BADEN-BADEN 2011
IS THE MARKET READY TO CHANGE?

24 October 2011

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Key topics and challenging issues for the insurance business

- Low-interest-rate environment
- High natural catastrophe losses
- Euro crisis/Turbulence in the financial markets
- Increasing accumulation risks
- Global economic networking
- Emerging risks
- Political uncertainty
- Changing regulatory framework

Generally low-interest environment – Crisis signalled by sharply falling yields throughout the year

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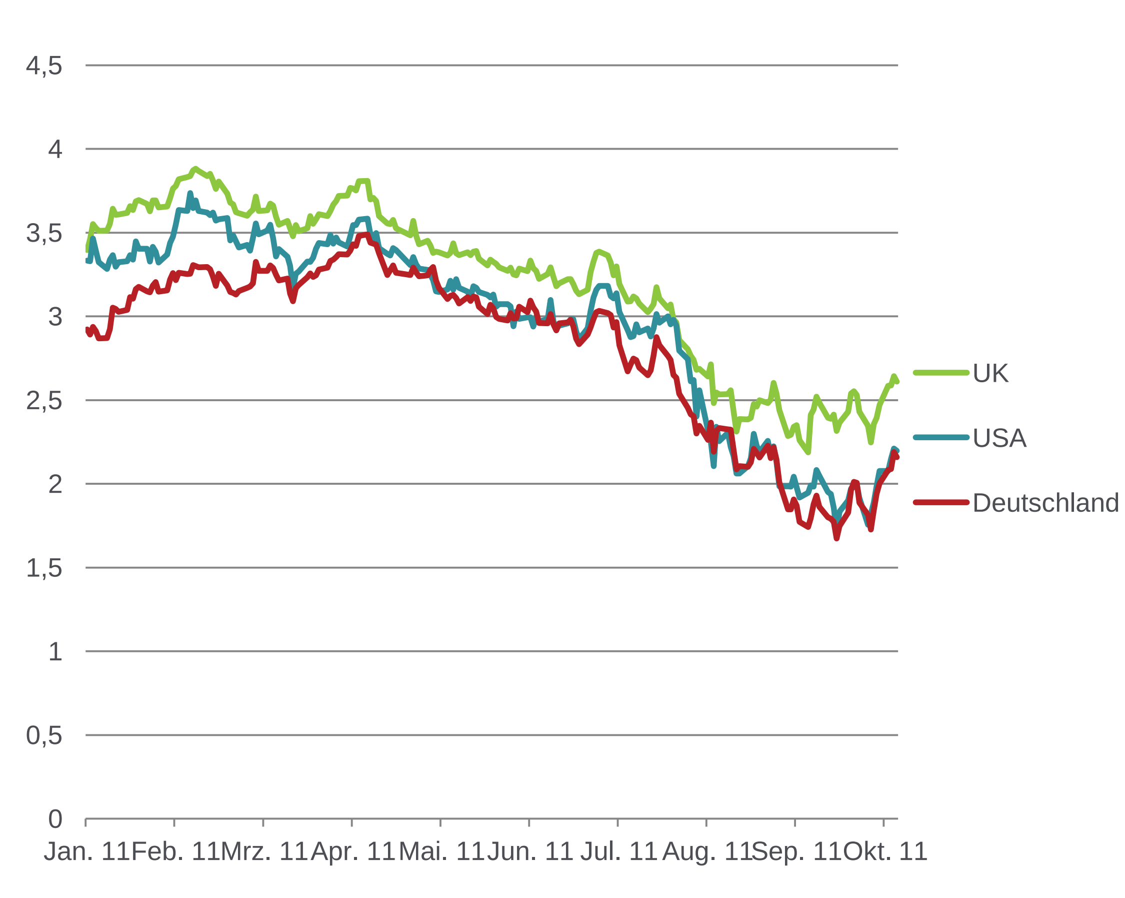
Yields on ten-year government bonds



Source: Bloomberg

- Falling interest rates have a positive effect on the capital base of insurers, but an adverse effect on future investment income.
- Low-interest-rate environment has to be reflected in the pricing, esp. in long-tail business.
- Substantial international differences despite generally low-interest-rate environment.

Low-interest-rate environment: Shock or opportunity for the industry?

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- Reduced investment income
- Capital relief measures may be necessary
- Low interest rates also have a salutary effect on the non-life market (cash-flow-underwriting opportunities are limited)
- Reinsurers have to reflect the low-interest-rate environment in their pricing
- Solvency II – the insurance industry in Europe is on the right track

Low interest rates make price increases necessary, especially in the case of long-tail risks.

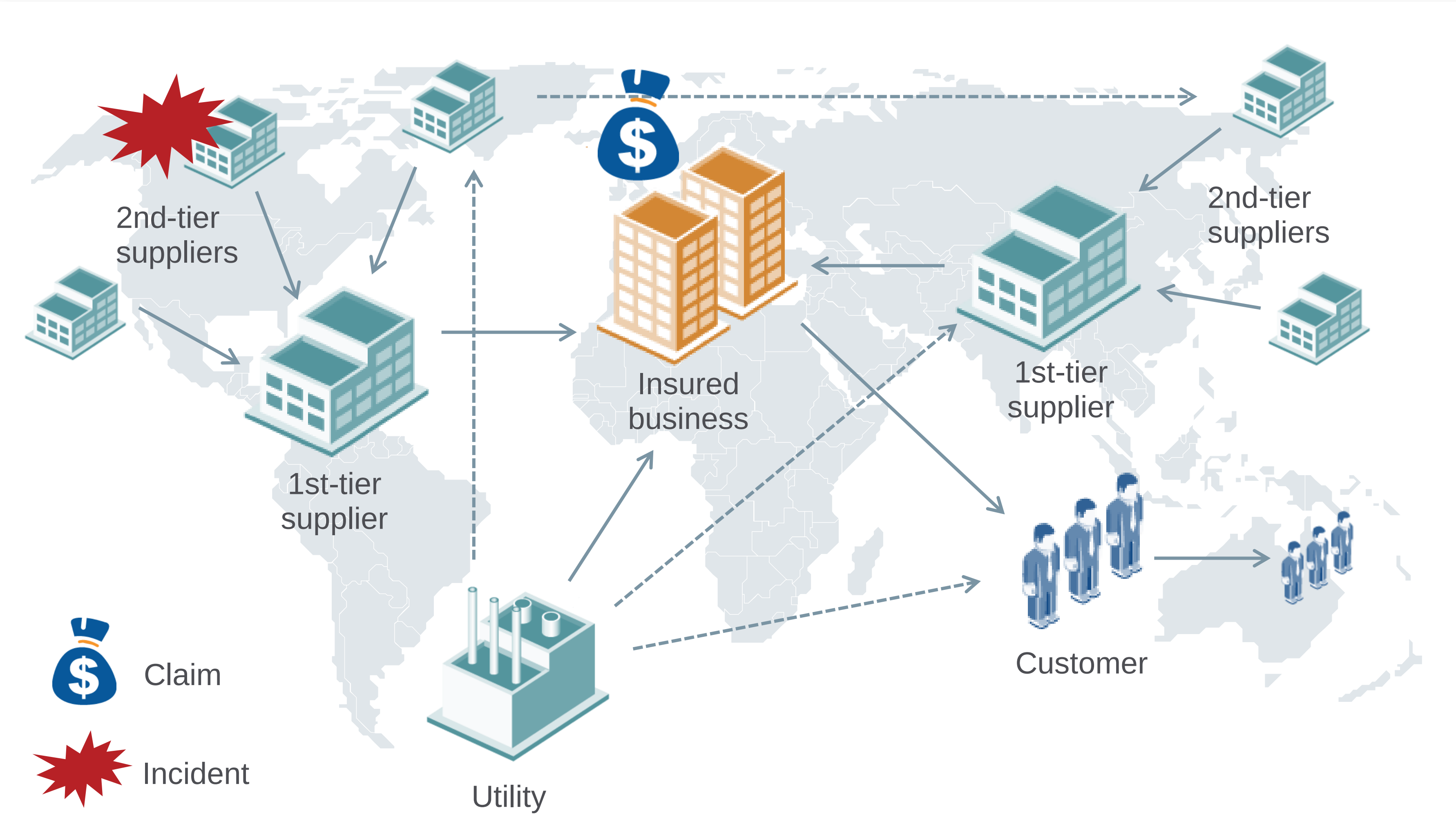
Euro debt crisis: Present situation

Current bywords – Maastricht treaty and eurobonds:

- Amending the Maastricht treaty to address future challenges
- Sanctions and regulations to ensure the success of the treaty
- Fiscal union and a common budgetary policy are a precondition of eurobonds

→ Effective mechanisms for taking action at European level

Contingent business interruption (CBI)
The problem



CBI: Critical supply industries

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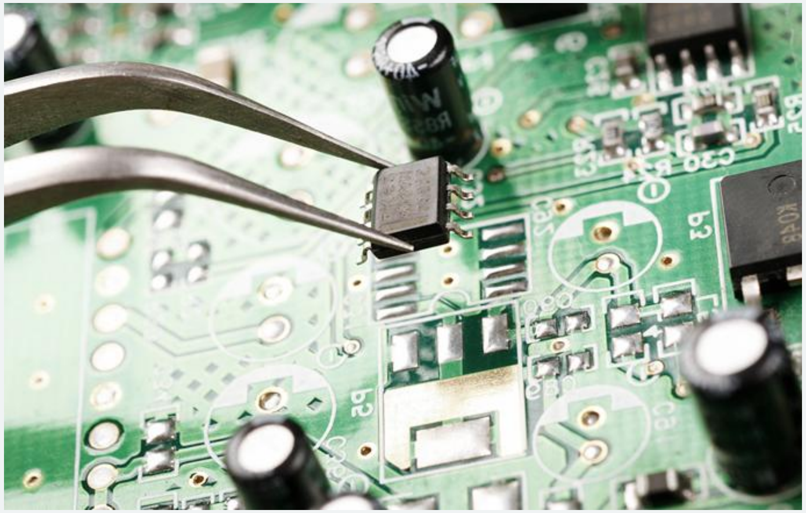
- Definition of **critical supply industries:**
  Industries that produce parts on which other industries are highly dependent and whose failure could lead to a material CBI loss in those industries
- Critical supply industries identified in the context of the CBI underwriting strategy:

Automotive suppliers

Semiconductor production



CBI: Critical scenarios

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Combination of country/region, accumulation hazard and the particular supply industry

Semiconductor production	Automotive suppliers
Japan earthquake	Japan earthquake
Japan typhoon	Japan typhoon
Taiwan earthquake	US Midwest earthquake
Taiwan typhoon	US LA/California earthquake
US Pacific Northwest earthquake	

Natural catastrophes January–September 2011

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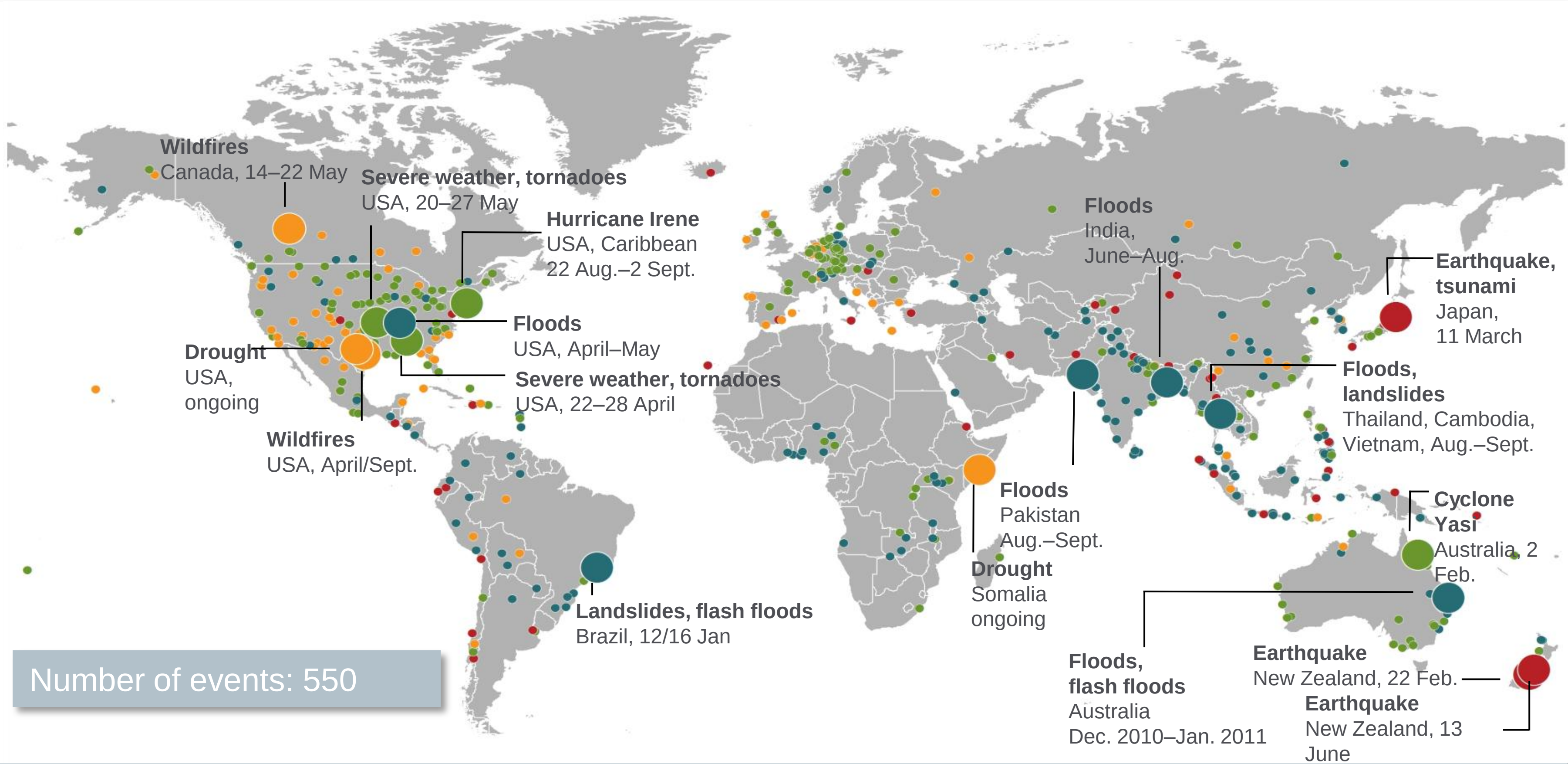

Natural catastrophes	**Geophysical events** (Earthquakes, tsunamis, volcanic eruptions)	**Hydrological events** (Floods, mass movements)
Selection of major loss events (see table)	**Meteorological events** (Windstorms)	**Climatological events** (Temperature extremes, droughts, wildfires)

Natural hazards in Europe

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Munich Re's own models are regularly checked and optimised using all available information:

- Our own analysis results
- Studies like the GDV's "Scenarios for Germany – Impacts of climate change on the loss situation in the insurance industry"
- Findings produced by external models

Conclusion:

- Windstorm modelling has improved thanks to new data on current storms and revised historical data.
- The updating of Munich Re's Storm Europe model results overall (including in Germany) in an increase in the burning cost

From the insurers' perspective, the reinsurance structure may need adjustment to maintain the present level of protection.
→ Munich Re will continue to make available its previous high capacity provided technically adequate prices are achieved.

Renewals 2011 – First evidence of improved prospects

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Factors putting upward pressure on pricing

- **Prolonged low-interest rate environment –** Quite likely scenario
- **Reserve releases drying out –** Redundancies largely exhausted
- **Introduction of RMS11** – Impact to become increasingly visible
- **Reduced capacity –** Result of large losses, but still artificially inflated industry capital

Fragmentation of p-c reinsurance market

Examples
- US casualty
- Proportional business

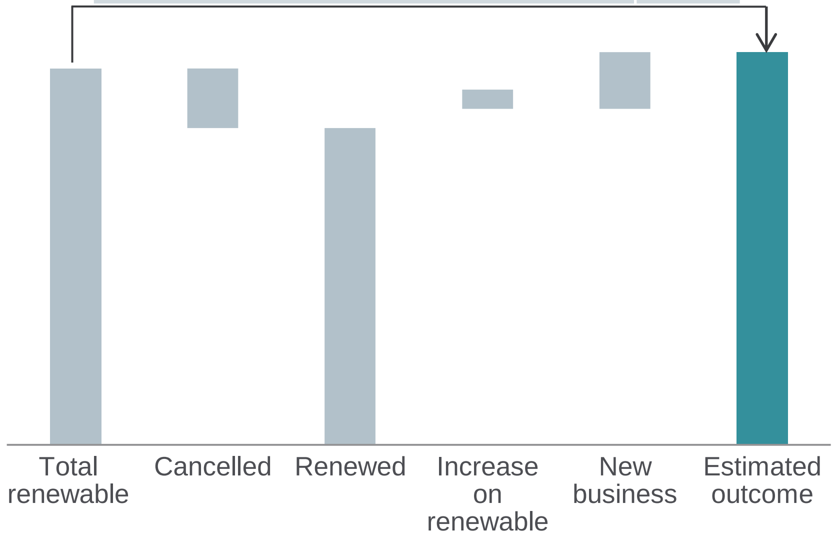
Examples
- Loss-affected segments
- Nat cat business
- Large commercial business
- Specific motor markets

Stable **Expected price change** **Increasing**

Renewals 2011 – Munich Re's portfolio

%	100	–15.8	84.2	5.1	15.1	**104.3**
€m	10,596	1,678	8,918	540	1,595	**11,052**

Change in premium:	**+4.3%**
▪ Thereof price movement:	+1.0%
▪ Thereof change in exposure for our share:	+3.3%



Munich Re actively managing the reinsurance cycle – Overall improving prospects with differing characteristics depending on business line and area

Future prospects

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- Reinsurance and primary insurance market further affected by capital market fluctuations, primarily due to debt crisis and low-interest-rate environment
- Reinsurance markets remain fragmented
- Cycles flatten out

Strict focus on profitability is more vital than ever in times of major uncertainty.

Disclaimer

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