

## Our answers to today's challenges: Cycle management, diversification and innovation

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Monte Carlo, 14 September 2014

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| ▶ <b>Global reinsurance landscape</b> | Torsten Jeworrek  |
| ▶ <b>Solutions for the US market</b>  | Anthony Kuczinski |
| ▶ <b>Munich Re innovations</b>        | Thomas Blunck     |
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# Competitive reinsurance landscape requires strict cycle management

## Cyclical challenges

Low interest rates



Low inflation

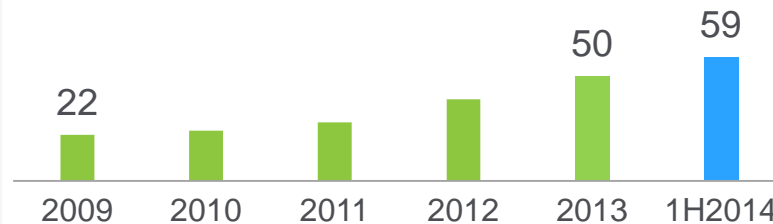


Benign claims experience

Abundant excess capital in primary insurance and reinsurance for quite a few years now

Higher retentions, also driven by global players centralising their buying programmes

## Availability of alternative capital<sup>1</sup> US\$ bn



Largely driven by scarcity of investment opportunities in the low-interest-rate environment

## Direct impact

Most notable in US nat cat XL business

- Short tail – predictable capital deployment
- External models available – know-how without infrastructure

## Indirect impact

Accelerator for price competition among some traditional reinsurers

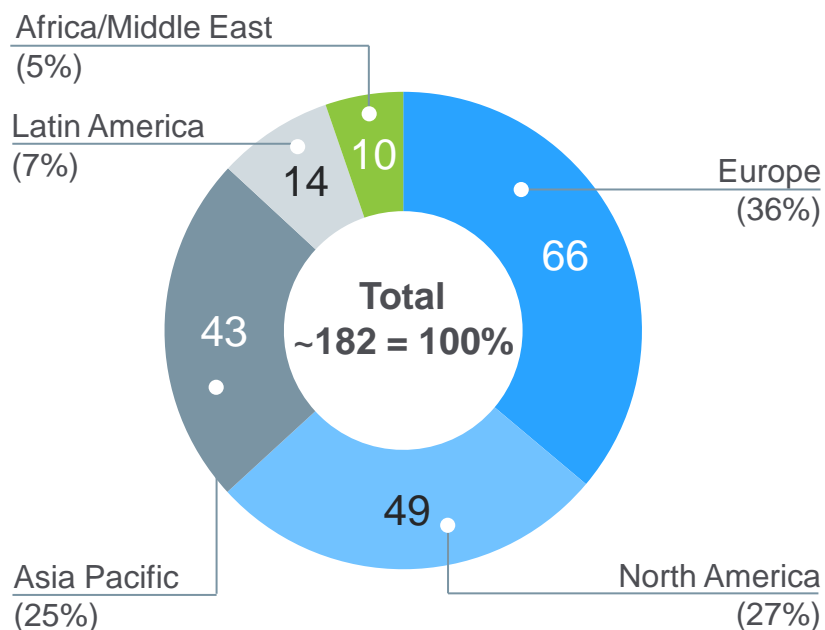
- Fight for market share
- Softening terms and conditions
- Spill-over effects as less diversified players expand business to other areas and perils

<sup>1</sup> Source: Aon Benfield, Munich Re

# Moderate reinsurance premium growth, stronger growth in primary insurance expected

## Global premium development from 2007–2013 / 2014e–2016e €bn

### P/C RI: Ceded premiums 2013



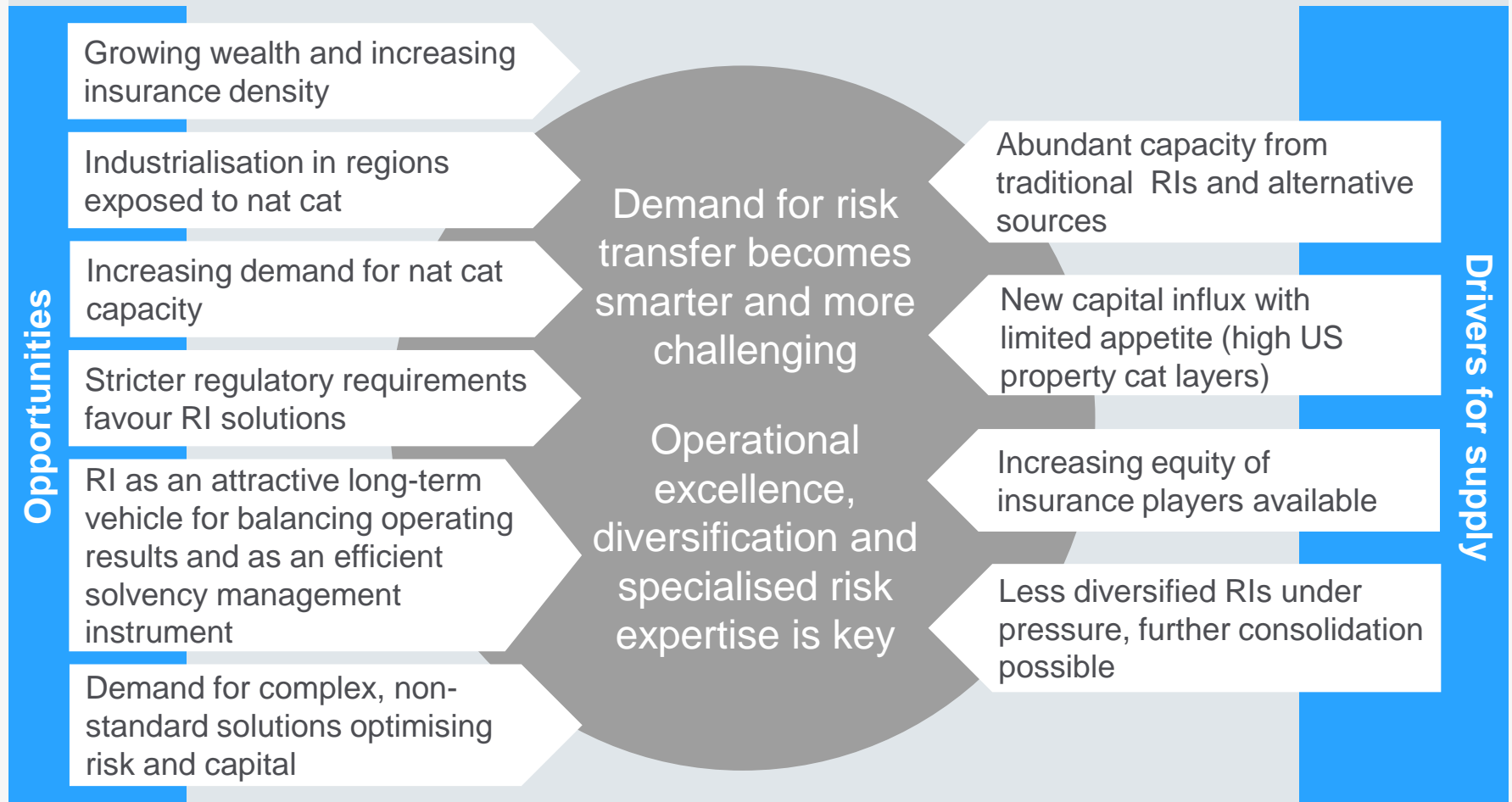
### P/C RI and PI real growth rates (CAGR)

	RI		PI	
	07–13	14–16	07–13	14–16
Europe	-1%	1%	-1%	2%
North America	-1%	1%	-1%	2%
Asia Pacific	2%	3%	6%	5%
Latin America	7%	4%	8%	5%
Africa/Middle East	3%	5%	4%	6%
<b>Total</b>	<b>0%</b>	<b>2%</b>	<b>1%</b>	<b>3%</b>



# Diversification and specialised risk expertise for complex tailored solutions in focus

## Major reinsurance market movements



# Global risk landscape discloses demand for new solutions in the area of (re)insurance

## Global risk landscape

### Technology

- Cyber risks
- Energy risks
- Supply chain risks
- Non-damage business interruption

### Environment

- Climate change
- Weather events
- Water crisis

### Society

- Contentious diseases
- Rising cost of medical treatment and nursing care
- Reputational risks

### Politics

- Regulatory changes
- Global governance failure
- Political and social instability/conflicts

## Opportunities for the insurance industry

- The growing economy is leading to emerging risks worldwide
- They derive from the areas of technology, environment, society and politics
- Global risks can be mastered by means of new insurance solutions to mitigate risk potentials
- High demand for complex tailored solutions in the current market environment
- Reinsurance as a trusted partner in developing new solutions for worldwide portfolios

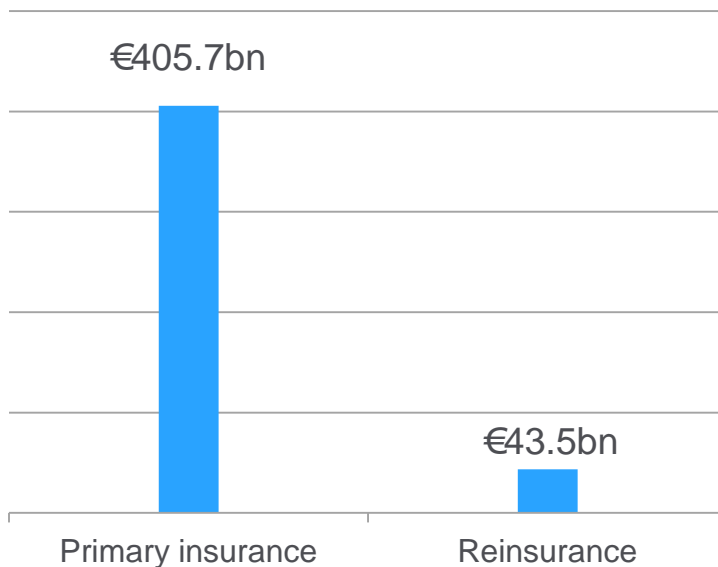
→ **Expansion of the boundaries of insurability needed**

**Global threats call for new insurance coverage**

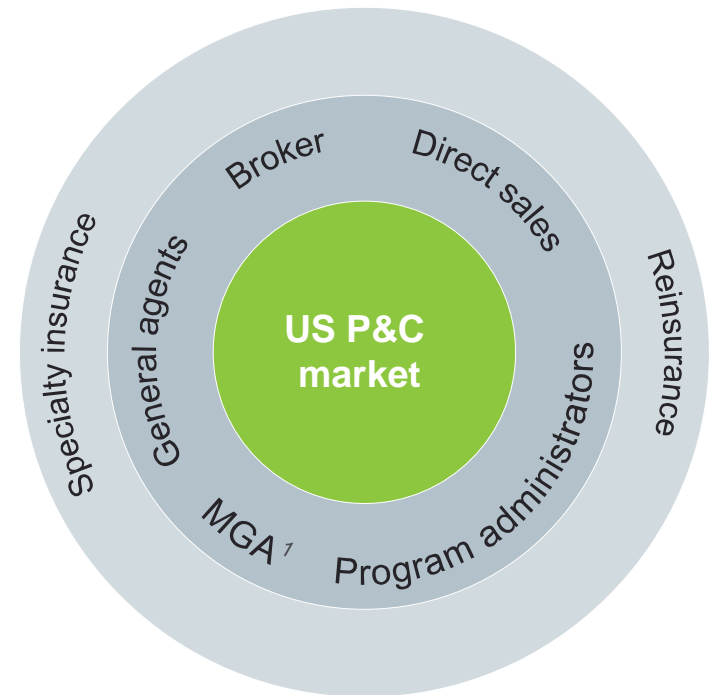
# US: Servicing the largest (re)insurance market with the full range of products and distribution channels

## US the largest (re)insurance market in the world

US premium volume P/C 2013



## Full range of products and distribution channels



**Munich Re US portfolio: GWP P/C 2013: €5.7bn<sup>2</sup>**  
**Profitable business in a highly competitive market**

<sup>1</sup> Managing General Agency

<sup>2</sup> Incl. business from Munich Re Risk Solutions

# Capital relief transactions: Solutions for clients to maintain their rating

## CRT solution

### Which risks are covered?

- Business (multi-line)
- Volatility (catastrophe)
- Financial (rating/solvency)

### Potential benefits for the client?

- Multi-year surplus relief
- Catastrophe relief (limited)
- A.M. Best rating maintained at A- / downgrade prevented



### Munich Re strength

Underwriting know-how, financial analysis and catastrophe modelling

### Target clients

Balance sheet challenges caused by increased natural hazard volatility and man-made severity risks

### Innovation

Multi-year, variable whole-account net quota share treaty with various options, depending on the development of the business result (e.g. sliding-scale commission, capped cat limits, commutation options)



# Inland low-hazard flood reinsurance fills important coverage demand

## Homeowners flood endorsement

### Which risks are covered?

- Inland flood risks – no Atlantic coastal counties
- Low-hazard flood only
- No prior flood experience
- Only homes built after 1975

### Potential benefits for the client?

- Differentiator in product offering vs. competitors
- Fills important gap in coverage, thus mitigating claims issues
- Low-limit/low-premium/opt-out model



### Munich Re strength

- Reinsurance client relationships, actuarial and catastrophe management expertise
- American Modern expertise on forms, filing and claims handling
- Hartford Steam Boiler's historical success with "private label" operational model

### Target clients

- Regional clients with no Atlantic coastal county exposure
- Avoidance of Atlantic coast in order to prevent correlation with Atlantic Hurricane budget scenarios

### Innovation

- By leveraging the combined strengths of reinsurance and specialty units, Munich Re America Inc. is uniquely positioned to offer premium flood cover and to fill an important market need

# Adverse loss development covers – Protecting clients through whole account

## Whole-account adverse loss development cover

### Which risks are covered?

- All lines of business written by the company
- Predominantly workers' compensation and casualty exposures
- Assumed reinsurance portfolio

### Potential benefits for the client?

- Protection of financial rating from potential downgrade
- Control of earnings volatility from legacy portfolio
- Capital preservation



### Munich Re strength

Efficient and agile collaboration between US and Munich experts (dedicated Customised Portfolio Solutions Unit, underwriting, claims, actuarial), client-centric focus, long-term trading relationship and in-depth portfolio knowledge enables quick execution for client

### Target clients

Companies in need of capital and/or ratings protection due to adverse loss development from legacy exposures, specific lines of business and/or classes

### Innovation

Reinsurance structure that provides significant capacity for liabilities dating back 50 years and consultative discussion on rating-agency impacts

# Munich Re in the US: Profitable business in a highly competitive market

## Situation

- US market most affected by alternative capital
- Highly competitive, sophisticated and mature market

## Objective

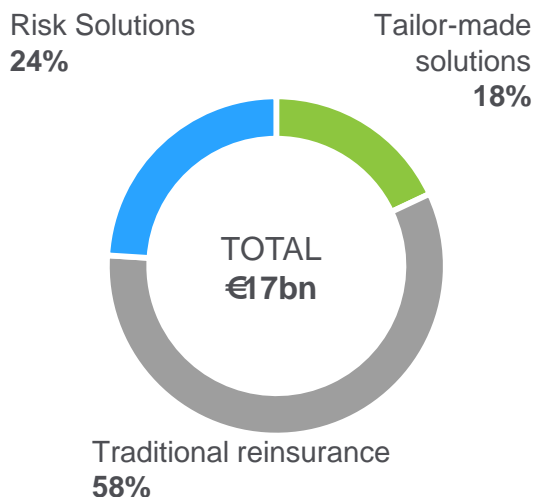
- Cycle management and strict underwriting is key
- Diversification more important than ever

## Munich Re

- Balanced book in reinsurance and specialty insurance
- Stability in core reinsurance and growth driver specialty insurance
- Strong position in tailor-made reinsurance solutions

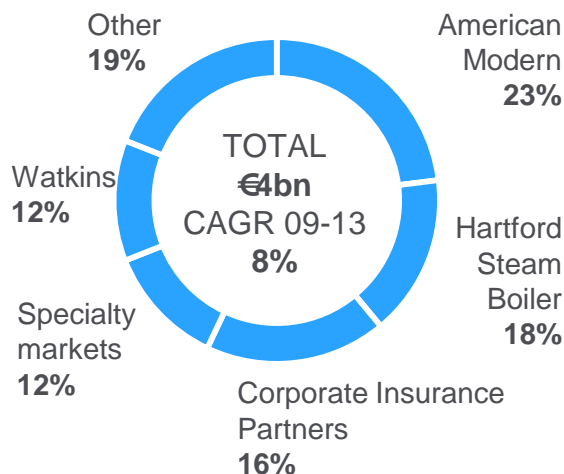
# Risk Solutions business mostly detached from reinsurance cycle

## Munich Re P/C portfolio 2013



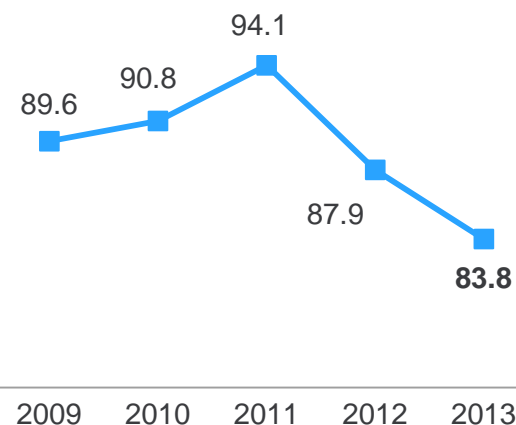
**Differentiating pillar**  
**Additional competitive edge**

## Risk Solutions premium split<sup>1</sup>



**Further growth potential**  
**New solutions, innovative products and services**

## Combined ratio<sup>1</sup>



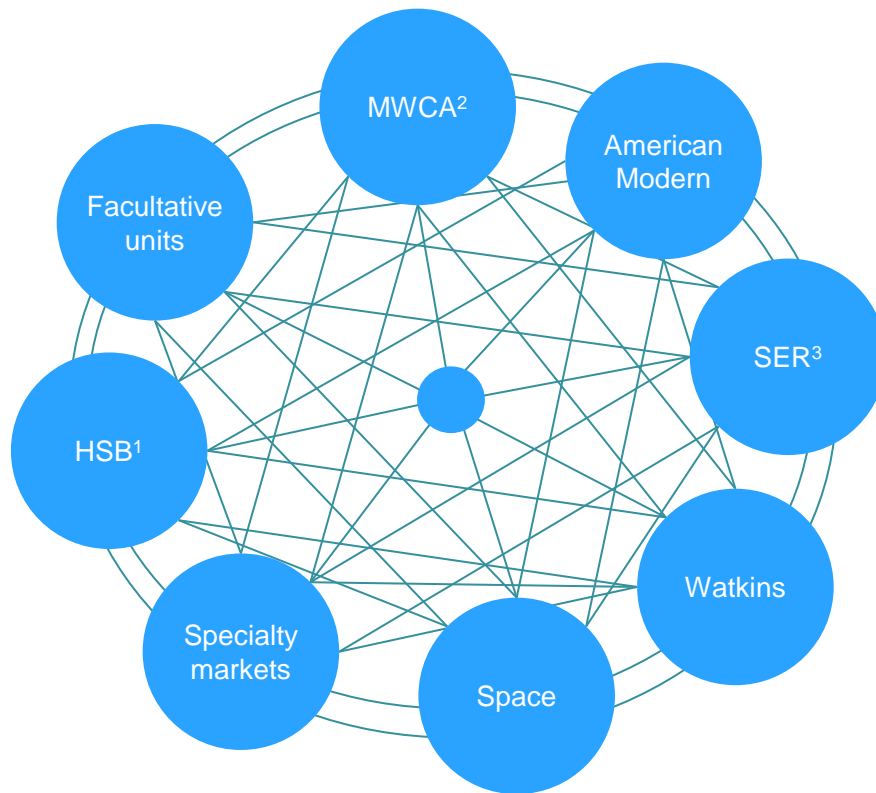
**Strong bottom-line contribution**

**Diversification and high level of expertise providing flexibility in managing the portfolio**

<sup>1</sup> Gross earned premium. Management view, not comparable with IFRS reporting  
Figures for Hartford Steam Boiler included since consolidation as at April 2009

# Product development network among Risk Solutions units fosters innovation

## Innovation network across Munich Re units



## Approach

- Innovative products expand the existing market boundaries and therefore constitute a significant growth opportunity
- For instance in the key areas of cyber risks, energy risks, supply chain risks, non-damage BI risks, reputational risks or flood risks
- Focus on direct industrial/commercial business and niche segments
- Systematic product development across the whole Group exploiting synergies
- Possibility of corporate ventures with innovative start-ups in other industries

<sup>1</sup> Hartford Steam Boiler <sup>2</sup> Munich Re Weather & Commodity Risk Advisors

<sup>3</sup> Special Enterprise Risks

# Cyber – Cover to protect against many risks originating from the use of IT and data

## Cyber risk cover

### Which risks are covered?

- Broad range of computer-, data-, and network-related first- and third-party risks
- Not only privacy-related risks

### Potential benefits for the client?

- Tailor-made cover for a company's cyber risks
- Broad scope of cover
- Larger-than-average limits
- Technical IT due diligence



### Target clients

Cloud-computing providers, oil and gas, energy, automotive, airlines and airports, railways

### Innovation

Bespoke client or industry approach with focus on real business impacts and enhancement of new business opportunities



## End-of-life cover for satellites

### Which risks are covered?

- Space insurance covers the value of satellites during their operation
- Markets currently offer cover for satellites mainly on a launch-plus-one-year basis
- Subsequent years of use are covered on a yearly basis
- Munich Re has developed cover extending over a satellite's entire life-cycle (~15 years)

### Potential benefits for the client?

- Strongly reduced uncertainties for the satellite operator
- This should result in:
  - better terms from financiers;
  - reduced uncertainty about future expenditures for in-orbit premiums to be paid and regarding possible coverage restrictions

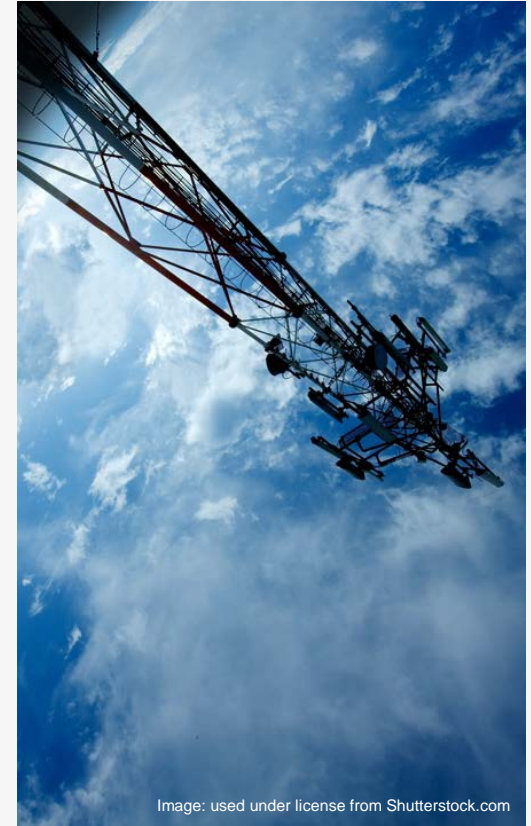


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### Innovation

By extending the boundaries of insurability, we turn something that is currently placed in the traditional market into a non-traditional product

# Reputational risk cover – Designed to protect against loss of profit due to reputational issues

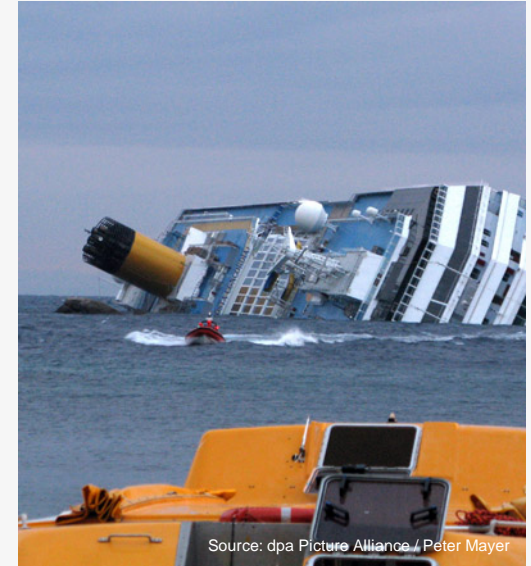
## Reputational risk cover

### Which risks are covered?

- Loss of profit after a reputational and brand-value-related event
- All risks with exclusions

### Potential benefits for the client?

- Individually designed to protect the income of companies with significant intangible assets
- Parametric approach



### Target industries

Food and beverage, restaurant chains, apparel/fashion, luxury goods, toys, cosmetics

### Innovation

Defined parts of the entrepreneurial risk can be insured

# Project cost insurance – Cover for the remaining risk of increasing costs of construction projects

## Project cost insurance

### Which risks are covered?

- Increase in investors' actual construction costs vs. costs predicted virtually
- All risks with exclusions

### Potential benefits for the client?

- Sophisticated planning
- Cost certainty of projects
- Facilitated financing
- Project transparency
- Risk and project controlling



### Target industries

High-rated building investors

### Innovation

Latest technical development<sup>1</sup> enables insurance solution

# Risk Solutions is an important driver of innovation for reinsurance business as a whole

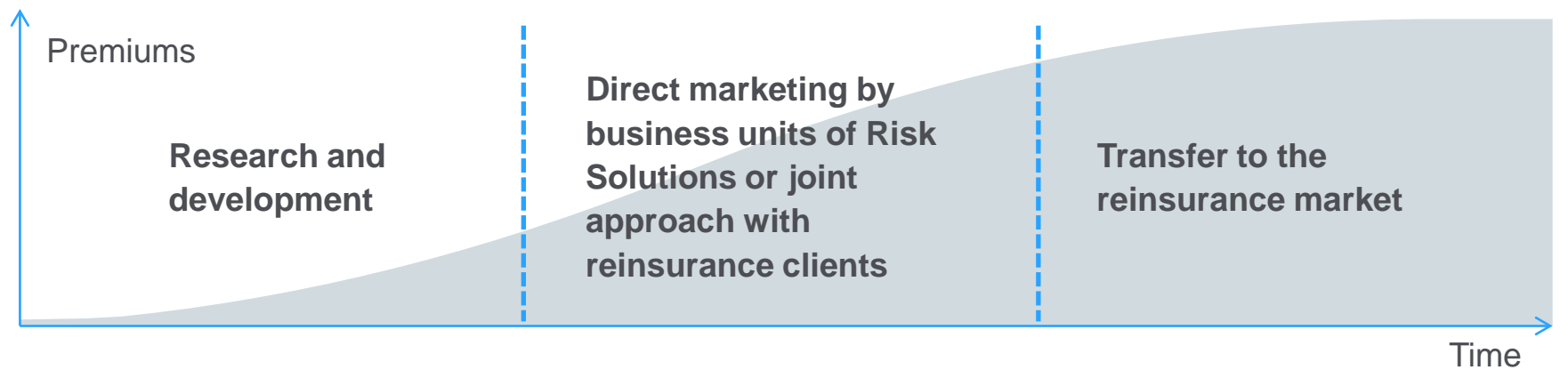
## Insurance product life-cycle

ILLUSTRATIVE

Innovation within dedicated special units

Primary insurance growth

Maturity/standardisation



▶ Innovative product development will have increasing relevance in the future

▶ Core element of our value proposition for reinsurance clients

▶ Further demand for capacity to be expected, e.g. cat cover for cyber accumulation

# World of opportunities in property/casualty reinsurance requires different strategies

## Understanding accumulation

Smart solutions for well-known existing risks

## Understanding a client's demand

New covers for emerging risks

## Strict portfolio and cycle management

Resist short-term pricing pressure

## Insight into technology and loss potential

Hidden demand for underinsured risks

**Munich Re well-positioned for all kinds of market challenges**

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