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Press release

Munich Re Climate Summit at Shanghai EXPO highlights risks and opportunities of climate change

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In China, an estimated 200 million people are impacted by natural catastrophes every year. The rising number of severe weather-related natural catastrophes, also due to climate change, is increasing losses and impacting economic development. Innovative insurance solutions can help those affected to mitigate the impact of climate change and to adapt to the changing environment. Munich Re sees opportunities for insurance companies which take the lead in providing new forms of coverage, from renewable energy production to carbon trading. The reinsurer is a preferred partner of insurance companies, assisting them with know-how and reinsurance capacity to support the development of new technologies which are complex and often involve high insured values.

At a two-day summit at the Shanghai EXPO, Munich Re is highlighting the risks of climate change and the business opportunities from adaptation to and mitigation of the new risk environment. Climate change and its consequences are a strategic issue for the reinsurer, as they directly impact its core business. Firstly, the growing number of severe natural catastrophes is giving rise to greater loss potential. Secondly, combating climate change is opening up new business segments, creating opportunities for the insurance industry, but also for countries that are leaders in innovation, which certainly include China.

"With innovative insurance products and new coverage concepts, we can support not only adaptation measures but also the development of climate protection technologies," said Munich Re CEO Nikolaus von Bomhard at the opening of the Group's Climate Summit. "Investors in and operators of new technologies benefit from the safety net provided by Munich Re's risk-transfer solutions."

Munich Re has been analysing the consequences of climate change for more than three decades. For risk analysis purposes, the Group has developed the world's most comprehensive database on natural catastrophes. This includes information on the impact of natural catastrophes on economies, the insurance industry and people's lives. Munich Re's Geo Risks Research unit helps to keep natural hazards insurable and can assist with advice on prevention measures.

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China's insurance market has experienced rapid growth in recent years. However, insurance density and penetration are still relatively low. Especially coverage against natural catastrophes is not widespread. This applies to individuals, companies and municipalities. At the same time economic values, especially in China's megacities, are rising rapidly and with them the loss potential. To reduce the burden on governments as the "insurers of last resort" in the wake of catastrophes, measures for risk prevention and risk transfer are needed, as severe natural catastrophes can have a serious impact on the economic and social development.

Given its high exposure to natural catastrophes, China's risk landscape will become even more complex as economic prosperity grows. Increasing urban populations and asset values will drive the demand for natural catastrophe covers. It might also make economic sense for the state and municipalities as the biggest owners of property to transfer their risk to the worldwide insurance sector. Due to the sheer size and complexity of the exposures involved, individual risk solutions of single companies will not achieve the breakthrough needed in China. Additionally, the private insurance sector needs relevant data for earthquake, typhoon and flood models. Therefore, Munich Re would support the formation of a natural catastrophe pool to cover natural perils and include public and private property. With its know-how and financial strength, Munich Re is well positioned to support such a pool with significant reinsurance capacity.

"Due to its exposure to all weather-related perils, its large population and the fast growth in economic values, China is especially affected by climate change – and will be even more so in the future," said Prof. Peter Höppe, Head of Geo Risks Research at Munich Re. "Over the last 30 years, Asia has been the continent with the largest increase in frequency of weather-related disasters. Loss-relevant events have tripled in number, which presents new challenges for all exposed economies."

Asia is particularly exposed to natural catastrophes. According to Munich Re's NatCatSERVICE database, 34% of the 850 global natural catastrophes in 2009 occurred in Asia, accounting for 31% of overall economic losses. However, only 7% of those catastrophe losses were insured. In 2009, 71% of all fatalities from natural disasters were recorded in Asia. Over the last century, with a rise of more than 1°C, Asia has been the continent with the largest temperature increase.

Munich Re's traditional natural catastrophe reinsurance – supported by its financial strength and risk-assessment knowledge – is one instrument for adapting to climate change. Supplementing this, innovative insurance solutions devised by the Group include the following:

- The first performance warranty cover for photovoltaic modules, which provides producers and investors with a greater degree of certainty in their business operations. This policy guarantees that the modules will perform to at least 90% of capacity in the first ten years and to at least 80% over the next 15 years.

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- Cover concepts for the construction and operation of offshore wind power plants.
- Insurance cover for productivity risks, e.g. against periods of lower wind activity at wind power plants.
- A range of policies covering buyers or sellers against the non-delivery of carbon credits from Clean Development Mechanism (CDM) projects. China is the world's largest host country for CDM projects.
- Coverage against delays or damage caused by either technical failures or natural catastrophes during design, construction, fabrication, transport, and operation of a renewable energy project.
- Catastrophe bonds ("cat bonds"). These insurance-linked securities help clients to transfer the risk of natural disasters to capital markets.

Munich Re is also a large investor in renewable energy production and hence climate protection. Moreover, together with the Desertec Foundation, the reinsurer has initiated the world's largest renewable energy project, Desertec Industries. At the same time, the Group is setting standards in its own environmental measures, having made its Munich headquarters carbon-neutral in 2009.

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Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. This is how Munich Re creates value for clients, shareholders and staff. In the financial year 2009, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.56bn on premium income of around €41bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €25bn from reinsurance alone, it is one of the world's leading reinsurers. Especially when clients require solutions for complex risks, Munich Re is a much sought-after risk carrier. The primary insurance operations are mainly concentrated in the ERGO Insurance Group. With premium income of over €17bn, ERGO is one of the largest insurance groups in Germany and Europe. 40 million clients in over 30 countries place their trust in the services and security it provides. In international healthcare business, Munich Re pools its insurance and reinsurance operations, as well as related services, under the Munich Health brand. Munich Re's global investments amounting to €182bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Disclaimer

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