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Munich Re well positioned for turnaround in the cycle

Difficult capital market environment and higher losses can accelerate a turnaround in the cycle. Munich Re is committed to consistent cycle management and differentiated pricing in reinsurance.

“Munich Re will maintain its underwriting discipline in every phase of the cycle”, said Torsten Jeworrek, member of Munich Re’s Board of Management. Cycle management is the key topic for Munich Re at this year’s round of renewals, which are heralded in by the Rendez-vous de Septembre in Monte Carlo. Renewals over the past few years were marked by a surfeit of capacity and growing competition. However, a drop in investment income in the past months has led to shortfalls in profit and lower equity capital in the insurance industry. Munich Re anticipates that this will have a positive impact on the cycle and accelerate a turnaround in the trend.

- In 2008, the capital base of the global reinsurance industry is expected to shrink again for the first time after five years of growth.
- In the first half of 2008, consolidated profits taken by the top five reinsurers fell by around 39% compared with last year.
- At the same time, cheap refinancing using equity capital is problematic in the current capital market environment. Particularly in high-growth markets, the effect of this is to enhance the attractiveness of reinsurance as an alternative form of financing for primary insurers.

Contact:

Anke Rosumek
Tel.: +49 (0) 89 38 91-23 38
Fax: +49 (0) 89 38 91-7 23 38
E-mail: arosumek@munichre.com
www.munichre.com

Münchener Rückversicherungs-
Gesellschaft
Aktiengesellschaft in München
Media Relations
Königinstrasse 107
80802 München
Germany

In underwriting business, escalating claims costs underline the importance of risk-adequate pricing. Globalisation, the related distribution of labour, and soaring raw material prices are inflating claims, especially from business interruption. The number of large individual losses is on the increase. Exposure from natural hazards such as windstorms in Europe,

hurricanes in the Atlantic, and inundation remains high and continues to trend upwards. Social and medical developments are causing an increase in severe personal injuries, above all in the USA and Europe. All of these developments are typical of the challenges we face in reinsurance business and are accounted for in Munich Re's models. The important point is that such factors are consistently implemented in our underwriting.

Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions. It will not waver from its commitment to differentiated prices. "If you offer more security and better service, you should be paid the right price for what you provide", said Jeworrek. "This gives our clients the opportunity to select the reinsurance which they consider best meets their individual needs."

As a result of its global access to markets and risks, Munich Re can recognise trends at an early stage and react accordingly. This excellent market know-how and risk expertise as well as financial strength make Munich Re a much sought-after partner that finds customised solutions together with its clients.

Jeworrek: "For us, underwriting knowledge that translates into a clear underwriting policy geared to the cycle is the key factor that allows us to operate our business successfully. Munich Re consistently pursues this strategy, thus ensuring that it can sustainably fulfil the expectations and financial demands of its clients and at the same time create value for its shareholders."

Media Relations Munich, Anke Rosumek
Tel.: +49 (0) 89 38 91-23 38

Media Relations Asia, Nikola Kemper
Tel.: + 852 2536 6936

Media Relations USA, Bob Kinsella
Tel.: + 1 609 419 8527

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