New challenges ahead

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Uncertainty to remain: More downside than upside potential, euro crisis still key

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Renewed escalation of eurozone crisis	Above all, politics still have significant potential to escalate the crisis (again)
Uncertainty re. QE[1] exit strategy effects	Potentially increased volatility and sudden yield rises with negative impact also on real economy
Increasing pressure on emerging markets	Risk of rising capital outflows / devaluation in emerging markets (e.g. India)
Geopolitical conflicts	Risk of further escalating regional conflicts (e.g. MENA region)

… although upside potential exists as well

- Faster successes in eurozone reform programs which would foster economic recovery
- US growth dynamics could surprise on the upside again
- Potentially higher growth in emerging markets

[1] Quantitative easing

Despite recent yield increases, current environment still dominated by low interest rates ...

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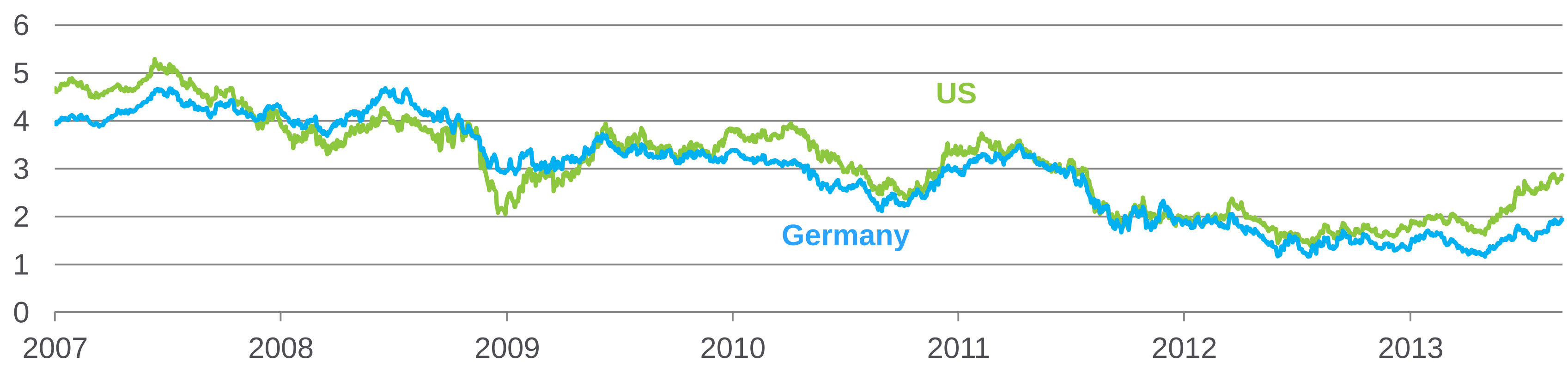
10-yr government bond yields (%)



- US govt. bond yields in particular recently reacted strongly to fears of earlier-than-expected monetary policy normalisation
- Yields nevertheless remain significantly below pre-crisis levels
- Uncertainty to remain; an ongoing low-yield environment and a sudden rise in interest rates would both be a challenge for (re)insurers

Source: Munich Re Economic Research, Bloomberg

…and economies improving – if at all – at different speeds

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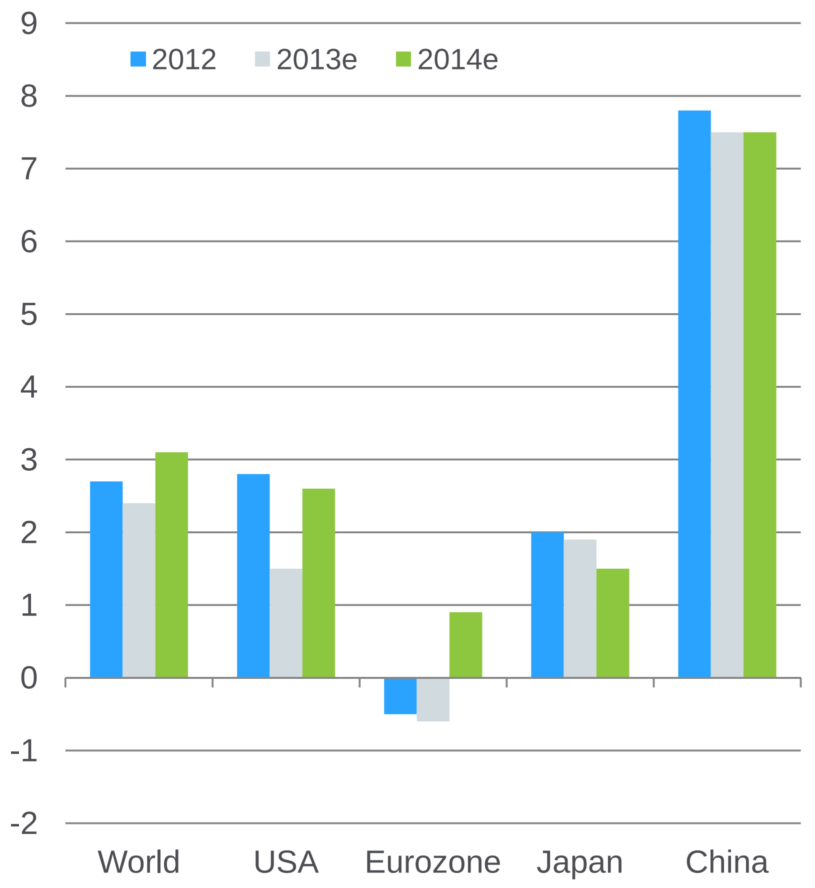
Annual real GDP growth (%), 2012–2014e



Key topics:

- Growth at different speeds even within industrialised countries
  - US and Japan relatively robust
  - Eurozone lagging behind
  - Emerging markets still indispensable for global growth
- Some recent “soft spots” in emerging market growth – temporary weakness or evidence of structural changes?
- Baseline scenario:
  - Further modest improvement in 2014
  - Eurozone recession ending

Source: Munich Re Economic Research, Consensus Forecasts

Large P&C markets with moderate optimistic outlook – Glimmer of hope esp. in North America

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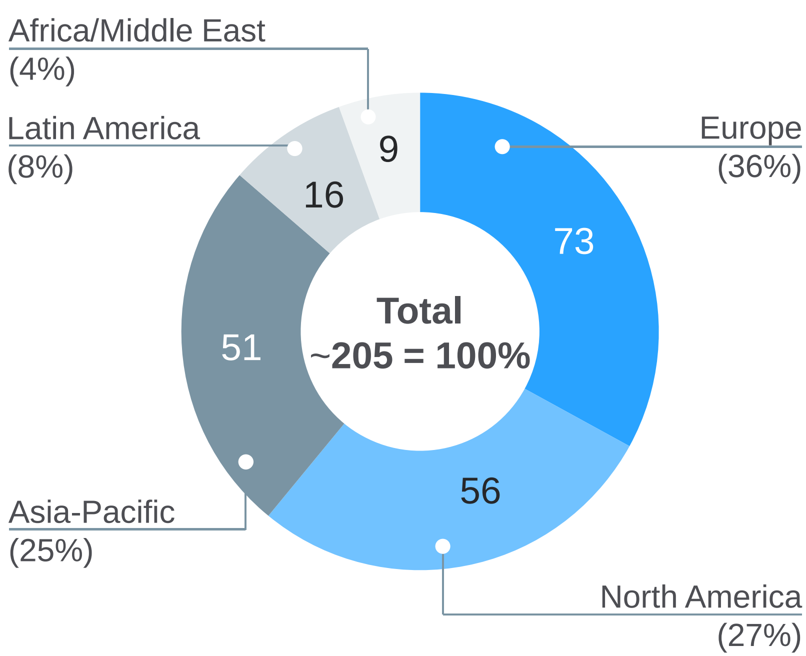
Global premium development from 2007–2015e

P&C RI: Ceded premiums 2012 (€bn)



P&C RI and PI real growth rates (CAGR)

	RI		PI
	07–12	12–15	12–15
Europe	-1%	0%	1%
North America	0%	2%	3%
AUS/Asia	3%	3%	7%
Latin America	7%	4%	6%
Africa/Middle East	4%	4%	5%
Total	**1%**	**2%**	**3%**

Source: Munich Re Economic Research

The industry has to cope with well-known existing market developments and some new ones, too

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Main challenges to reinsurance business model

Low interest rates

- Less investment income for new assets but also positive impact on pricing discipline

RI demand

- Increased capital base and professional purchasing lead to growing retentions, but there is also growing demand for capital relief transactions

Capital supply

- RI capital reached 2012 with over US$500bn a new peak
- Funds allocate ~US$10bn into ILS during last 18 months, alternative capital pushed up to ~US$44bn

Broker facilities

- Brokers actively explore additional revenue streams
- Increased efficiency and faster placement
- Higher pressure on following markets

Underwriting discipline still high but first signs of soft market on the horizon

- Persistent price pressure
- Reduced earnings

Source: Munich Re, Guy Carpenter

Thanks to global diversification, Munich Re only marginally affected by additional nat cat capacity

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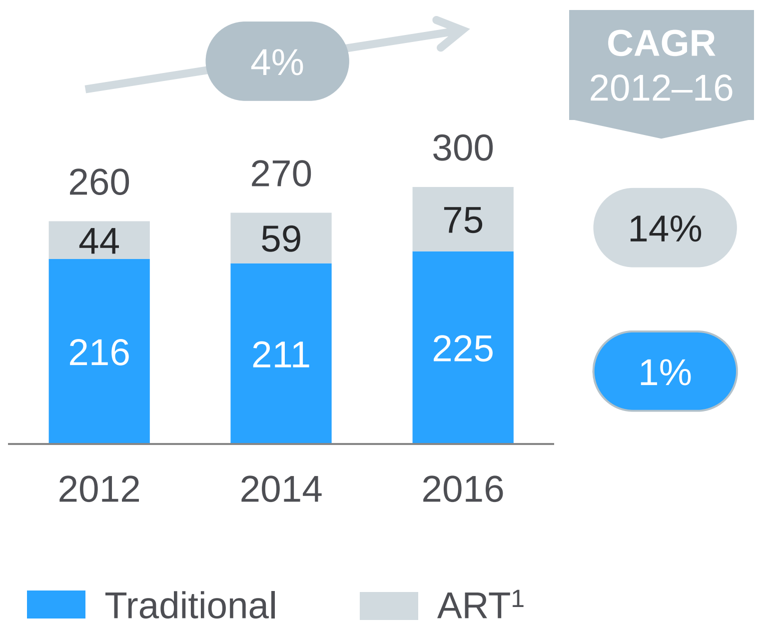
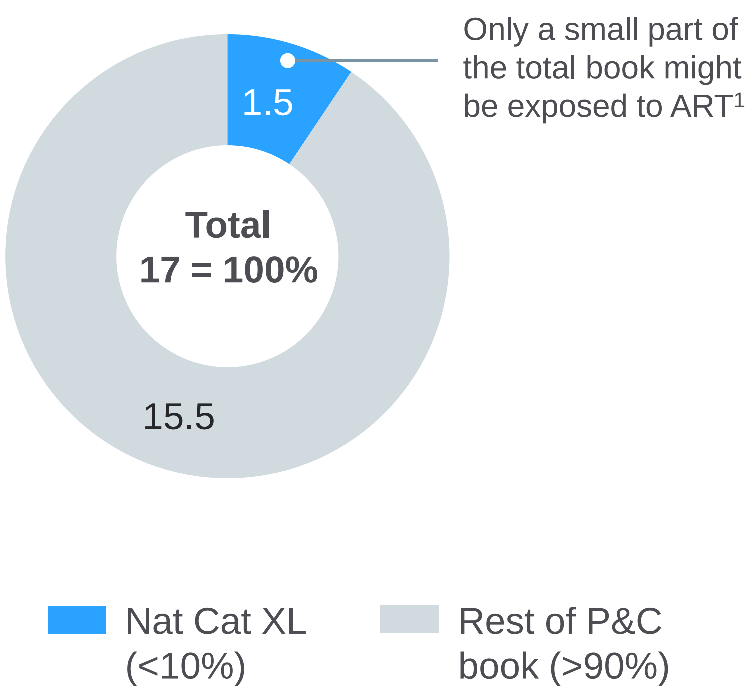
Global RI nat cat capacity and impact of alternative capital on Munich Re P&C book 2012

Worldwide nat cat XL capacity (US$bn)



Munich Re P&C: GWP as of 2012 (€bn)



[1] Alternative Risk Transfer
Source: Munich Re, AON Benfield

Broker facility is an alternative co-insurance instrument in PI

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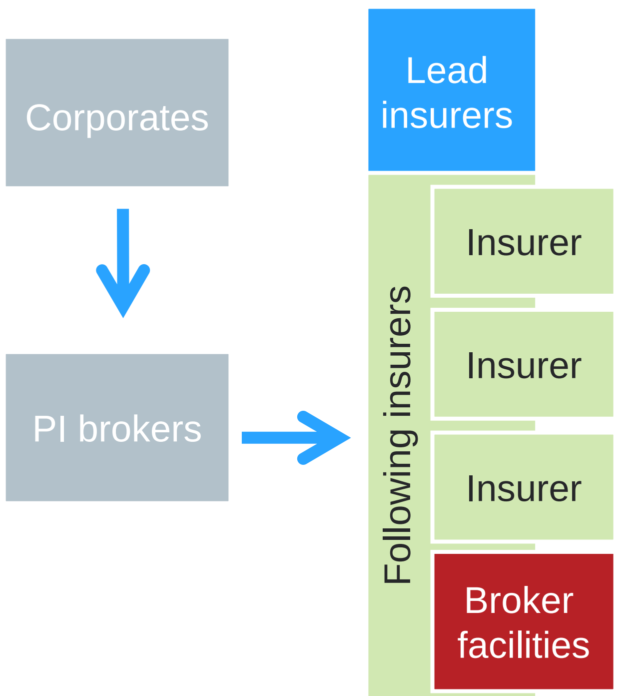
Context of broker facility – General set-up

Broker facilities (illustrative)



Comments

- **Capacity providers** searching for **growth** without setting up an infrastructure
- **Large single risk and specialty** business targeted
- Typically **industrial clients**, partially commercial clients in focus
- Broker **automatically places a defined share** of all business under the facility with one insurer or a panel of insurers

Source: Munich Re

There are still question marks, especially over how sustainable broker facilities are in the long-term

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Broker facilities: Key questions on the concept

Alignment of interests

- Brokers binding the facility carriers have no skin in the game
- Lead insurer can minimise his risk via reinsurance
- Limited transparency on claims management

Underwriting control

- Challenge to adhere to underwriting standards (e.g. exclusions, occurrence limits)
- Accumulation control complicated
- Uncertainty whether large losses can be earned back

Data quality

- Breadth and depth of data today not the same as in treaty underwriting
- Unresolved question to what extent broker is liable in case of misrepresentation of underlying risk

Legal issues

FCA[1] investigating following key aspects:

- Potential to create conflict of interests that would be detrimental to clients
- Fostering anti-competitive practices; shift in the balance of power towards brokers and bigger risk carriers?

[1]Financial Conduct Authority, UK

Ability to offer individual and holistic solutions to the client will be decisive competitive advantage

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Focus on core competencies

	Client focus	Underwriting expertise	Financial security
Well-diversified knowledge-driven reinsurers	**Ability to offer tailor-made solutions**, e.g. multi-year concepts, retroactive reinsurance, capital relief transactions **Comprehensive capital consultation services** incl. internal capital model support	**Covering full range of RI buying needs**, incl. complex casualty, credit, large industrial risks, facultative services **Consulting services in the area of underwriting and claims**, e.g. underwriting audits, claims support	**Significant capacity,** top financial security and **leverage effect** due to high diversification **Capital management know-how** and efficient capital allocation
Less diversified reinsurers	**Covering only specific parts** of the RI value chain Often display **opportunistic** behaviour	Underwriting know-how and pricing knowledge **limited to certain segments**	**Lower capital efficiency** Often have **limited capacity**

Well-diversified reinsurers like Munich Re are in the best position to handle new challenges

Key takeaways

Markets remain challenging due to impact from global economic environment and high competition

Diversified reinsurers will **leverage their capital efficiency** and **know-how** as competitive advantages

Clients can rely on **predictable partners** that offer **stable relationships** and tailor-made solutions

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