Munich RE

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Press release

Munich Re creates more transparency for complex accumulation risks

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Social, economic, technological and demographic developments are changing the risk landscape for insurers. New concatenations of risks are arising all the time. Munich Re is further refining its risk management.

Torsten Jeworrek, Munich Re's Reinsurance CEO: "Today, good risk management requires a much deeper understanding of interrelationships than in the past." Severe natural hazards have always led to a local accumulation of insured losses. But these losses mainly involved property insurance and did not affect other regions. Jeworrek: "Accumulation control used to be mostly about limiting the extent of possible property losses." Today, accumulation risks increasingly result from the interdependency of risks worldwide, for example owing to the globalisation of the economy, or concurrent global developments such as changes in life expectancy.

11 September 2001 was a watershed event for the re-evaluation of risks: the horrific terrorist attacks ten years ago today changed the world; many lost their lives. In addition, the attacks brought the new complexity home to the insurance world. Not only was the scale of loss surprising, the aftermath of the attacks also led to insured losses in almost all classes of business. And the distribution of the claims burden was also remarkable: of the approximately US$ 32bn in claims payments, around 33% were for business interruption losses (e.g. at airport duty-free shops affected by the grounding of aircraft). The attacks also caused turbulence on the stock markets, further impacting insurers' financial strength. Jeworrek: "Modern risk management has to identify and evaluate these interrelationships in advance. This is important not only in terms of managing the insurer's risk assumption – in extreme cases, it can be a matter of its survival. And it also opens up the perspective for new risk transfer solutions." In many countries, insurance solutions for terrorism risks have thus now crystallised on the basis of public-private partnerships. Private insurance companies offer clearly defined and limited cover for commercial risks; state guarantees offer protection against extreme losses.

Considerable accumulation potential also results from the insurance of contingent business interruption losses (covers for a company's losses due to business interruptions occurring when a supplier cannot meet its delivery obligations owing to a loss). There are many reasons for the increased vulnerability of supply chains today: companies are more specialised, components are delivered just in time or just in sequence, and the international division of labour has increased. For insurers, these covers have become a risk which is only calculable with great difficulty.

With the earthquake in Japan in March, the loss potential arising from disrupted supply chains became clearly apparent to the market participants. Some companies have given only preliminary indications so far. The final claims burden is still not known. Munich Re had already explicitly taken potential contingent business interruption losses into account in its loss estimate. With regard to the lack of transparency of exposures arising from these covers, Jeworrek stressed: "We see a need to change the existing coverage concepts, and we will work together with our clients to develop new solutions."

Early recognition of the interactions between risks is of particular importance in realising adequate risk management. In this, Munich Re relies not only on its own risk know-how, but also on cooperations with external partners such as research institutes and universities. Based on knowledge generated in this manner, Munich Re has developed new software supporting the qualitative and quantitative analysis of complex accumulations. The Complex Accumulation Risk Explorer (CARE) combines expert knowledge from many disciplines. Individual events and their direct and indirect consequences are recorded systematically. Interdependencies between risks are revealed and can be analysed from an underwriting perspective.

Jeworrek: "CARE will support our risk management, providing a new basis for decisions on which risks can be insured at what terms and conditions. This enables us to quickly implement risk limitation measures and work on solutions for the future at an early stage." Munich Re is looking into how CARE could also be offered to clients after the pilot phase.

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Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. Munich Re creates value for clients, shareholders and staff alike. In the financial year 2010, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.4bn on premium income of around €46bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €24bn 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. Our primary insurance operations are concentrated mainly in the ERGO Insurance Group. With premium income of over €20bn, ERGO is one of the largest

insurance groups in Europe and Germany. It is the market leader in Europe in health and legal protection insurance. More than 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 €193bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

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