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Press release

Munich Re: Profitability in core insurance business is what counts in the low-interest-rate phase

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The sovereign debt and banking crisis and the uncertain economic environment are presenting the insurance industry with growing challenges. The persistently low interest rates in particular are impacting investments. Munich Re is also warning against the growing risk of inflation for severe bodily injury claims due to rising costs in the healthcare sector.

The low-interest-rate environment is dominating the discussions between primary insurers and reinsurers in Baden-Baden: “The sustained low interest rates will increasingly test our industry’s still-strong capital base”, commented Ludger Arnoldussen, member of Munich Re’s Board of Management. “Especially in times of great uncertainty, we must look more than ever to solid earnings from our core business and not rely upon gains on investments”, he continued. The key question for the upcoming renewals at 1 January 2013 will be the extent to which the substantially lower interest-rate level can successfully be factored into pricing.

However, the financial crisis is not the only challenge facing insurers and reinsurers: the cost of bodily injury claims in long-tail business is rising all the time. Arnoldussen: “The huge increase in long-term care costs in particular is leading to inflation in severe bodily injury claims. In the past, this has been underestimated.” The industry needs to pay more attention to appropriate reserving in this field in the future. Arnoldussen also stressed that Munich Re would be addressing this topic in the renewals.

Outlook for the renewals
Munich Re expects that prices, terms and conditions will largely remain stable during the renewal of reinsurance treaties at 1 January 2013. In the casualty classes, Munich Re is proceeding on the assumption that prices will stabilise, with a trend towards slight increases. Especially in classes of business with very long-tail covers, low interest rates are squeezing future profitability. “We will be broaching the issues of the interest-rate level and the inflation of bodily injury claims in our negotiations. It remains our guiding principle to ensure that terms and conditions are commensurate with the risk”, emphasised Arnoldussen.

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