Uncertain times

Global macroeconomy & inflation

13th July 2023

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Munich RE

Image: John Lund / Getty Images

Agenda

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1	Setting the scene
2	Insurance impact I: Liability side
3	Insurance impact II: Assets & ALM
4	Wrap-up
5	Q&A

Setting the scene
Economic outlook

01

Image: John Lund / Getty Images

Headline inflation has eased; core inflation trends remain concerning

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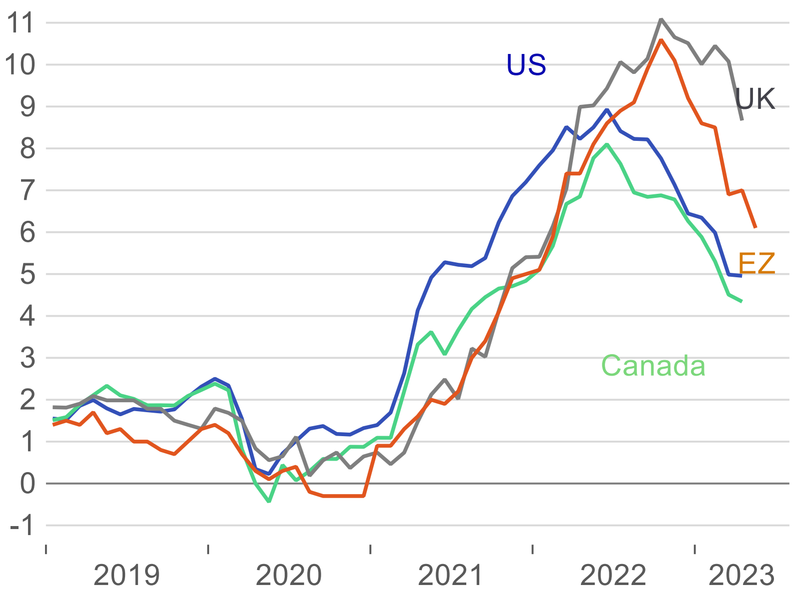
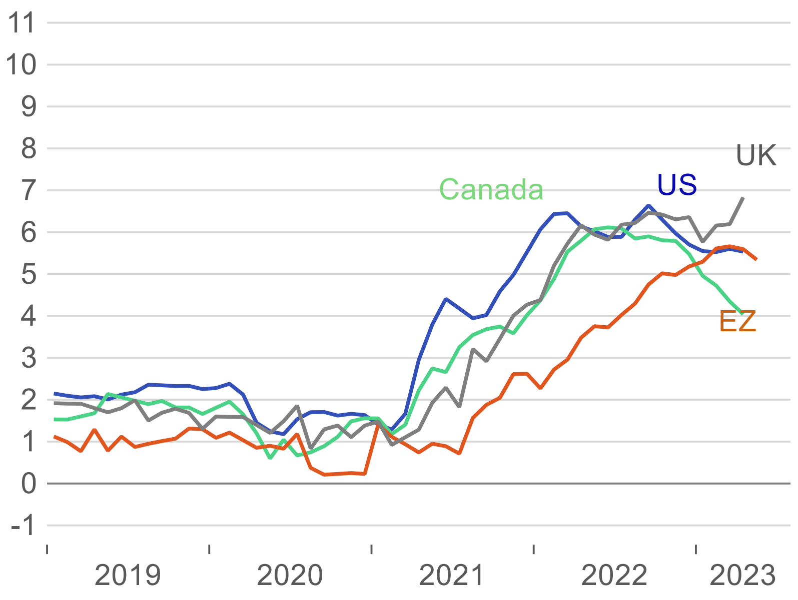
Headline CPI inflation (y/y, in %)



Source: BLS, Eurostat, ONS, StatCan (04/2023)

Core CPI inflation (y/y, in %)



Source: StatCan, Eurostat, BLS, ONS (05/2023)

Strong central bank tightening across (most) central banks will have macroeconomic effects… and could lead to recession

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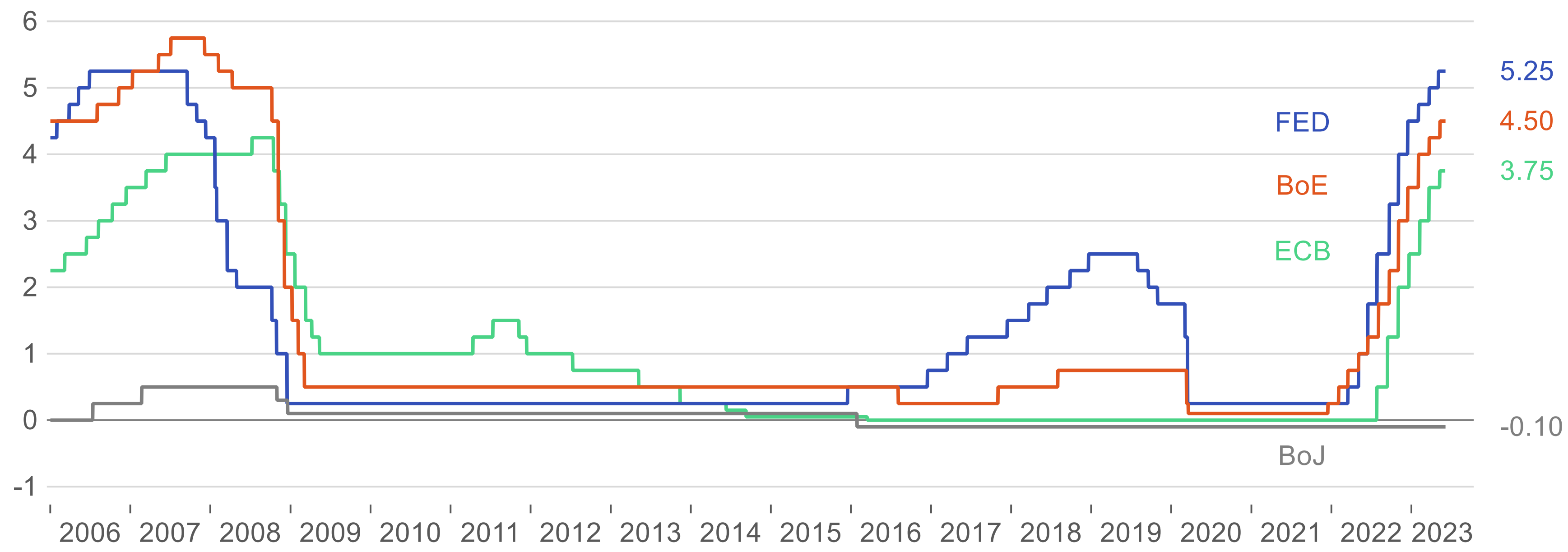
Central banks' key interest rates (in %)



Source: ECB, Fed, BoE, BOJ (02/06/2023)

Yield curve inversion seen as recession indicator

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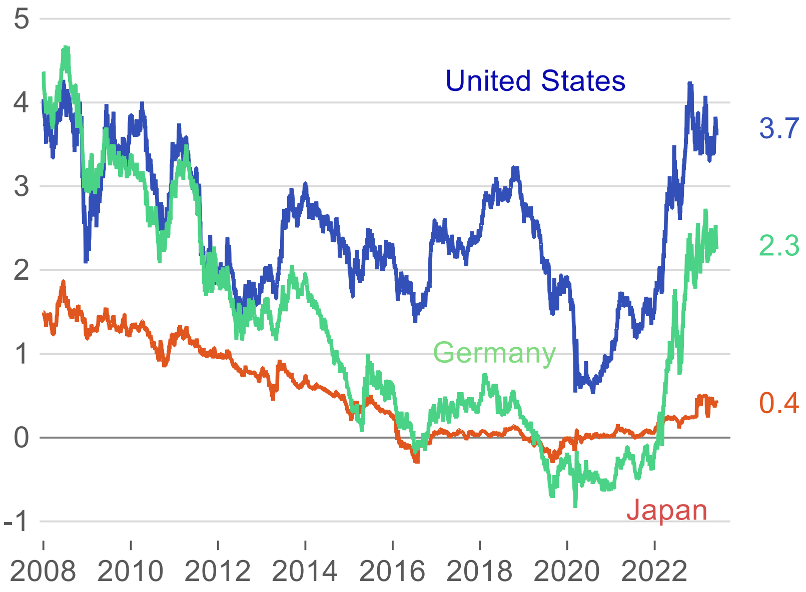
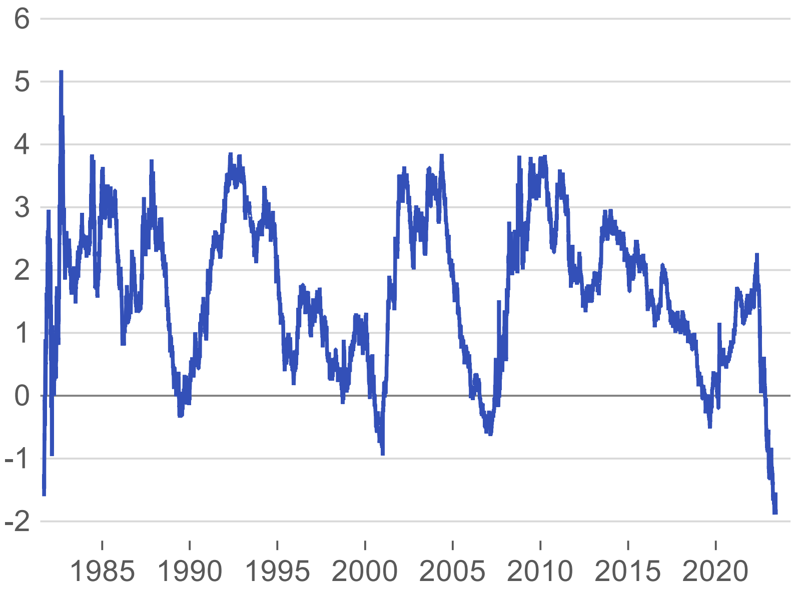
10yr government bond yields (in %)



Source: Macrobond, U.S. Department of Treasury (05/06/2023)

US 10yr Treasury minus 3m Treasury (%-points)



Source: U.S. Department of Treasury (02/06/2023)

Wage growth has fallen behind inflation: Lower real incomes

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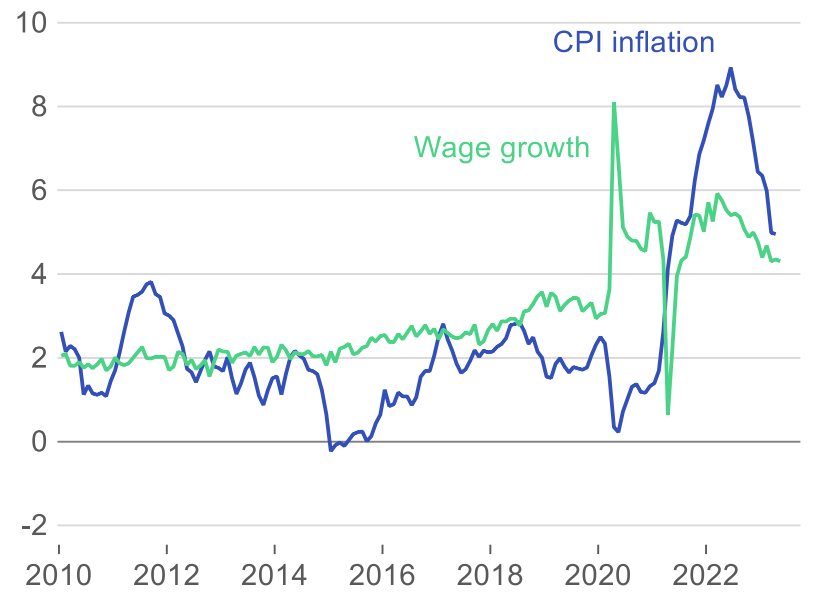
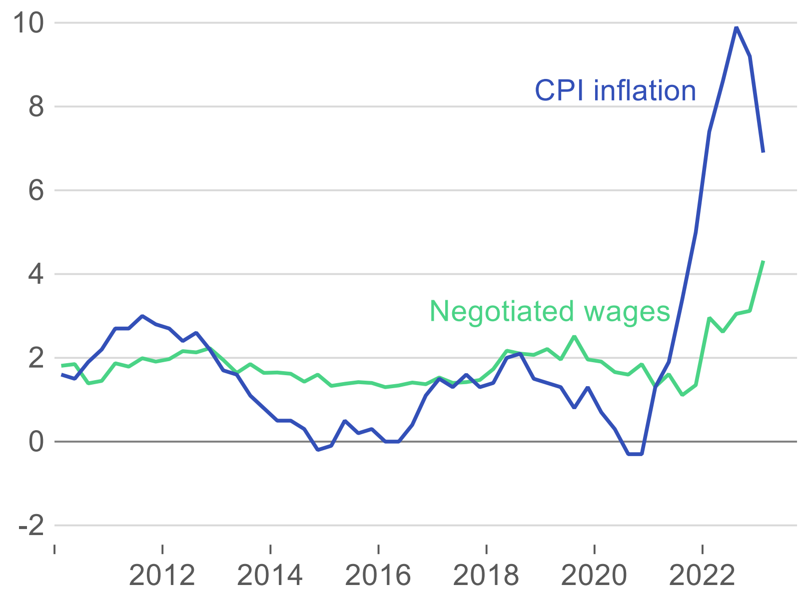
USA: Wage[1] & CPI inflation (y/y, in %)



Source: Federal Reserve Bank of Atlanta, BLS (04/2023)

Euro area: Wage & CPI inflation (y/y, in %)



Source: ECB (2023 Q2)

1 Average hourly earnings of all employees, total private sector

Global growth weak but recovering; inflation elevated but easing

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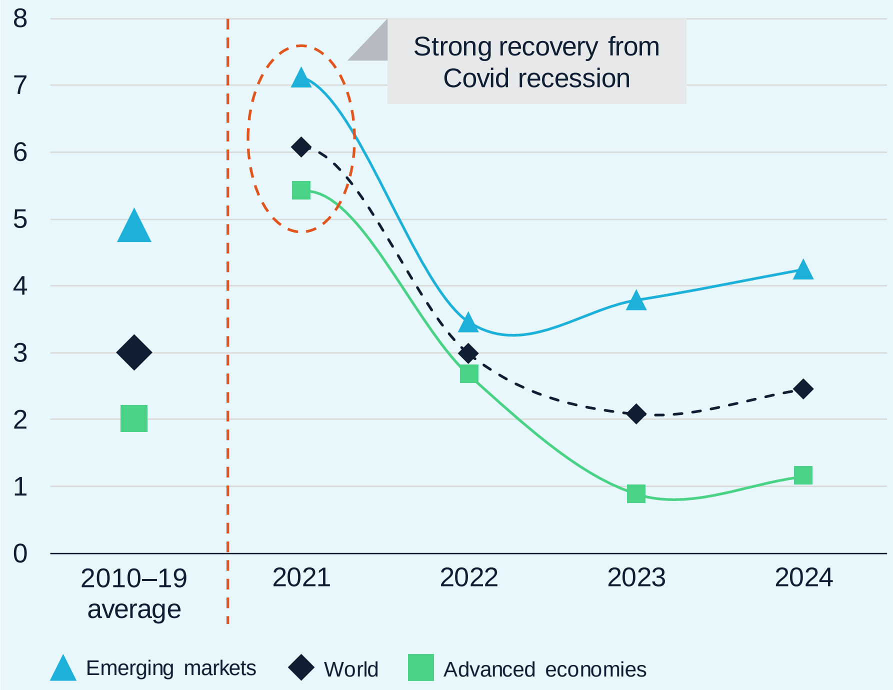
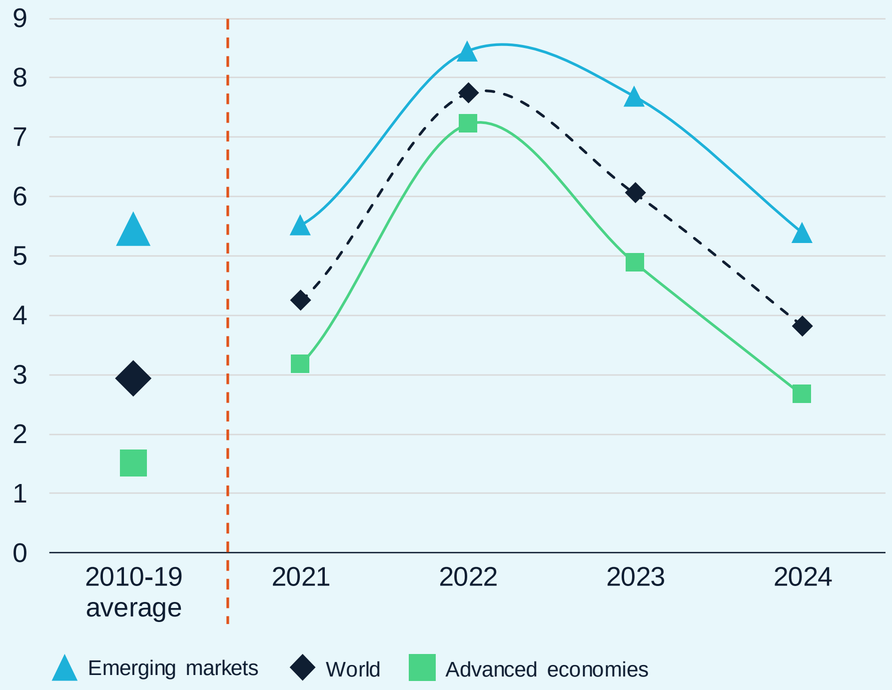
Annual real GDP growth (in %)



Annual CPI inflation (in %)



Note: Aggregates calculated with market exchange rates (CPI World and CPI Emerging markets excludes Venezuela)
Source: Munich Re Economic Research (10 May 2023)

Geopolitics could remain a dominant topic for years

Ukraine war and broader conflict Russia vs. “the West”

US-China conflict
(Taiwan, tech war,…)

EU’s strategy towards China
(and the US?)

Middle East ongoing risk factor
(Iran-Israel, …)

Source: Ezio Gutzemberg / stock.adobe.com

Insurance impact I
Liability side

02

Image: John Lund / Getty Images

Inflation surge well manageable, largely unchanged prudency

Inflation fully and consistently reflected in underwriting and reserving approach

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Multidisciplinary approach for assessing inflation impact – alignment between pricing of new business and reserving of the back book.

New business in 2022

Conservatively assessed based on most recent inflation assumptions in Q4.

Prior-year reserving

Customary strong reserve position results in overall positive outcome of reserve review.

January 2023 renewals

Current inflation environment fully captured in pricing.

New business

Cautious loss picks in 2022 reflected in ~ 2%-pts. higher normalised combined ratio.

Prior years

Favourable run-off allows for 4%-pts. reserve release and partially covers inflation; reallocation of special "inflation scenario reserve".

Reserve review indicated €1.3bn additional inflation impact – of which ~ 50%/50% for UY 2022 and prior years.

Prior-year inflation impact compensated for by overall favourable run-off and reallocation of a special "inflation scenario reserve" built in the past to individual actuarial segments.

Inflation on the product/liability side

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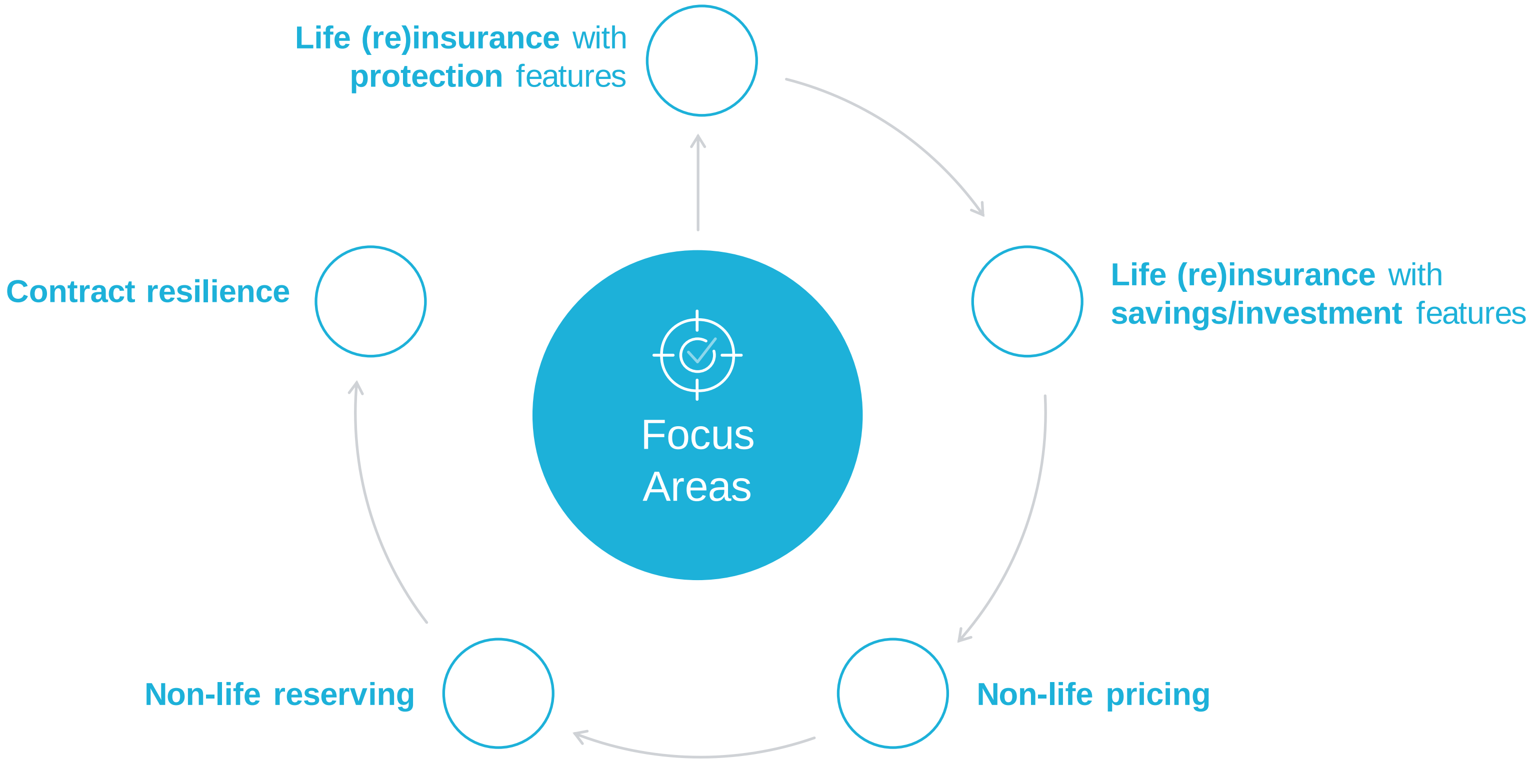

Insurance impact II

Assets & ALM

03

Image: John Lund / Getty Images

Higher interest rates improving quality of investment result with higher contribution of sustainable income

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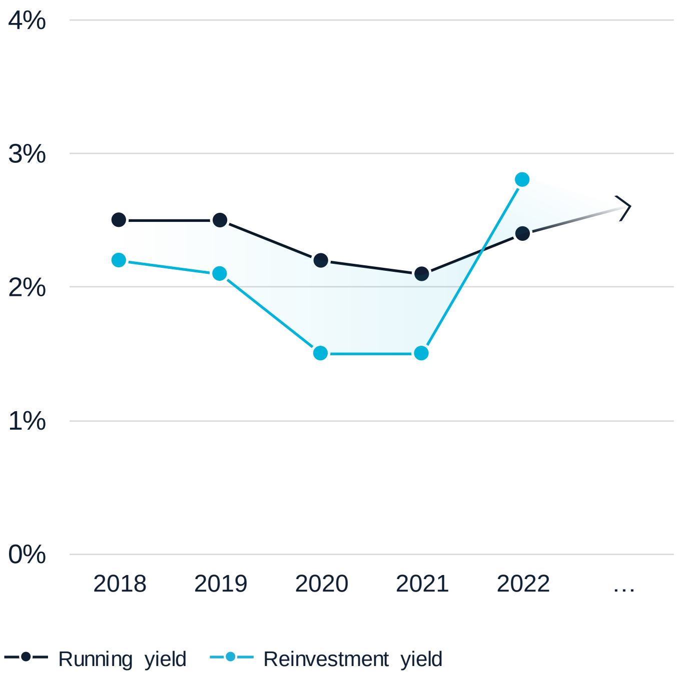
Fixed-income portfolio

Reinvestment yield exceeds running yield



Impact of rising interest rates

Induce manageable short-term headwind for the investment return.

Munich Re's investment managers have leeway for portfolio reallocations, leading to temporarily unavoidable and deliberately accepted disposal losses, …

… while accelerating the trajectory of an increasing running yield by reinvestments at higher yields.

Economically beneficial as the Solvency II ratio improved substantially

Investment and ALM topics

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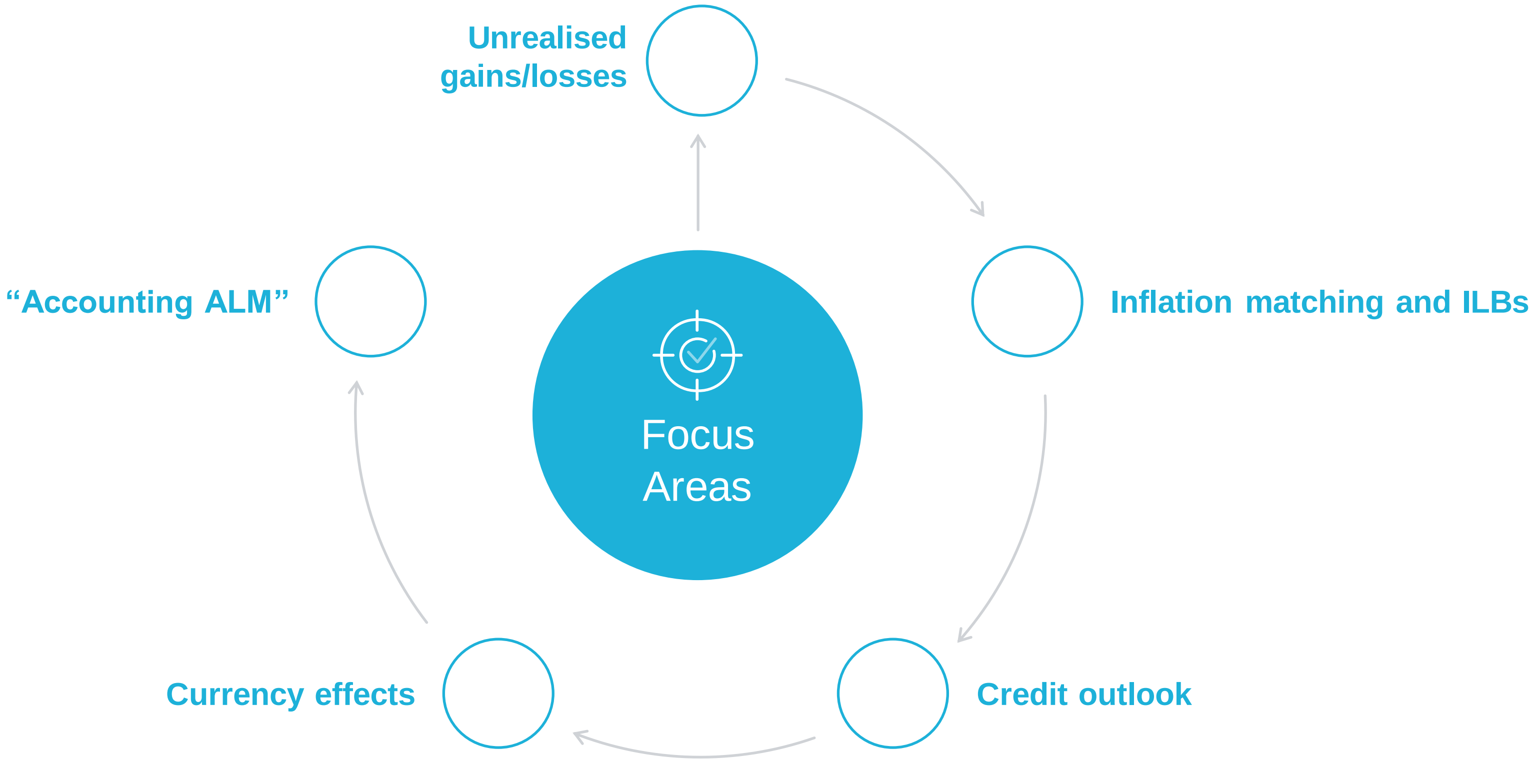

Example: Interest rate sensitivity

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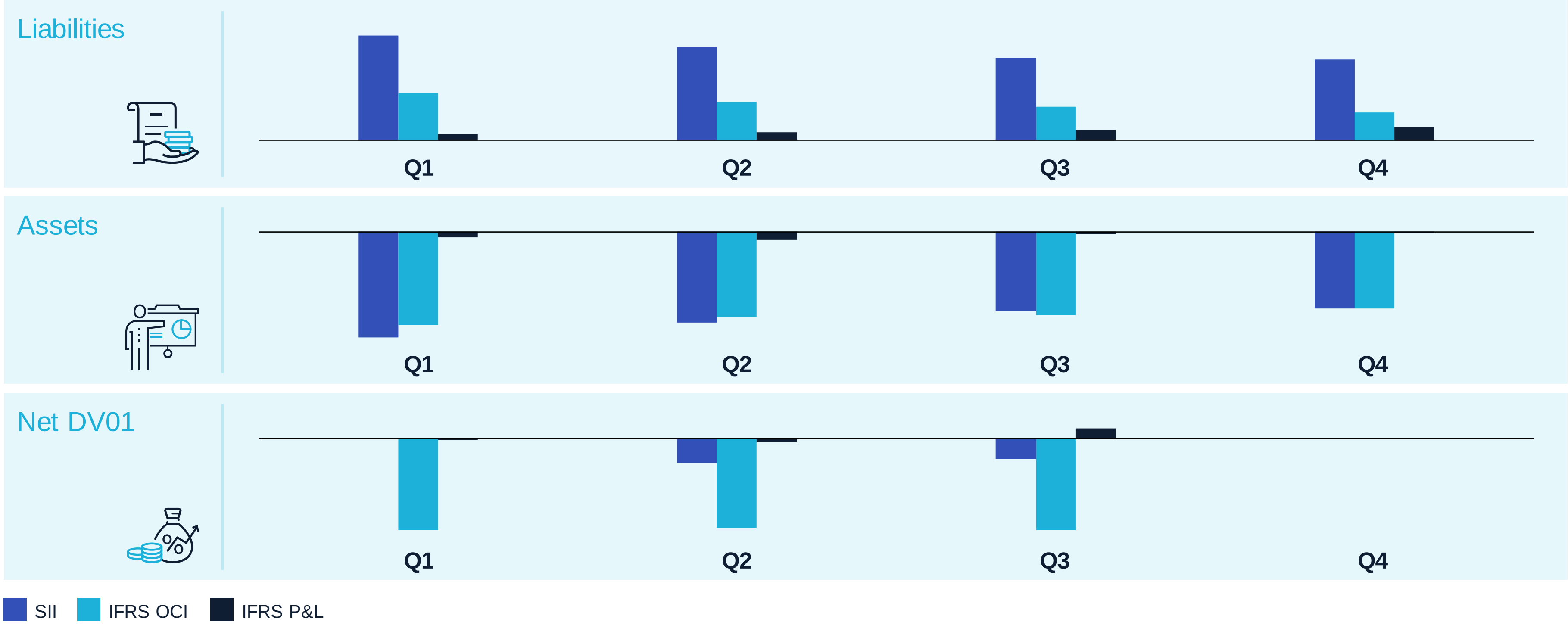
DV01 in €m per quarter in 2022



Wrap-up

04

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Thank you for your attention!

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