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## Press release

### China's booming economy – Natural hazard risks increase the importance of insurance

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**The insurance industry will be increasingly important to China's future economic development. If growth continues unabated, in 10–15 years China will outstrip the USA as the biggest economy. Material values are increasing dramatically, particularly in the metropolitan conurbations. At the same time, China has very high exposure to natural hazard risks. The insurance industry will thus be key to ensuring that economic and social development are not compromised by the major natural catastrophes expected to occur in the future.**

In a country survey featured in "Topics Geo – Natural catastrophes 2009", Munich Re experts analyse in depth China's economic growth, its susceptibility to natural catastrophes and the role of the insurance industry. "China has already overtaken Germany to become the world's leading exporter. The insurance market is also experiencing strong growth, and already ranks sixth in the world. Despite that, China's insurance market is still fundamentally in the early stages of development", according to Torsten Jeworrek, Munich Re Board member responsible for global reinsurance. "As in many emerging markets, demand for insurance cover is still relatively low in China, even though, objectively, it has a very high exposure to natural catastrophes."

China is extremely earthquake-prone and also frequently suffers weather-related natural catastrophes. Four of the ten earthquakes with the highest death tolls since 1900 have occurred in China. The worst, in Tangshan province in 1976, claimed 242,000 lives. In the Guangzhou metropolitan area, with the fast-growing values of the major cities of Guangzhou, Shenzhen and Hong Kong, the exposure risk has long since made up for the lower earthquake risk, and insured losses far exceeding US\$ 1bn are a possibility there as well.

China is often hit by flood catastrophes, with overall losses running into tens of billions. Each summer brings with it the threat of severe flooding on the middle and lower reaches of the longest river, the Yangtze, because of the very flat terrain. China's ten largest flood events since 1980 accounted for overall losses of more than US\$ 135bn but, in contrast to the western industrialised nations with their high insurance penetration, insured losses amounted to only 1–2%.

Insured losses account for much higher shares of overall typhoon losses. On average, seven typhoons make landfall in the country each year. Many climate

researchers assume that, whilst the number of typhoons may not rise in future due to climate change, they could be more intense. Climate change also causes glacier melt, torrential rainfall and rising sea levels in China.

Munich Re is actively involved in China's insurance market as it gradually opens up, working with other companies to develop the market and find new solutions for the major natural hazards. However, multinationals still frequently reach their limits, licences often being granted for specific regions only, whereas to be economically viable insurers need to achieve a critical size as quickly as possible.

Munich Re has had business relations with the People's Republic of China since 1956, and opened representative offices in Beijing and Shanghai in 1997. In July 2003, Munich Re became the first international reinsurer to be granted a licence to offer multiline reinsurance throughout the country as a whole. The steadily growing branch maintains close ties with local and international insurers in the market thanks to its team of specialists who meet the full range of client needs.

In the newly published "Topics Geo – Natural catastrophes 2009" Munich Re's experts also take stock of the year's global natural catastrophes. Overall losses came to US\$ 50bn and insured losses US\$ 22bn – both well down on the previous year's figures. However, the number of documented natural hazard events relevant from the claims perspective was 860, higher than the ten-year average (770). The number of deaths was below the long-term average: 11,000 compared with an average of 57,000 per year since 1980.

The 2009 loss statistics were heavily impacted by natural climate cycles like the El Niño phenomenon. As a result, the tropical North Atlantic hurricane season was unusually quiet. However, the same phenomenon caused higher drought losses in South Asia, where the monsoon was weaker than normal.

"2009 again demonstrated the extent to which losses are affected by natural climate oscillations. It would, in any case, be wrong to infer solely because losses have been relatively light one year that this will continue to apply in future years. Nor can we deduce that climate change has come to a halt because of the more restrained developments in mean global temperature of recent years. In 2009, the global temperature was again higher than in the previous three years, and the last decade was the warmest on record", said Peter Höppe, Head of Munich Re's Geo Risks Research. "The change in the world's climate system is unmistakable in the medium to long term. It will result in more frequent temperature and precipitation extremes, and thus increased loss volatility."

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