Munich RE

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**Press release**

# Munich Re: Uncertain macroeconomic environment poses severe test for risk management

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**The crisis in the eurozone, uncertainties in the capital markets and sustained low interest rates are impacting the insurance industry. Munich Re warns of increasing challenges in the year ahead even though the capital base of insurers and reinsurers remains strong.**

The uncertain economic environment poses major challenges for insurers and reinsurers. Very different scenarios, some with grave consequences for insurance business, currently have to be considered in risk management. The upheavals in the financial markets are taking their toll on insurance and reinsurance undertakings, above all on the investment side. Historically low interest rates are burdening the business model, particularly in the case of savings and pension products and long-tail liability covers. Against this background, the renewal of reinsurance treaties at 1 January 2013 takes on special significance.

Torsten Jeworrek, Munich Re's Reinsurance CEO: "More than ever, our industry faces the challenge of achieving stable earnings in its core business and further reducing its dependency on the investment result. The key question will be how quickly and to what extent insurers and reinsurers will succeed in factoring the low interest-rate level into their price calculations."

For some time, the economic environment in which the insurance industry finds itself has been characterised by historically low interest rates, a negative real interest rate in some countries, and high volatility in the capital markets. Added to that are a series of risk scenarios for which insurers and reinsurers have to brace themselves. These include the withdrawal of individual Member States from the eurozone, the insolvency of states, a giant leap in inflation, or deflation. "Munich Re regards the stabilisation of the eurozone as one of today's most burning political tasks. As a prudent risk manager, we have to prepare ourselves at the same time for very different scenarios", emphasised Jeworrek. By closely matching assets to liabilities, adapting insurance product strategy, and taking concrete operative measures, it is feasible to dampen the consequences of further possible upheavals in the economic environment. Munich Re supports its clients with service and consultancy, above all with products that allow flexible capital optimisation.

**Outlook for the renewals**

As the reinsurance markets still have sufficient capacity at this time, Munich Re expects that prices, terms and conditions will largely remain stable during the renewal of reinsurance treaties at 1 January 2013.

This also applies to natural catastrophe business, provided there are no major loss occurrences in the last quarter of 2012. For windstorm covers in Europe, further rate adjustments to the natural hazard models published in 2011 could result from higher claims expectations.

In the casualty classes, Munich Re is proceeding on the assumption that prices will stabilise, with a trend towards slight increases. Especially in these classes of business with very long-tail covers, the low interest rates are already squeezing future profitability. If at the same time the rate of inflation is above the interest-rate level – i.e. with negative real interest rates – this pressure will intensify, since claims payments that rise due to inflation can only be partly compensated for by investment gains. This must be factored into our pricing, particularly for long-term business.

The general improvement in primary insurance prices in the USA, as well as in motor liability business in certain European countries, should have a positive impact on reinsurance rates. In the 2012 renewals, Munich Re has so far been able to improve the profitability of its own business by 2.4%.

Jeworrek: "Our business is founded on Munich Re's financial stability, i.e. its reliability in terms of settling claims today and in the future. On this basis, we offer our clients – also in troubled economic times – risk transfer solutions that provide relief and spur their business. For this, however, we need risk-commensurate premiums that reflect the economic environment."

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