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Press release

Increasing and changing weather risks call for risk management adjustments

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Individual households and industry are finding themselves increasingly exposed to changing weather risks. This is partly due to a greater frequency of persistent weather patterns in Europe, involving long periods of dry weather or precipitation, that may lead to droughts or river flooding. The number of loss occurrences resulting from severe weather events is also on the rise. In addition to higher direct losses, this may cause companies whose income is dependent on the weather to sustain a significant loss of earnings.

The number of weather-related natural catastrophes worldwide that have resulted in losses increased roughly threefold in the period 1980-2013. Likewise, the number of convective (thunderstorm) events in Europe more than tripled over the same period. Heavy summer storms accompanied by hail have become much more frequent, partly because the water content in the atmosphere is increasing. The world's costliest insured weather loss in 2013 was a hailstorm in Germany with an insured loss amount of €2.8bn (overall loss: €3.6bn). In June 2014, convective storm Ela caused economic losses totalling €2.3bn and insured losses of €1.8bn in Germany, Belgium and Luxembourg. The trend towards such weather patterns is changing the probability and intensity of hail and flash floods, and hence of potential losses.

Another noticeable trend has been the increased persistence of weather patterns, which may cause heatwaves and droughts under high-pressure conditions in summer, and river flooding during low-pressure systems. This was also the origin of the heavy flooding in Germany, the Czech Republic and Austria in 2013, the year's most expensive weather event with overall losses of €9.7bn (insured loss: €2.4bn). In the United Kingdom, flooding at the turn of the year led to financial losses amounting to €1.1bn and insured losses of €800m.

Changing weather risks entail higher risk of losses

The increased frequency and intensity of such loss events is very difficult to predict locally. Moreover, changes in building features – for instance, thermal insulation and solar installations – tend to aggravate claims volatility. "For primary insurers, this means rising income uncertainty and more volatile results", said Ludger Arnoldussen, member of Munich Re's Board of Management. "Changing weather risk patterns necessitate an adjusted perception of risk and

bespoke reinsurance protection. We need a better understanding of hazards and potential accumulation risks, and we need to analyse the risk locations in this regard." There are a variety of reinsurance covers designed to protect the balance sheets of primary insurance companies against the uncertainties associated with weather risks, and thus ultimately also their customers.

Exceptionally persistent atmospheric conditions may even threaten the financial success of companies – for example, energy companies, if a winter is unusually warm and heating energy requirements are reduced. Companies can hedge against such fluctuations in income by purchasing financial instruments directly through Munich Re. Weather risks can be existentially threatening especially for companies with a weaker capital base, particularly if they do not have sufficient know-how of changing weather trends and risks.

Munich Re has exceptional expertise in assessing and modelling such risks. For 40 years, Munich Re's experts have been analysing global weather and claims developments with the aim of developing effective risk transfer solutions.

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