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Press release

Munich Re sees unbroken upward trend in natural catastrophe costs – Chile earthquake loss forecast raised

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The long-term trend towards ever higher natural catastrophe costs continues, Munich Re's Geo Risks experts conclude in view of the large number of natural catastrophes recently, the latest examples being the earthquake in Chile, hailstorms in Australia and Winter Storm Xynthia in Europe. Munich Re now estimates its loss burden from the earthquake that struck Chile on 27 February 2010 to be around US\$ 1bn after retrocession and before tax.

In contrast to 2009, with substantially lower natural catastrophe losses than in the preceding years, the first few months of 2010 were marked by a significantly large number of natural catastrophes. Exposure to geophysical events remains unchanged despite the earthquakes in Haiti, Chile, Turkey and Costa Rica and volcanic eruptions in Iceland, Ecuador and Guatemala. This exposure is not affected by human activity. However, steadily increasing insured values have meant a substantial rise in exposures, and thus risks, over the years. On the other hand, the meteorological risk situation is also changing in the case of storms and heavy precipitation. The number and intensity of weather-related catastrophes is expected to increase in the coming decades, largely on account of climate change. For Winter Storm Xynthia, which wrought major damage in Europe on 27 and 28 February 2010, Munich Re continues to anticipate a reinsurance claims burden of around €70m. Provisions of around €160m have been established for the two hailstorms that occurred in Australia this March. Currently, losses are to be expected following the floods on the Rivers Oder and Vistula, but the figures are not yet available.

The earthquake in Chile caused exceptionally heavy losses and also triggered a devastating tsunami. Providing a reliable forecast of the overall burden has been difficult up to now due to the low primary insurer retentions, high proportion of individually (facultatively) reinsured production facilities and buildings and ongoing business interruption losses. The number of individual losses was also very high, local insurance companies having received more than 190,000 claims notifications by the end of April. Munich Re now believes the market loss will be in the order of US\$ 8bn, and currently estimates its own burden to be some US\$ 1bn after retrocession and before tax. At the end of April, Munich Re had assumed the loss burden would be approximately US\$ 700m.

Torsten Jeworrek, Munich Re's Reinsurance CEO, stressed: "Events like Chile's devastating earthquake reinforce our case for insisting that risks be consistently written at adequate prices, even after years where losses have been relatively low." At the same time, the past has shown that current loss experience heightens market players' awareness of the risks. As regards the renewals on 1 July 2010, (parts of the US market, Australia and Latin America), Munich Re therefore anticipates price increases in the loss-affected regions and business segments.

The earthquake that struck Chile on 27 February 2010 was the fifth strongest since records began in 1900. Nearly 350 people lost their lives. Insured losses were very heavy due to the high insurance density in Chile's commercial and industrial sectors. Moreover, infrastructure items such as motorways are often insured in Chile. The country's insurance density is comparable with that of a number of European countries. Besides the earthquake itself, the subsequent tsunami also damaged industrial and port facilities. Jeworrek: "Whether production-facility or infrastructure losses, our job as reinsurers is to bear catastrophe burdens. Because we possess the necessary know-how, writing natural catastrophe business has always been profitable for us over the years."

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