Munich RE

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Press release

Munich Re develops new insurance solution for oil catastrophes

Contact
Media Relations Munich,
Anke Rosumek
Tel.: +49 (89) 3891-2338
Fax: +49 (89) 3891-72338
arosumek@munichre.com

Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München
Media Relations
Königinstrasse 107
80802 München
Germany
Letters: 80791 München

www.munichre.com

Following the catastrophic oil spill in the Gulf of Mexico, it is clear that better provision has to be made for dealing with losses and damage arising in this context. In response, Munich Re has developed a new concept for insuring offshore oil drilling, which has the potential to create cover in the order of US$ 10–20bn per drilling operation in the international insurance market.

Munich Re has developed an insurance solution covering oil companies against liability risks arising from oil catastrophes during offshore drilling operations. Operators, generally drilling joint ventures, may be held liable for death or injury, property damage, environmental impairment and financial losses in the event of an accidental occurrence. Currently, there is no separate cover for drilling operations, which are insured under the individual liability policies of the companies concerned. As a rule, covers are available subject to a limit of US$ 1–1.5bn on the international insurance market. With Munich Re's new concept, each individual drilling operation will be covered by a policy specifically developed for that risk. As a result, it should be possible to increase liability limits to US$ 10–20bn per drilling operation. Munich Re would be prepared to offer coverage capacity in the order of US$ 2bn.

Munich Re Board member Torsten Jeworrek is convinced there will be demand for this type of cover. "If coverages are available, companies will buy them because inability to pay high compensation claims can lead to insolvency, and mere speculation about such an eventuality can hit their share price." Substantial capacity can be offered only if a very large number of drilling operations are insured, since it will not be possible to provide the necessary capacity at affordable prices unless sufficient wells are insured. This could be achieved either through a voluntary commitment on the part of the oil companies or by introducing some form of compulsory insurance in the licensing procedure.

Based on the US Oil Pollution Act, cover would largely relate to clean-up and removal costs, impairment of natural resources and property damage, as well as loss of earnings in sectors such as fishing or tourism.

Munich Re considers the tightening of safety standards crucial to the concept. To ensure such standards were met, companies independent of the operators and possessing the requisite expertise, specialist engineering consultants for instance, would have to monitor and oversee the risk management from the start of a project to its completion. More stringent risk management standards of this type ought to be an integral part of the procedure for granting drilling licences. The sum total of these factors should help considerably to reduce the number of accidents in the future.

With the increasing scarcity of fossil fuels and growing demand for energy, exploratory drilling is now worthwhile deep below the earth's surface, and often far below sea level. Drilling is therefore becoming more complex and, increasingly, remedying the damage is not something that can be done quickly. Although the drilling technology is already highly advanced, and most oil-producing countries have very strict safety regulations, there is still potential for catastrophes that can threaten a company's existence. Jeworrek: "We have to ensure that claims are met and the environment restored to its original state as far as possible. Our concept creates an additional safety net."

In its current form, the new concept is designed to cover drilling operations in the USA, drilling start-ups averaging 300 a year in the Gulf of Mexico alone in recent years. However, suitably adapted, it could also be used elsewhere.

Torsten Jeworrek: "We stand by our commitment to the development of renewable energy. In the meantime, better risk management and financial protection are needed in the field of fossil fuel generation."

1 January 2011 renewals
Munich Re expects stable prices and conditions for its portfolio in the upcoming property-casualty reinsurance renewals. Currently, there is sufficient capacity in all lines of business. Rates have improved significantly in lines of business hit by heavy losses, such as offshore energy and in the case of natural catastrophe covers in Latin America. Jeworrek: "The very heavy losses caused by the earthquake in Chile have shown how important it is to ask a price commensurate with the risk, even in years where losses are relatively light." Munich Re will strictly adhere to this line. "Our financial strength is our most important asset. Growth without profitability is out of the question."

Note for the editorial staff:
For further questions please contact

Media Relations Munich, Anke Rosumek
Tel.: +49 (89) 3891-Tel.: +49 (89) 3891-2338

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

Media Relations USA, Terese Rosenthal
Tel.: +1 (609) 243-4339

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.

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