRIEA) and Germany (Extremus);
- changes in the terms and conditions of the terrorism pools in France (GAREAT I and II);
- the launching of a new terrorism pool in Belgium

### Munich Re's position:

- Supports terrorism pools with state guarantees for peak risks
- Only way of ensuring sufficient capacity for terrorism risks
- Only means of spreading the risks on many shoulders
- Within this framework, capacity will continue to be provided in future

## Outlook for the main renewals as at 1.1.2008

- Competition/capacities continue to be on the rise
- Cycles do not all follow the same pattern (there is no such thing as just one cycle)
  - ➔ i.e. they are much flatter and differ according to region and line of business
  - ➔ given the lower barriers to market entry, traditional reinsurance business is subject to greater pressure than expertise-based specialised business
- Thus far, the pressure on primary insurance prices (original business) has been greater than on reinsurance prices
- Further large losses – particularly from natural hazard events – will influence the (NatCat) renewals

**Munich Re: Unique know-how, excellent service and great financial strength**

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