Munich RE

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Press release

Greater uncertainty a challenge to the insurance market – Munich Re well positioned

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The sovereign debt crisis in Europe and the USA, a sustained phase of low interest rates and heavy natural catastrophe burdens pose significant challenges for insurers and reinsurers. In analysing the increasing interconnection of risk, Munich Re has identified initial areas of regional and industrial accumulation.

The sector as a whole is particularly affected by the low-interest-rate environment: “Our prudent investment strategy is now proving its worth; investment diversification is more important than ever”, commented Ludger Arnoldussen, member of Munich Re’s Board of Management. At the same time, due account of the reduced investment income should also be taken in pricing calculations – above all where long-tail risks are concerned. Arnoldussen noted: “In the current environment, this will be a major issue in the forthcoming renewal negotiations as well”. Moreover, the present crisis showed that safeguarding financial market stability is a key task of politicians. “Financial market regulation has to improve. With Solvency II, Europe’s insurance industry is on the right track in this respect”, Arnoldussen stressed.

However, it is not just the financial crisis which posed a huge challenge for insurers and reinsurers but also increasing interconnection of risk. Due to more networked, global supply chains, semiconductor production and the automotive supply industry in particular have a critical exposure to contingent business interruption (CBI) losses. Industrial plants in the northern and midwestern USA especially are exposed to earthquakes, while production facilities in Japan and Taiwan are additionally exposed to typhoons. “We will clearly point this out in our discussions with primary insurers and insist on greater transparency regarding these risks”, Arnoldussen noted. “We can only come up with joint solutions given such transparency.”

Renewals at 1 January 2012
With its severe natural hazard events, 2011 is proving to be the insurance industry’s costliest year ever. The heavy claims burden has already had an effect on the year’s renewals to date. Nevertheless, price developments have not been uniform across the market. “As far as Munich Re is concerned, I can state that we have further improved the quality of the portfolio and increased our premium income”, Arnoldussen commented. “In markets with claims burdens,

we have been able to achieve significant natural catastrophe price increases in 2011." In Australia and New Zealand, for instance, the increase averaged 40–50%. Munich Re also realised 10% average rate increases on natural catastrophe business in the USA and Latin America. Prices in the rest of the portfolio remained stable.

Munich Re expects the trend observed thus far to continue in respect of the property-casualty reinsurance renewals coming up at the end of the year. "We are seeing a general stabilisation in prices, coupled with hardening markets in a number of segments", Arnoldussen emphasised. "Particularly in times of greater uncertainty, staying strictly focused on adequate profitability is more essential than ever." Arnoldussen noted that Munich Re would also approach the renewal discussions with this aim in mind.

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