



Global Consulting Inflation Outlook and Management

26 May 2022
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Munich RE 

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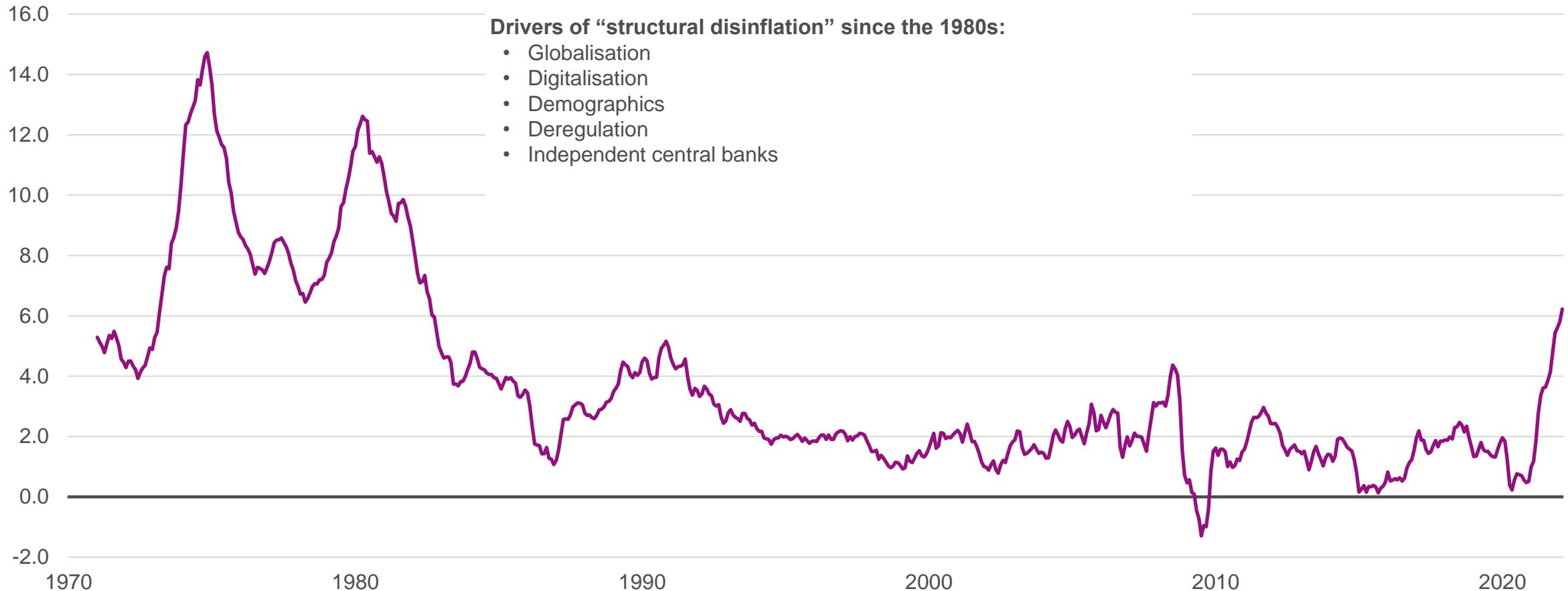
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Intro: two sorts of inflation concerns



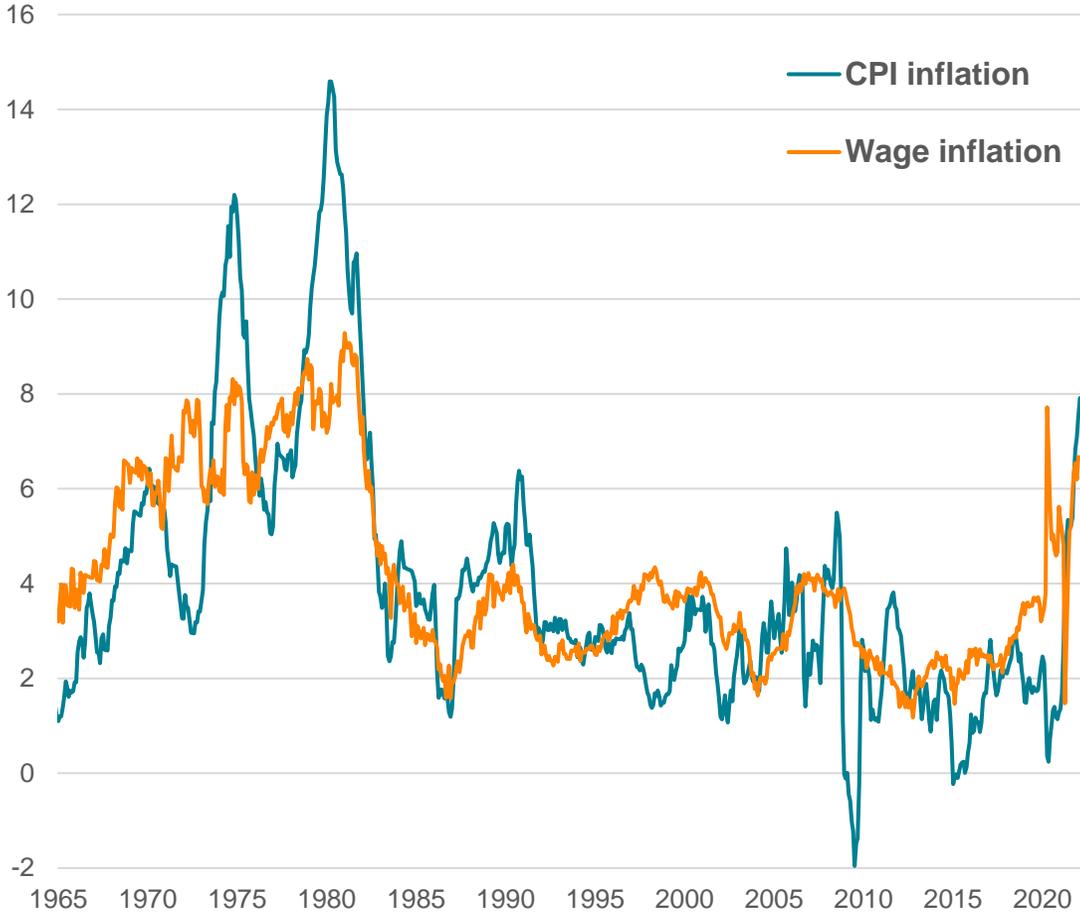
Key question #1: Are the advanced economies heading for a “regime shift” after almost four decades of low inflation?

CPI inflation, average of G7 countries (monthly data, in %)

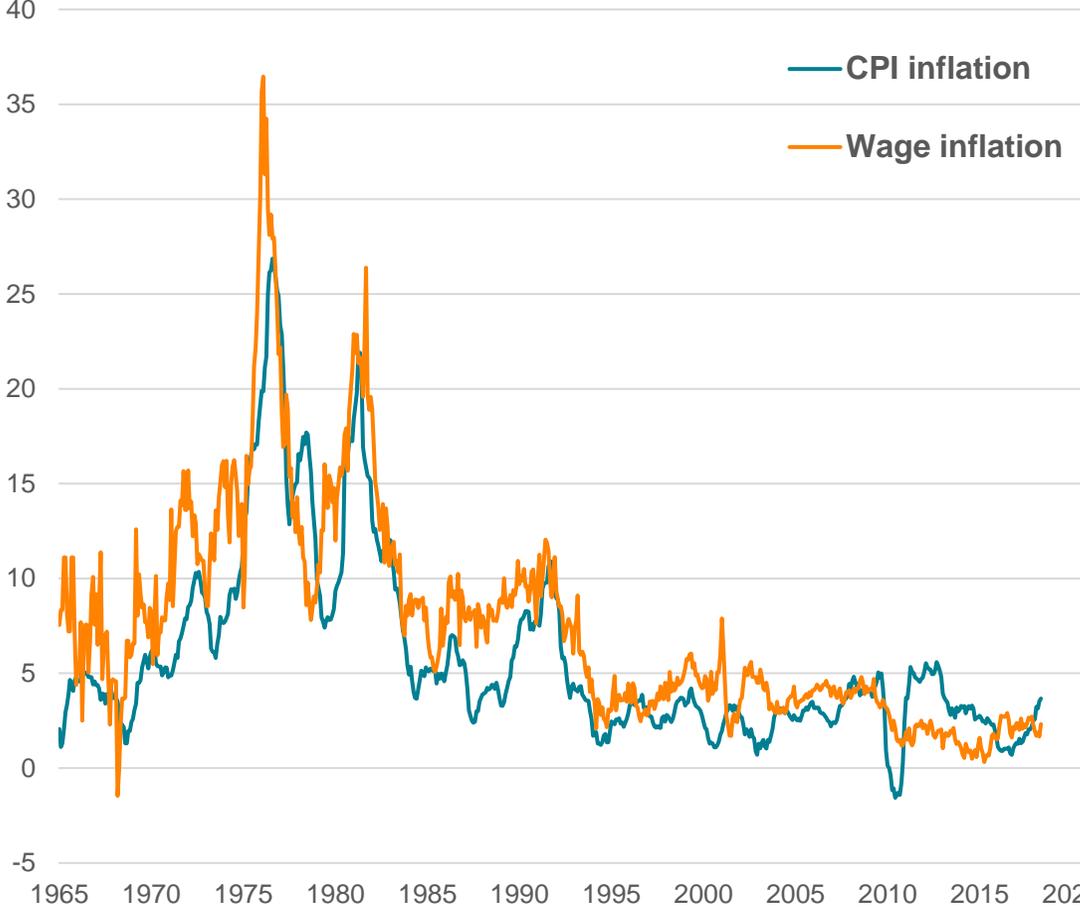


Risk #1: An unexpected shift of CPI inflation would be negative for long-tail business since wage inflation would be higher as well

USA: Wage & CPI inflation (y-o-y, in %)

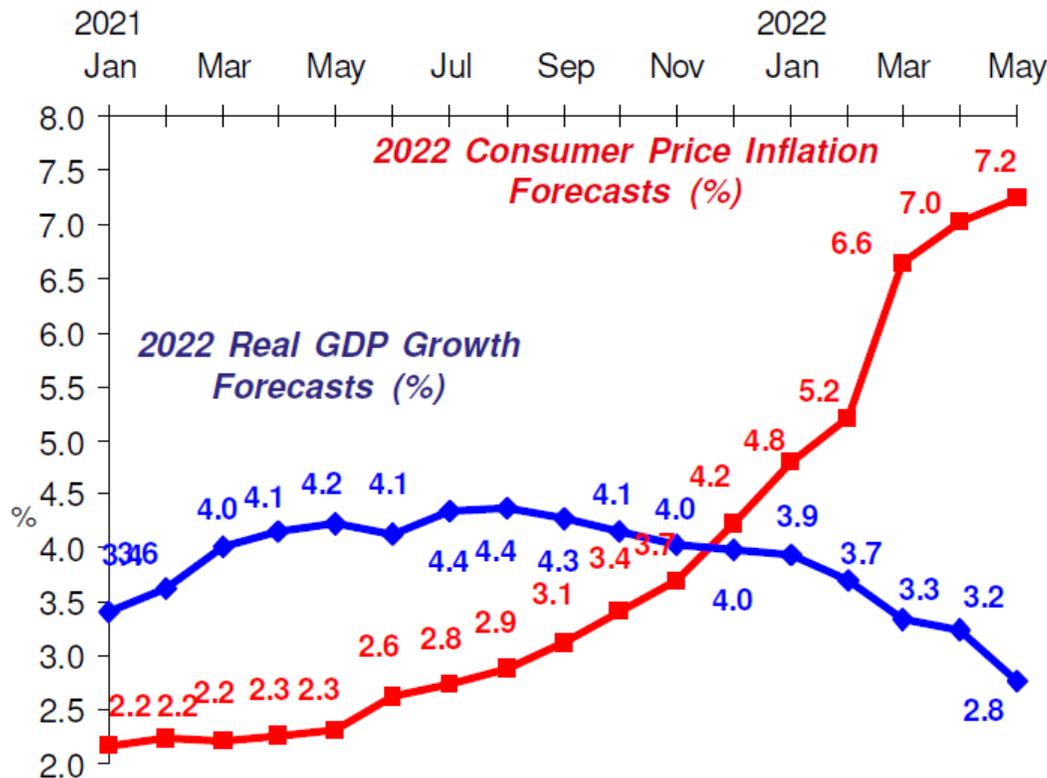


UK: Wage & CPI inflation (y-o-y, in %)

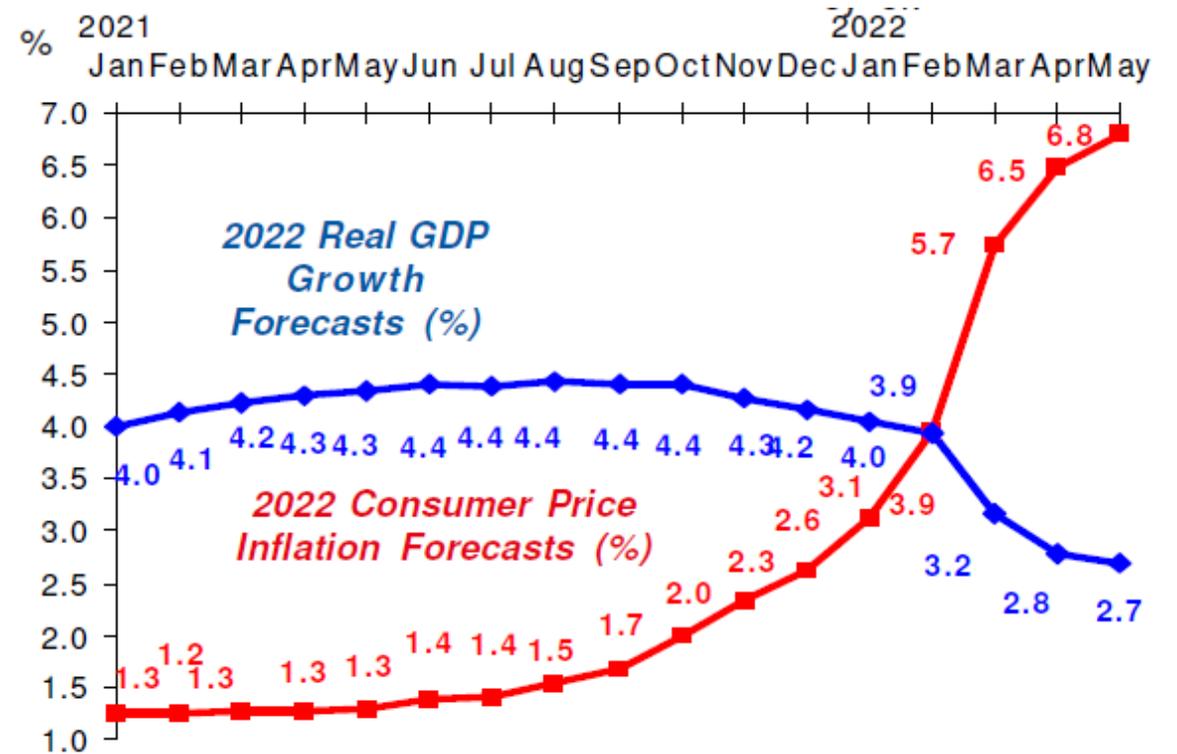


Key question #2: (when) will the trend of inflation forecasts being continuously revised upwards come to an end?

US: Consensus 2022 forecasts (since January 2021)

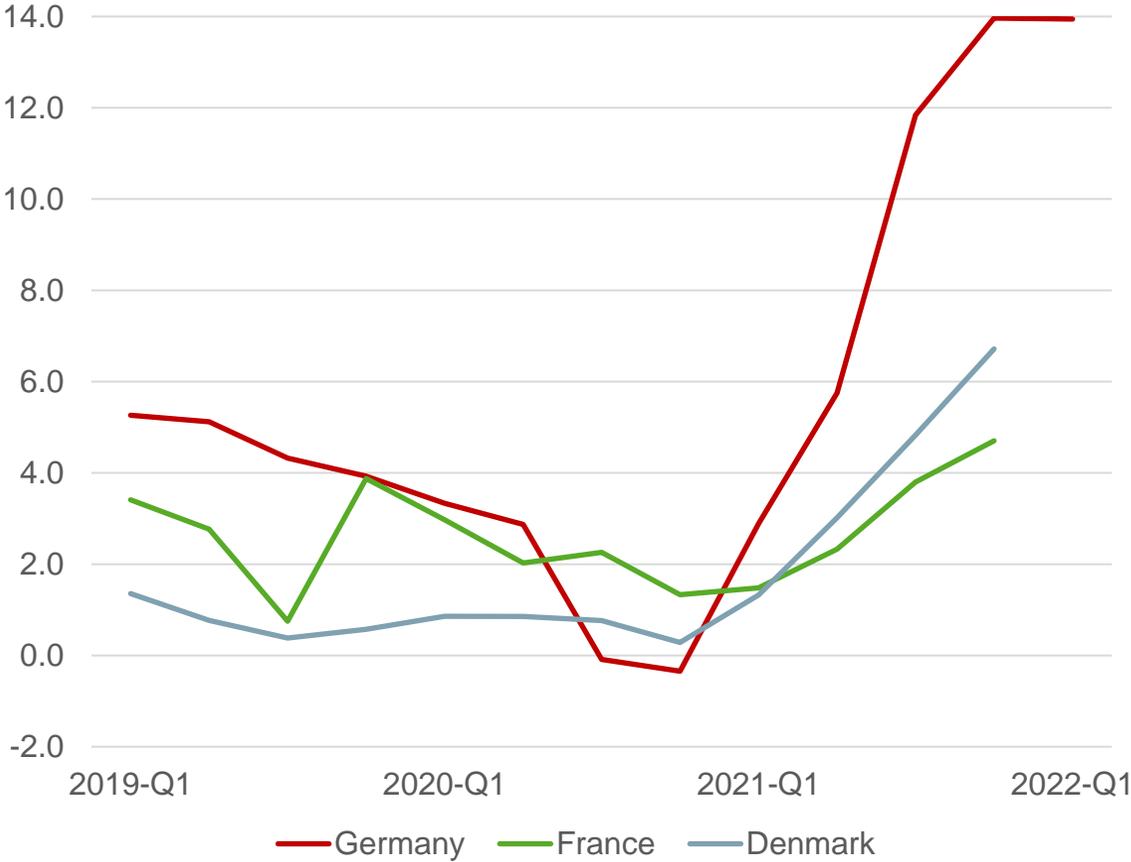
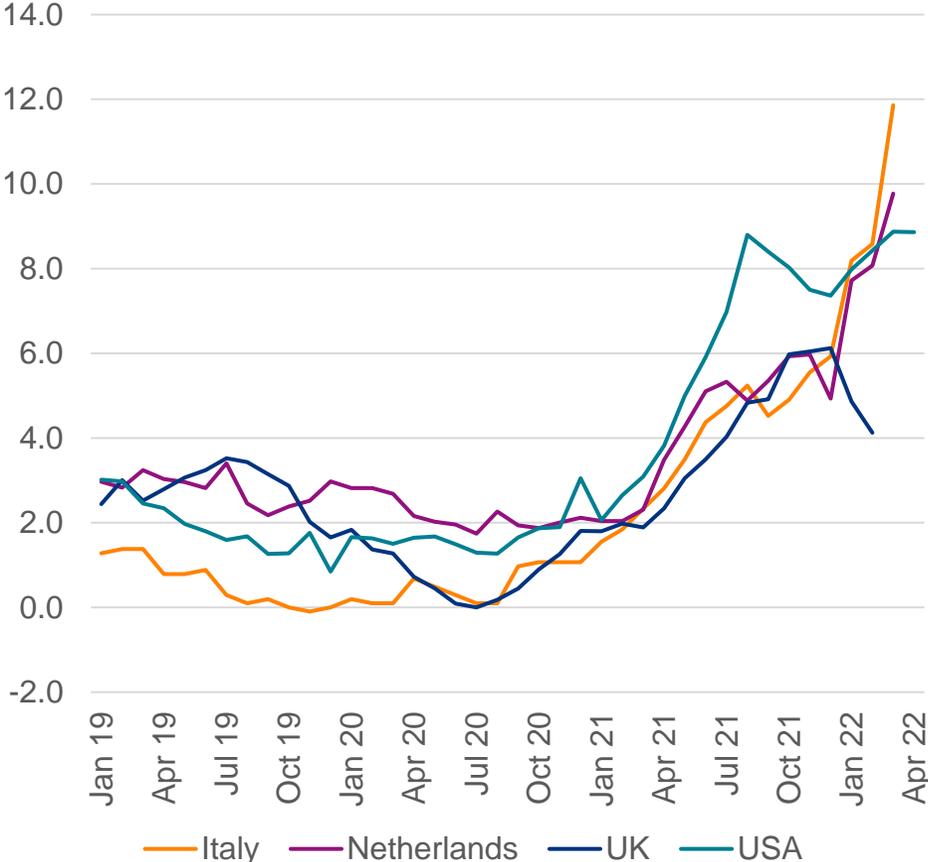


Eurozone: Consensus 2022 forecasts (since January 2021)



Risk #2: Underestimation of short-term macroeconomic inflation could e.g. impair correct assessment of construction cost inflation

Construction cost* inflation, monthly or quarterly data (in %, year-on-year)



* Index definition is market specific, thus comparability is limited
 Source: OECD, National Sources, Munich Re Economic Research

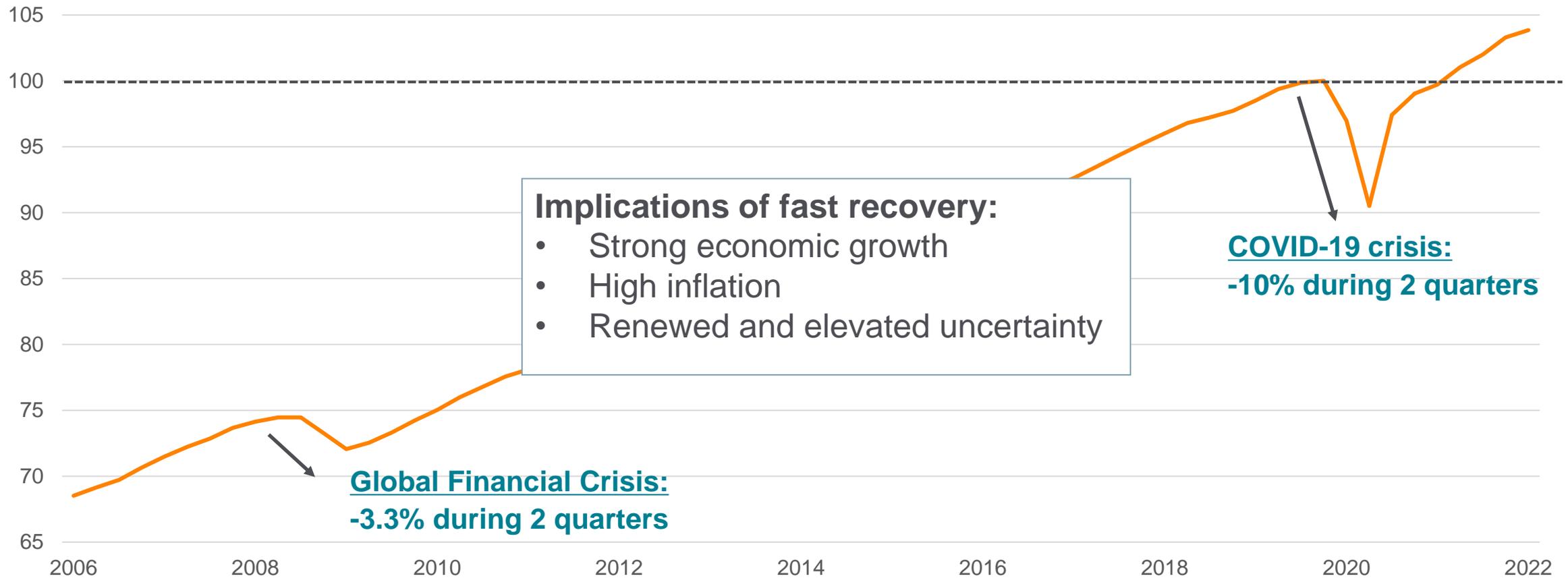
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Overview: Global economic and inflation outlook and key risks



Looking back: After the sharpest decline in modern economic times, the global economy had already reached pre-crisis levels in 2021

World real GDP (index, 2019 Q4 = 100)



Russia-Ukraine war has added another (very substantial) layer of uncertainty – political events determine the economic outlook

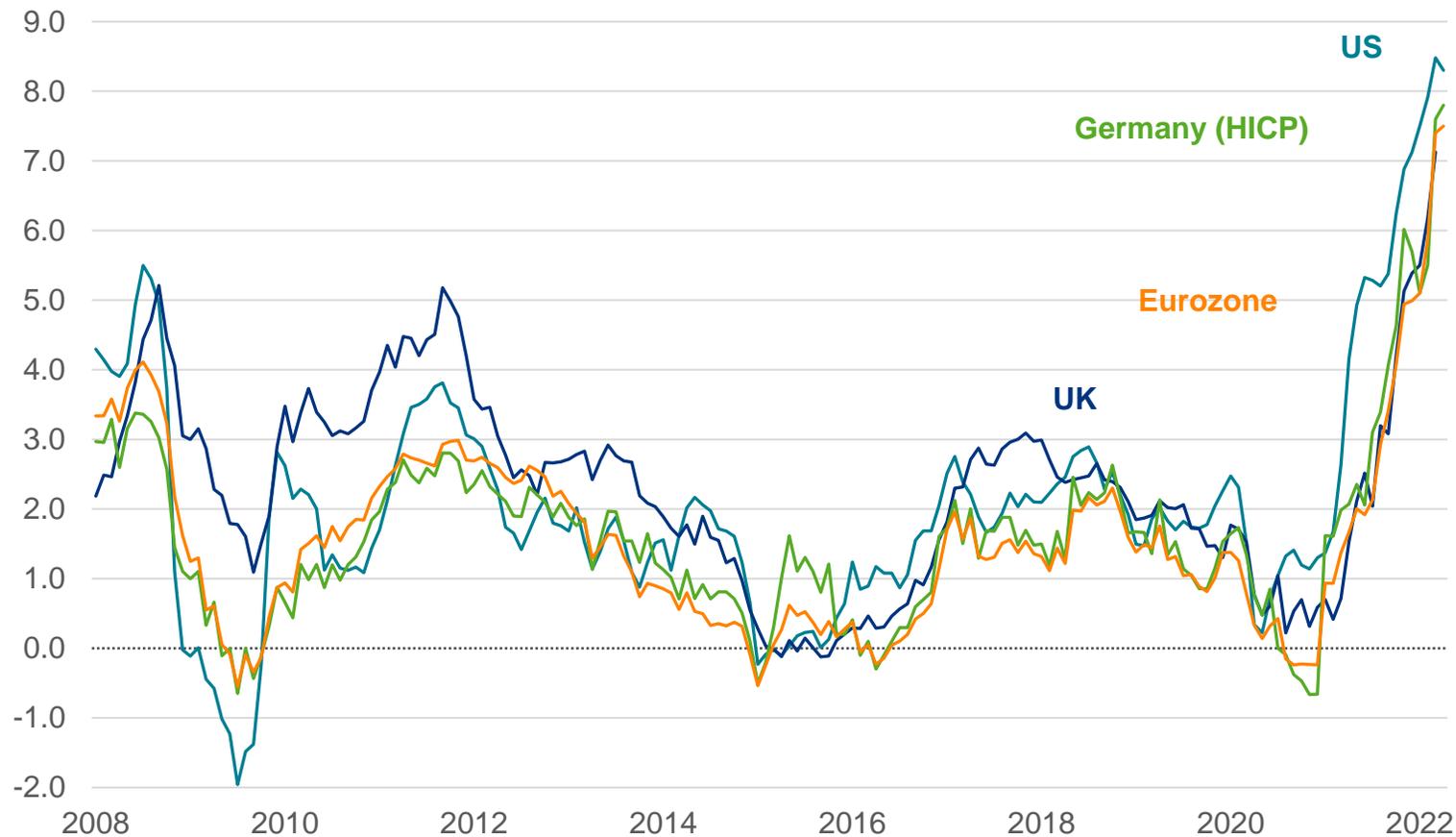


- **Time frame and scope** of Russia/Ukraine war
- **Degree of potential further sanctions** and **market reactions**
- **Key macroeconomic factors** at work:
 - Energy and commodity prices
 - Supply-chain distortions
 - Inflation impact on consumers
 - Sentiment effects
 - Financial market conditions

Immediate relevance for inflation outlook

CPI inflation has strongly increased, driven by an unprecedented set of circumstances.. further war-related price pressures expected

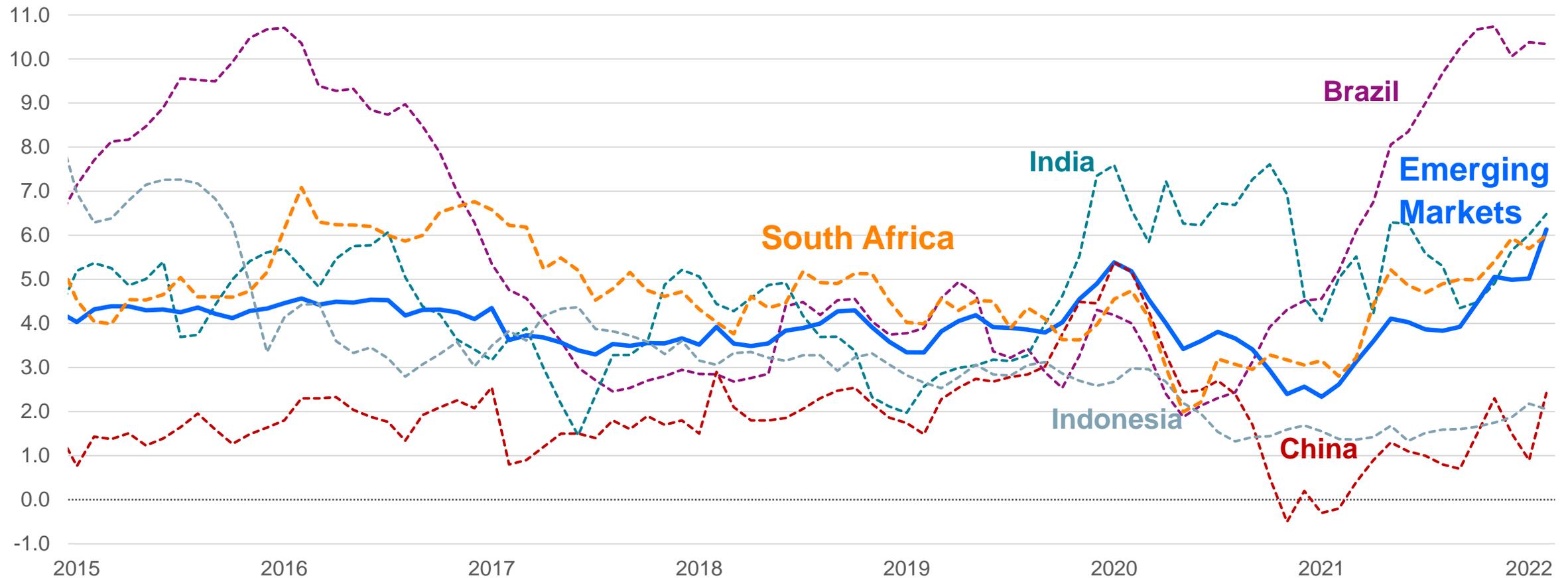
CPI inflation, monthly data (y-o-y, in %)



- CPI inflation reaches record high levels (e.g. 40-year high in Germany and in the US)
- Driving forces of demand-supply imbalances underestimated in size and duration
- Extent of energy price rises as additional factor (esp. Europe)
- Russia-Ukraine war to further add to inflationary pressures at least over the near-term future

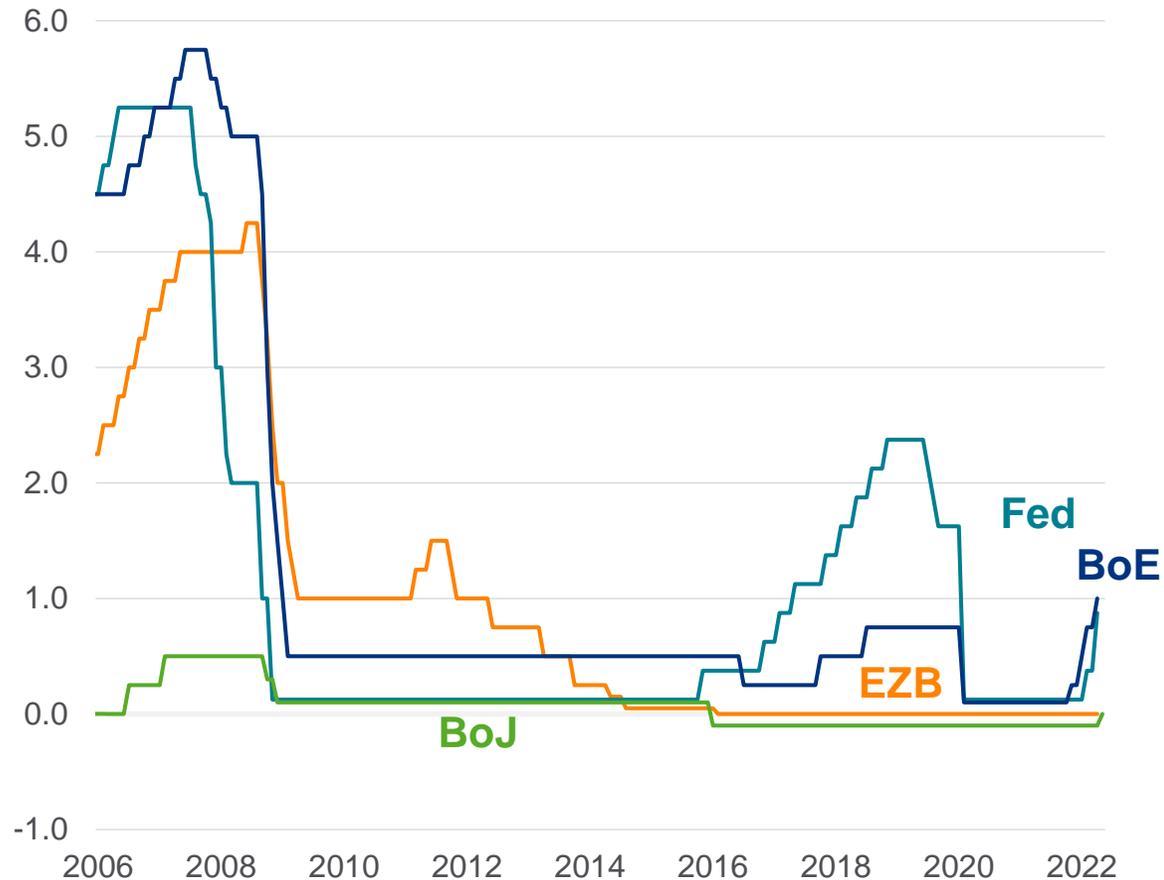
Inflation on average also rising in emerging markets – with large variation and limited inflation pressure so far especially in Asia

CPI inflation, monthly data (y-o-y, in %)



Central banks are in choppy waters, but policy normalisation will very likely continue despite growth weaknesses

Central banks' key interest rates (in %)

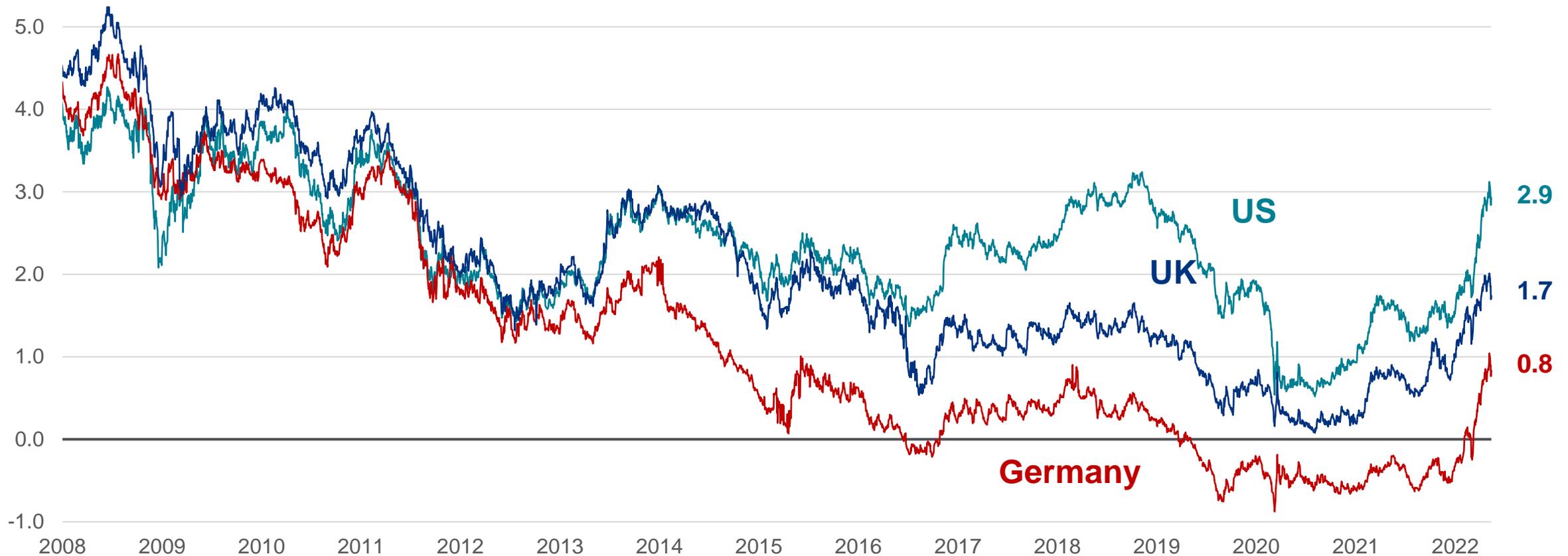


Central bank outlook:

- Major central banks have started to tighten policy and expectations have shifted upwards in recent weeks – further shift in policy stance could happen in case of more negative inflation surprises
- US Fed with first interest rate hike in March (and a further one in early May), BoE already entered rate hike path in late 2021; ECB could start raising interest rates already soon
- Current strong upwards move in long-term bond yields could create macroeconomic and financial market risks

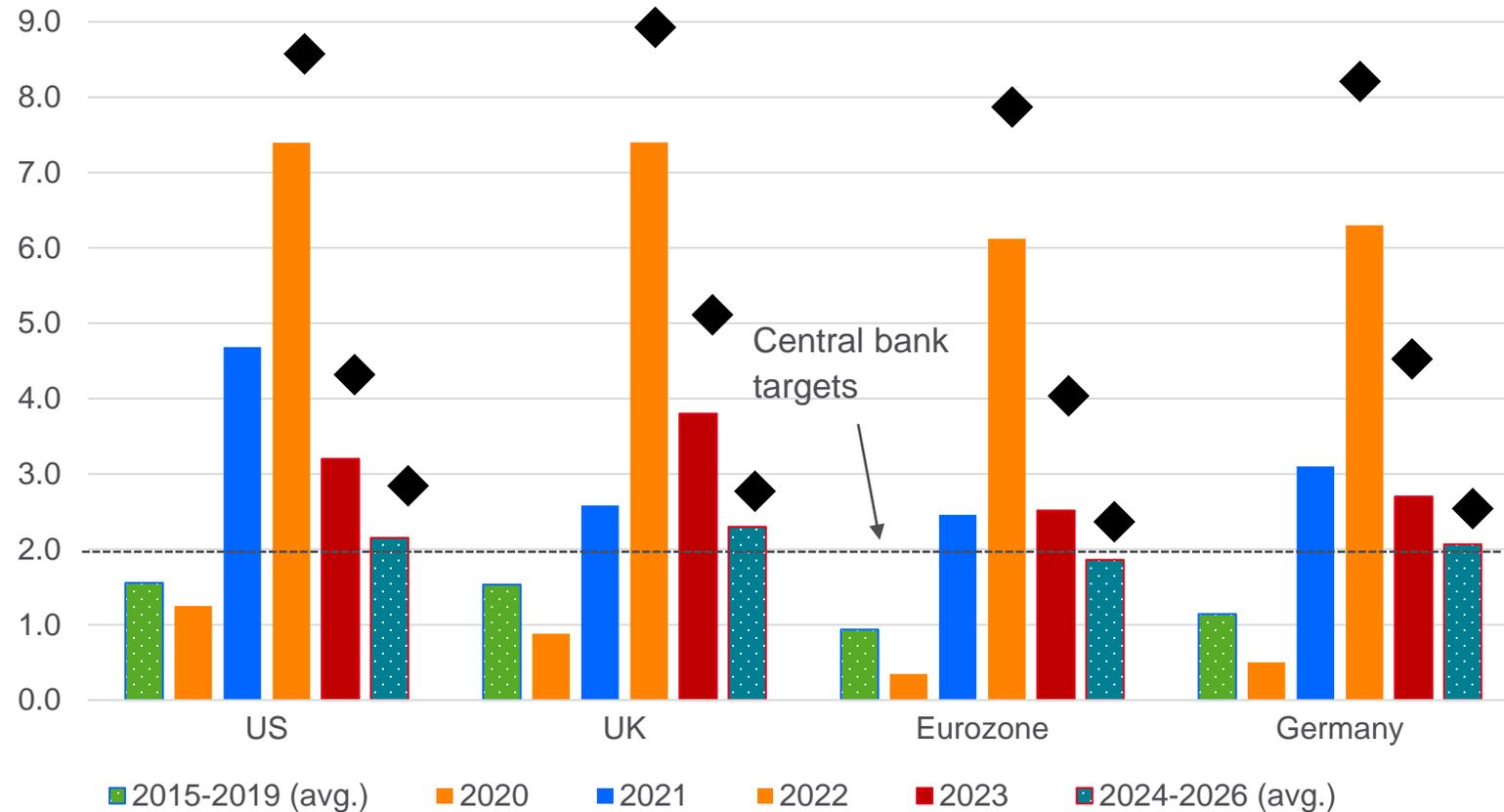
After short period of safe-haven flows, sharply rising bond yields in recent weeks, driven by inflation and CB outlook

10yr government bond yields (in %)



Mid-term outlook: some normalisation expected, but inflation clearly higher than pre-COVID – risk scenarios have become more likely

Annual CPI inflation, baseline and risk scenario (in %)



- **Mid-term outlook:** inflation to moderate again, but to remain clearly above pre-crisis levels
- Monetary and fiscal policies, supply-chains, labour markets, energy prices and climate policies as important drivers
- **Risk scenario** “persistent inflation” not only related to further energy price shocks but also driven by **wage-price spirals**

◆ Risk scenario “Energy price shock due to the war and persistent inflation”

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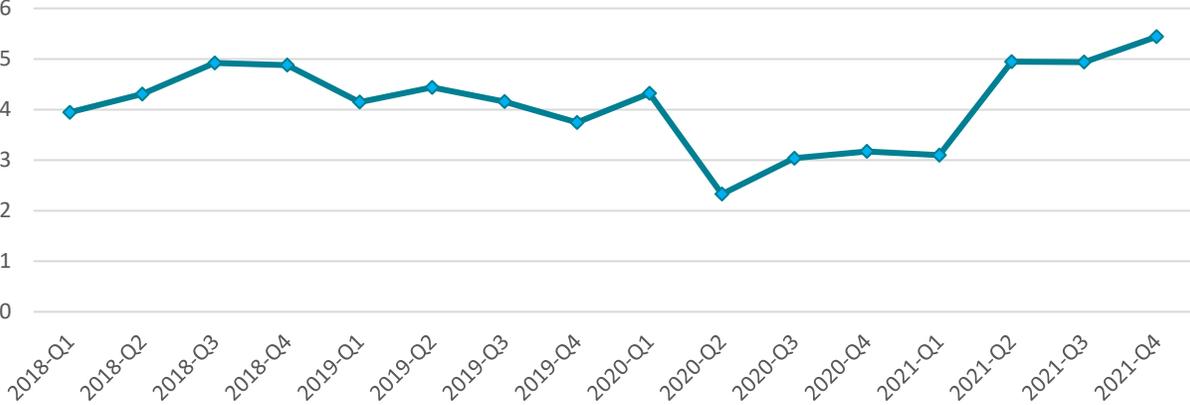
Perspective on South Africa



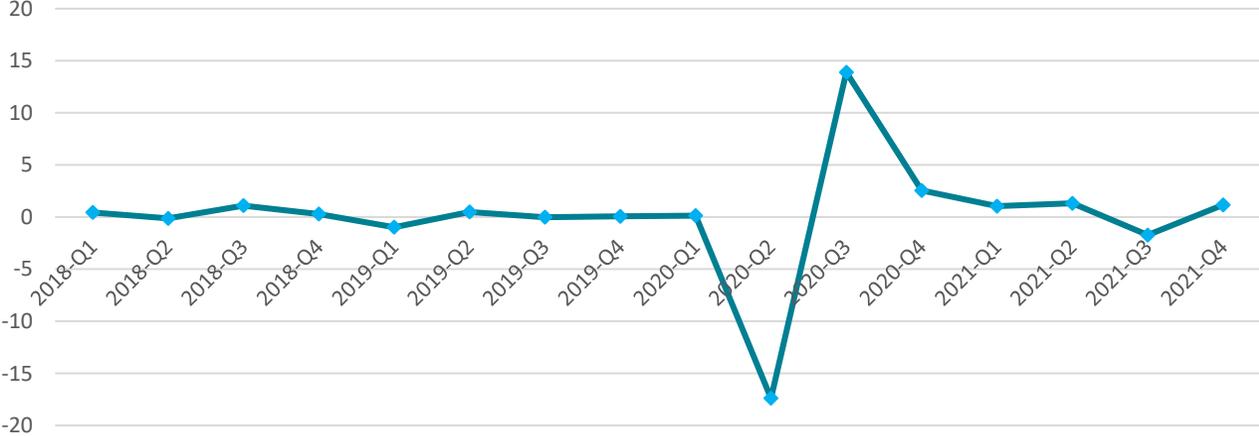
South Africa

Key Indicators

Inflation (%)



Treasury Bills (%)



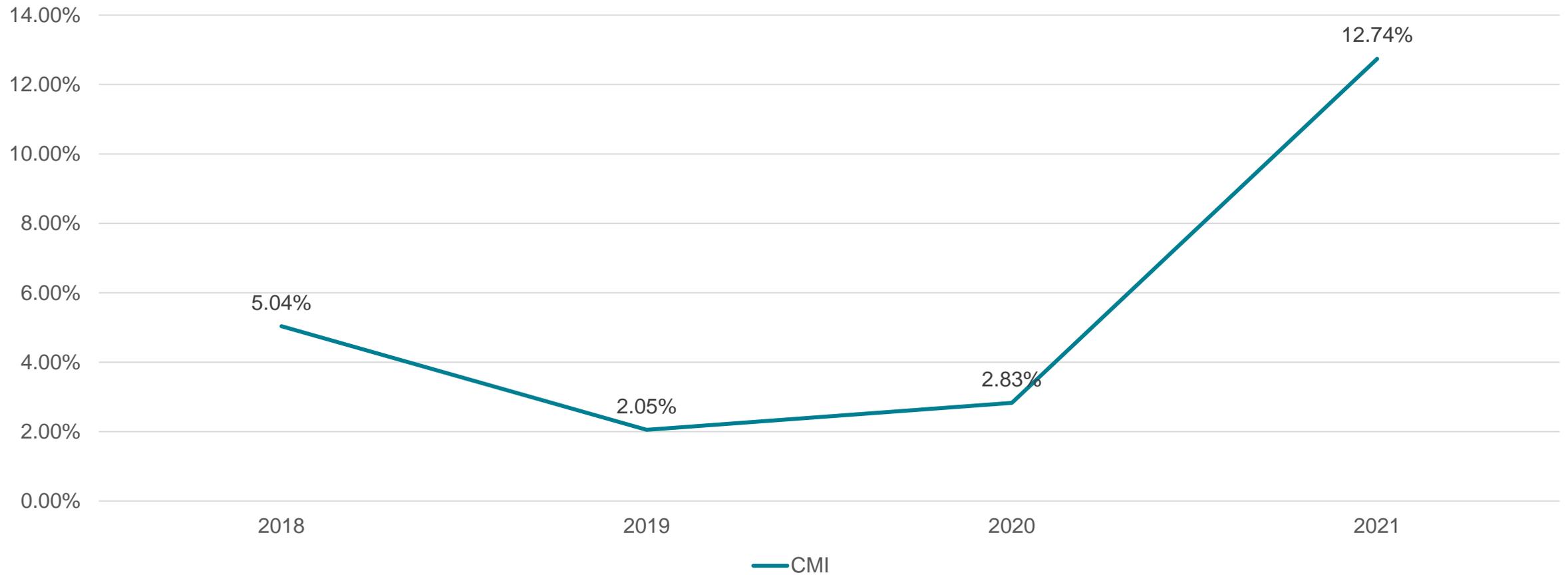
Real GDP (%)



10 year Government Bond yield (%)

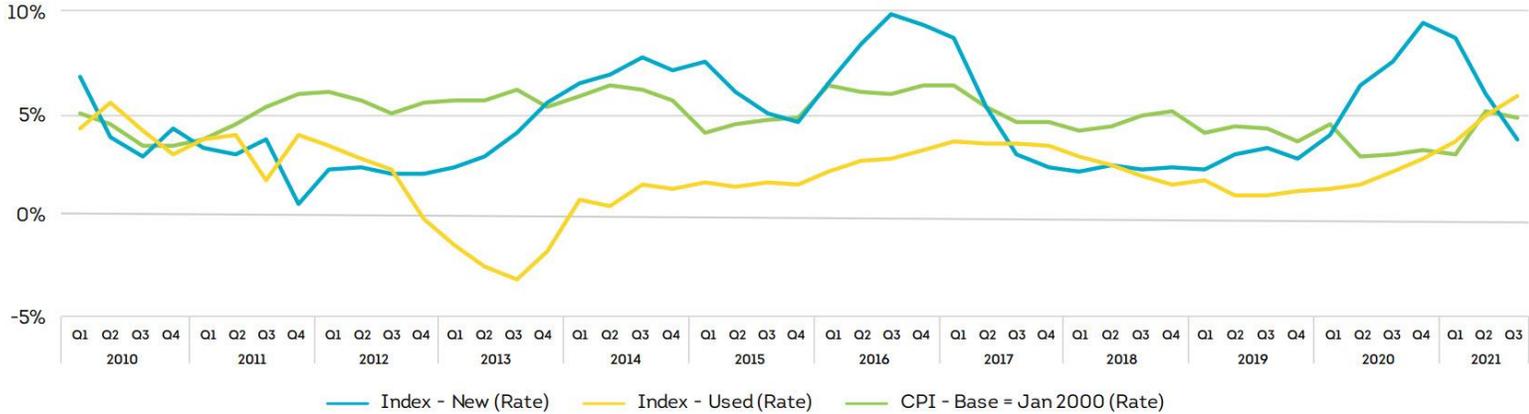


SA Construction Cost Index Construction Materials Index (CMI)

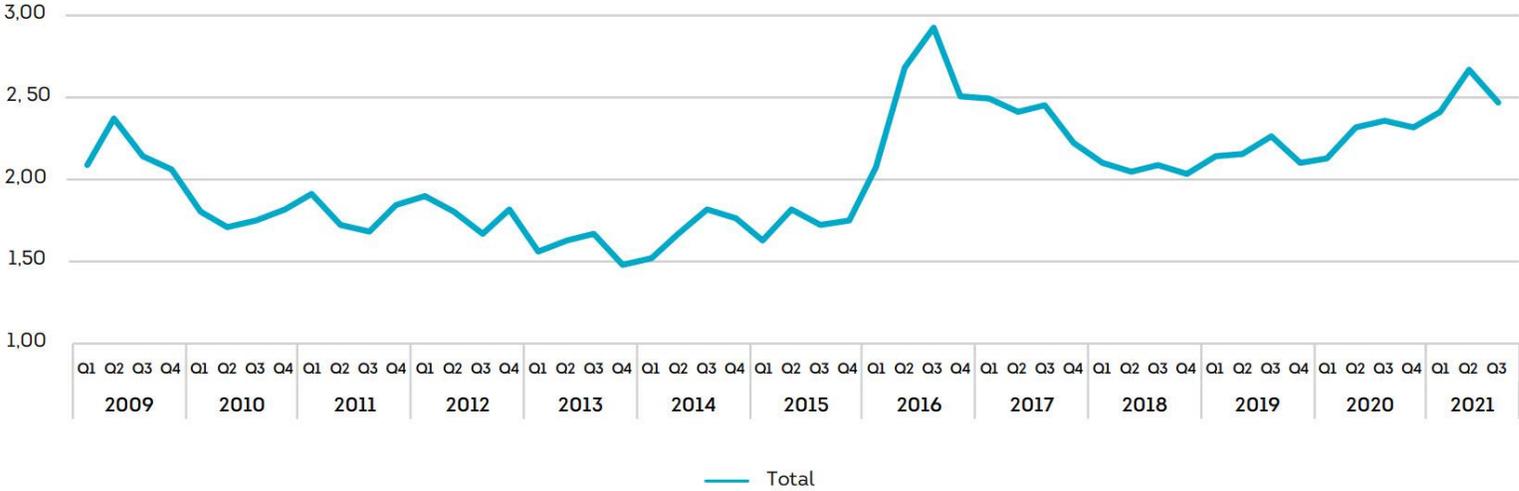


SA New and Used Vehicle Price Index

Vehicle Pricing Index (VPI) and Consumer Price Index (CPI)



Used-to-New Ratio



TransUnion Vehicle Pricing Index Q3 2021

4 Claims Consulting



We see 3 categories of inflation drivers – all impacting claims

Global view on inflation

Unpredicted

- COVID-19
- Compensation for lost revenues during COVID
- Ukraine war
- Sanctions
- Supply chain distortions
- Goods shortage
- Shifts in the cause of loss (e.g. suddenly more fire)
- Anti-selection in UW

Evolutionary

- Technological advancements (EVs, ADAS components)
- Spare parts → **deep dive**
- Health / rehabilitation costs → **deep dive**
- High fees for loss adjusters & service providers
- Bad claims processes / lack of automation / manual tasks
- Wrong people & wrong decisions
- Outsourcing without proper monitoring in place
- Conflict of interest between the parties managing the claims (TPAs)
- **Lack of fraud detection tools**

Cyclical

- **Consumer prices → Deep dive**
- protectionisms / de-globalization / regionalization
- Energy & commodity prices
- Financial markets
- Sentiment effects
- Labor costs

Insurance vs. non-insurance related

Claims as the driver of an insurer's operational performance

Strategic importance of claims

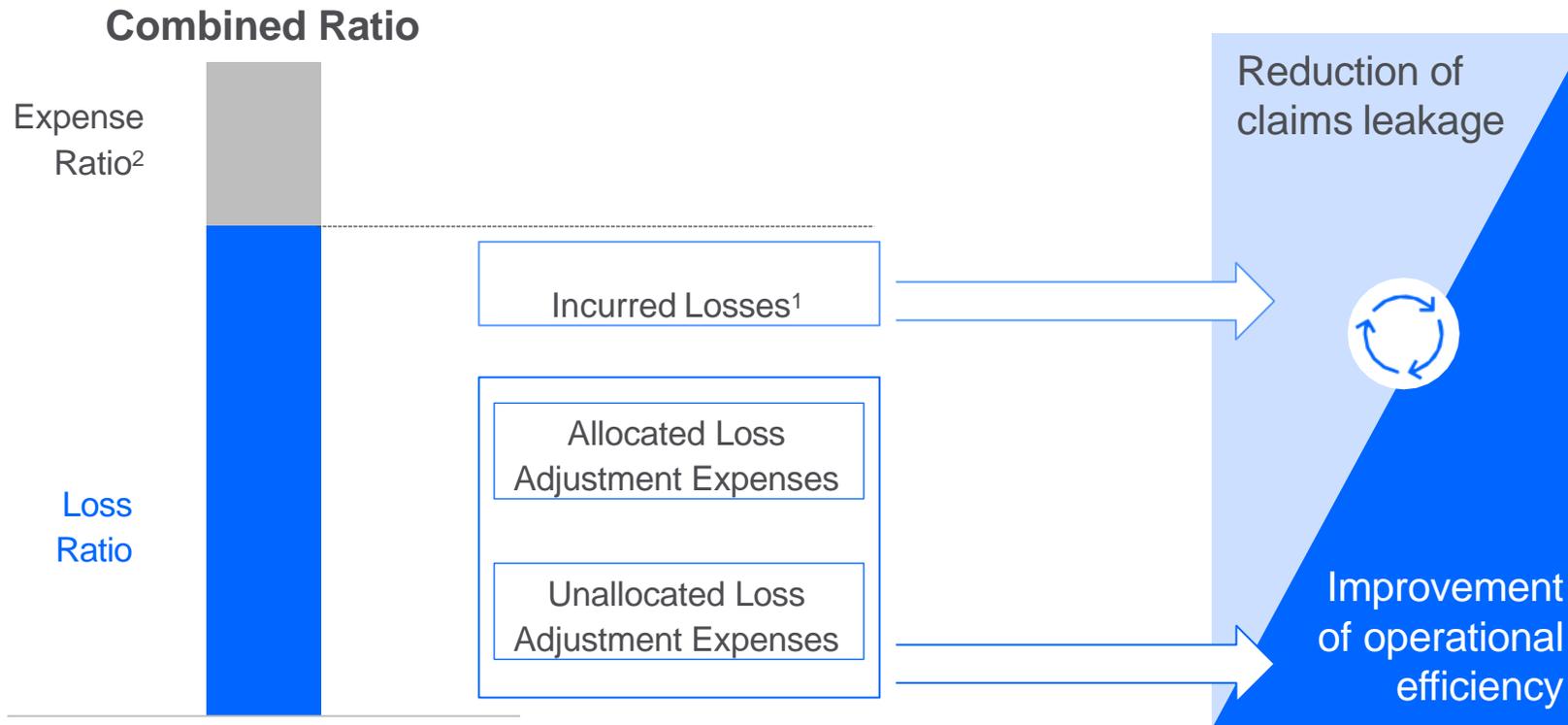


We recognize the strategic importance of Claims and its transformative impact on product, data, customer satisfaction and eventually Loss Ratios

LR improvements realized by a holistic optimization approach

Loss Ratio split in theory

Loss Ratio split, illustrative



Key levers for improvement of LR³

- **Two key** levers to reduce loss ratio:
 - Reduce incurred losses by primarily reducing claims leakage
 - Reducing loss adjustment expenses (LAE) by improving operational efficiency

→ **Holistic, sensible approach** required with focus on **reducing incurred losses as primary loss component**

Small reductions in leakage/efficiency improvements with huge potential impact on profitability

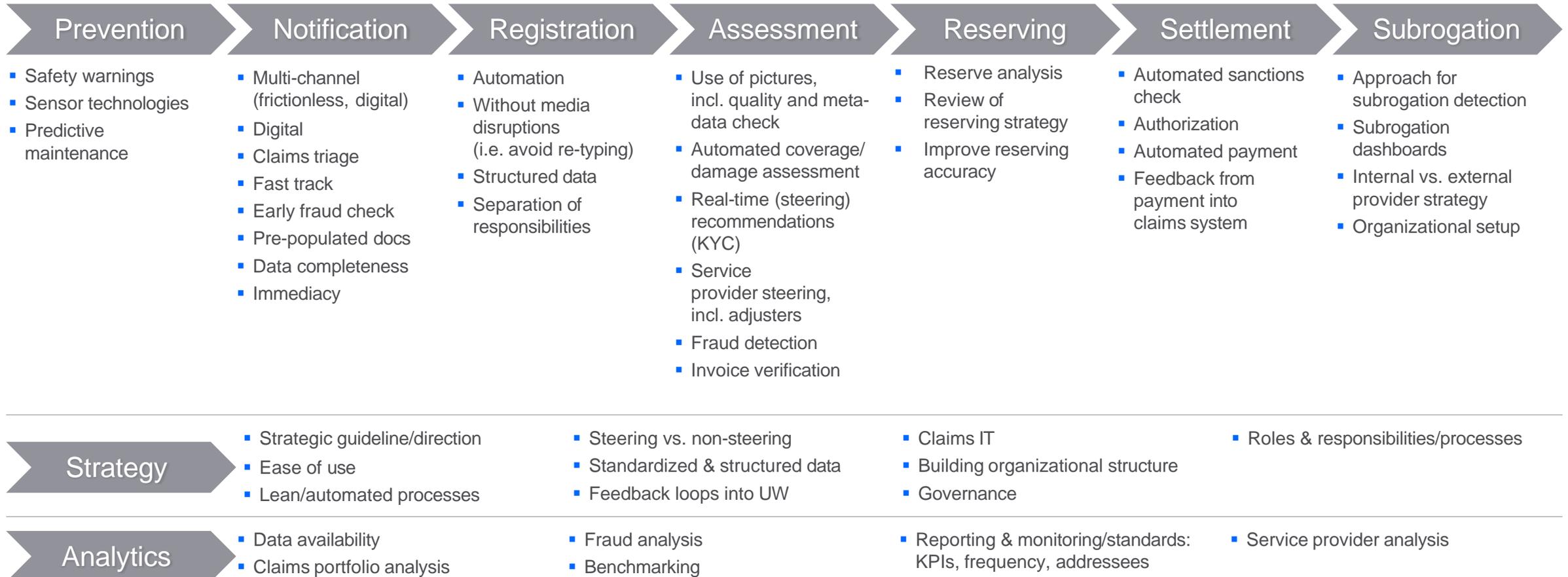
1. Including claims reserves (IBNR = incurred but not reported, RBNS = reported but not settled) and claims paid
2. Claims expenses might also be part of and impact Expense Ratio, depending on size of insurer, financial reporting / account rules etc.
3. Focus on claims-related drivers (claims, reserves, LAE = numerator of LR equation) instead of premium (denominator of LR equation)

Insurers' pain points appear along the entire claims value chain

Pain points along the claims value chain

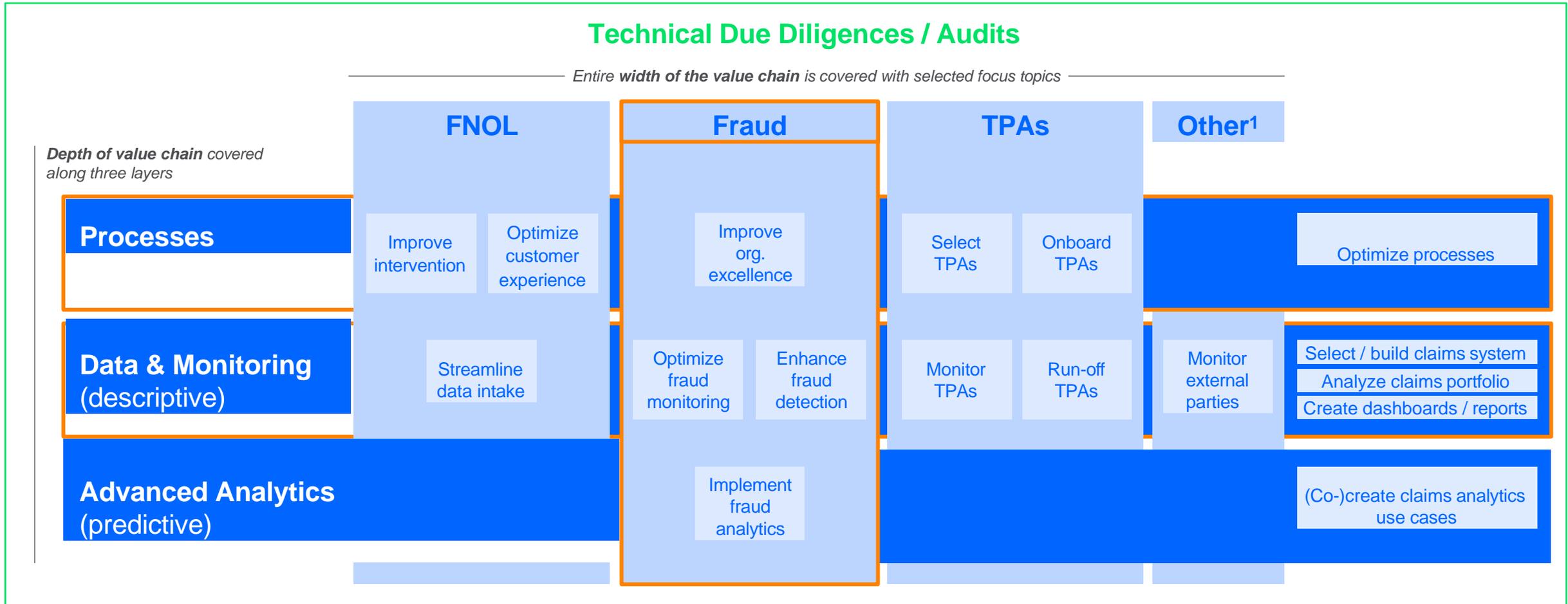
Not exhaustive

Claims value chain

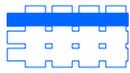


We offer a claims value proposition focused on key pain points

Claims Consulting Value Proposition



We consult and assist our clients but do not undertake to implement measures in our core consulting areas

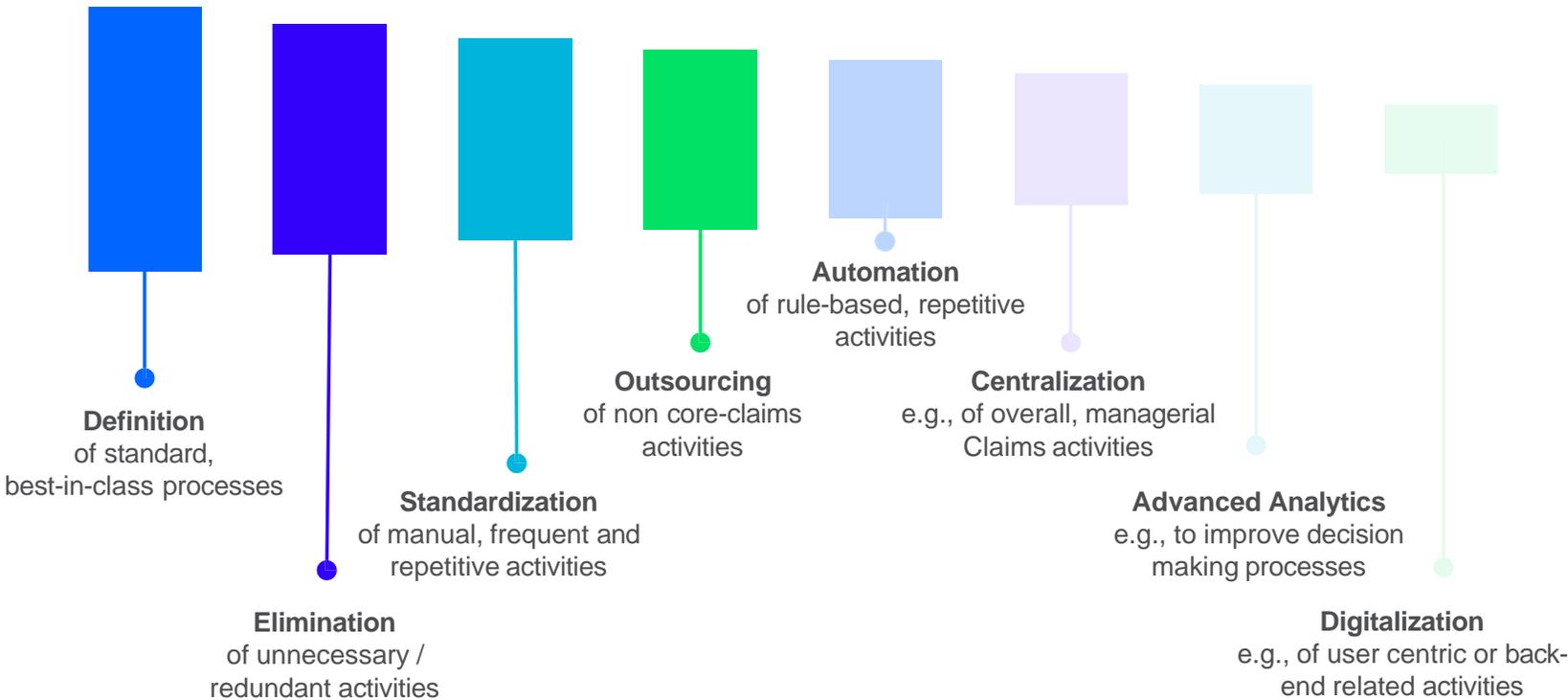


Process optimization along the entire value chain

Processes

Exemplary activities

Process optimization along the entire claims value chain, i.e. from FNOL to subrogation, and the entire process optimization funnel below



Exemplary case studies

Design of best-in-class, highly automated Claims process
Case study: Process (re-)design

Initial situation

- L&H insurer in South-East Asia, newly entering the Motor business
- Ambition to become the leading digital Motor insurer with the largest portion of (Claims) automation possible
- Client asked Munich Re to support in the design of the Claims process and the subsequent system / organizational implementation for go live

Project approach

- Two-phased project approach:
 - Design of claims process: iterative approach to align local / internal requirements to best-in-class, streamlined Claims process
 - Implementation support: consulting on implementing the process in the Claims system & aligning it with the envisaged organizational set-up as well as roles & responsibilities

Result

- Design of a best-in-class Claims process, catering to local requirements as well as the need for high level of automation
- Due to recency of project, further results to come

High-level claims process

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Holistic claims optimization for 1%-point improvement of LR
Case study: Claims paid

Initial situation

- Medium-sized middle-European P&C insurer with the goal to improve the efficiency and effectiveness of its claims organization
- Ambition to reduce claims paid by >€25mn across all LoBs, i.e. achieving a Loss Ratio reduction of approx. 1%-point within the next five years

Project approach

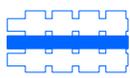
- Overall discovery workshops to identify general pain points and areas for improvement along the claims value chain
- LoB specific workstreams to conduct further (process) analyses to develop and specify a set of measures to reduce leakage and improve efficiencies

Result

- Development of approx. 25 measures across all LoBs and Fraud, incl. bottom-up business cases, concrete contents/steps & implementation plans
- Signed off plan to reduce claims paid by approx. €30 mn and achieving a Loss Ratio reduction of >1%-point by 2025

25 measures identified along the claims value chain

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Initial claims data analysis identifies status quo & pain points

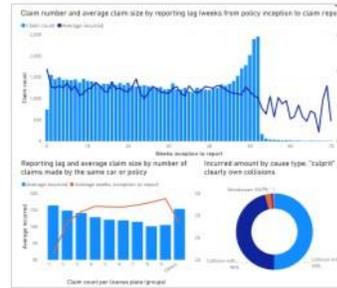
Claims KPI review & assessment

KPI evaluation



Key actions (exemplary)

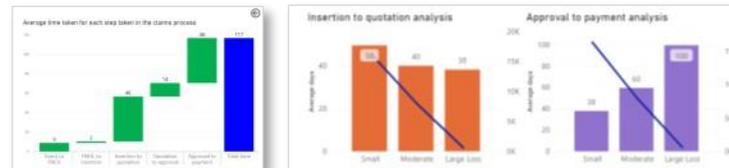
- Assessment of overall claims reports and in-depth analysis of selected, available KPIs in light of:
 - Availability
 - Frequency
 - Granularity
 - Quality
 - Etc.



Competitive assessment

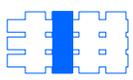


- Outside-in perspective on claims reporting, data availability, granularity etc.
- Assessment and industry comparison of claims data quality and KPIs
- Best-practice sharing of claims data management and usage



Expected outcomes (exemplary)

- Overall view on data quality
- Identification of data inconsistencies
- Analysis on whether (minimum) data requirements are met
- Detection of systematic problems in claims handling
- Industry comparison
- Suggestions for areas of improvement to optimize claims with the use of data and KPIs, e.g.,
 - How to increase operating efficiency
 - How to reduce processing times?
 - ...
- Regular claims monitoring



Fraud optimization regardless of client's level of maturity

Fraud

Processes, incl. governance



Key actions (exemplary)

- Review and assessment of...
 - Existing **fraud strategy** / guidelines / directions
 - Fraud detection **processes**
 - Implemented **rules / checklists**
 - **Governance** mechanisms (monitoring, escalation etc.)

Organization (roles & responsibilities)



- Review and assessment of...
 - Set-up of **fraud organization**
 - **Collaboration** across teams / specialists
 - Current **roles & responsibilities** (job titles, levels of authorities)
 - Fraud **training and development**

IT / tech / data



- Review and assessment of...
 - **Existing tools** for automated fraud detection
 - **Interfaces** to PAS / other external databases
 - **Data availability and usage** for fraud detection

Expected outcomes (exemplary)

- Standardized, streamlined processes
 - Clearly defined fraud guidelines / strategy
 - Advanced fraud rules / checklists
-
- Streamlined organizational structures
 - Clearly defined levels of authorities / responsibilities
 - Structured approach to fraud training, learning and development
-
- Automated fraud detection tools
 - Fraud reporting / monitoring

Holistic claims optimization for 1%-point improvement of LR

Case study: Claims paid

Initial situation



- Medium-sized middle-European P&C insurer with the goal to **improve the efficiency and effectiveness** of its claims organization
- Ambition to **reduce claims costs (indemnity & expense) by >€25mn** across all LoBs, i.e. achieving a **Loss Ratio reduction of approx. 1%-point** within the next five years

Project approach

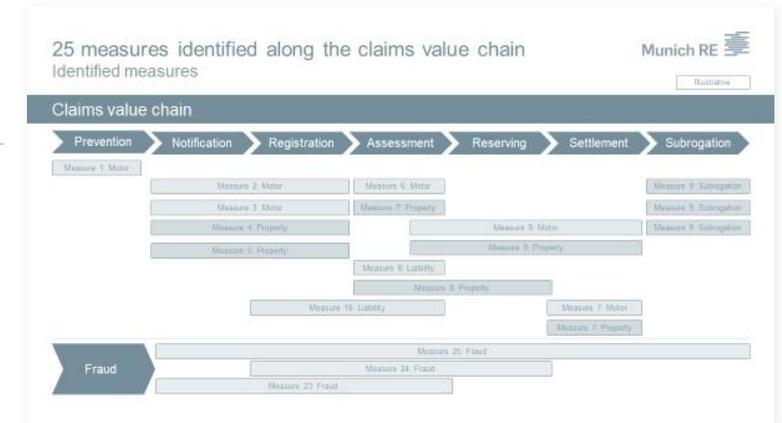


- Overall **discovery workshops to identify general pain points** and areas for improvement along the claims value chain
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- Signed off plan to **reduce costs by approx. €30 mn** and achieving a **Loss Ratio reduction of >1%-point by 2025**



25 measures identified along the claims value chain

Fraud pattern analysis to reduce claims paid

Case study: Fraud detection – North Africa

Initial situation



- Client was facing **high loss ratios** assuming part of it being attributed to fraudulent activities
- Yet, no **standardized approach to fraud detection** in place, neither manual nor automated
- Client's data quality, frequency and granularity issues have led a **pilot for automated fraud detection by a third party to fail**

Project approach

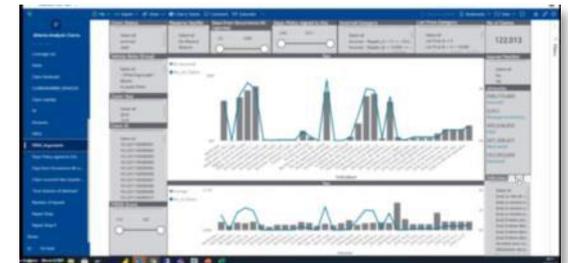
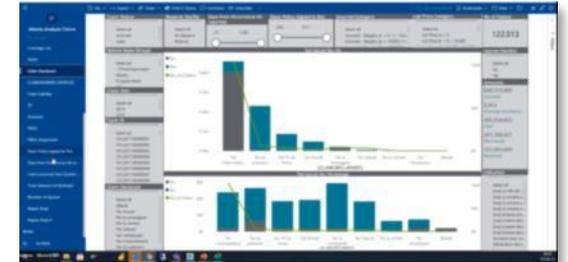


- Three phased project approach:
 - **Discovery** workshop to understand current data issues & availabilities
 - **Analysis** of historical claims data to build dynamic dashboards for claims / fraud analysis
 - **Integration** of dashboard in client's claims handling process

Result



- **Dynamic dashboards** to analyze claims, with a focus to detect fraudulent activities and spot suspicious patterns
- **Integration** of dashboard usage in **daily work routine** of experts on site



Thank you!

26 May 202

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