
# Investors' Day
# Reinsurance operations in Asia-Pacific

London, 30 June 2015

Munich RE

# Agenda

Munich RE

# Today's speakers

Munich RE

**Joachim Wenning**
Member of the Board of Management
Life Reinsurance

**Steven Chang**
CEO
Munich Re Beijing Branch

**Claudia Buholzer**
Head of Department
Chief Executive Asia Pacific and
Client Executive

**Hitesh Kotak**
Client Executive and Chief Representative
India and Indian Subcontinent

**Roland Eckl**
Chief Executive
Asia Pacific, Australasia/Japan/India/
Indian Subcontinent

**Daniel Cossette**
Head of Asia Pacific
Life Reinsurance

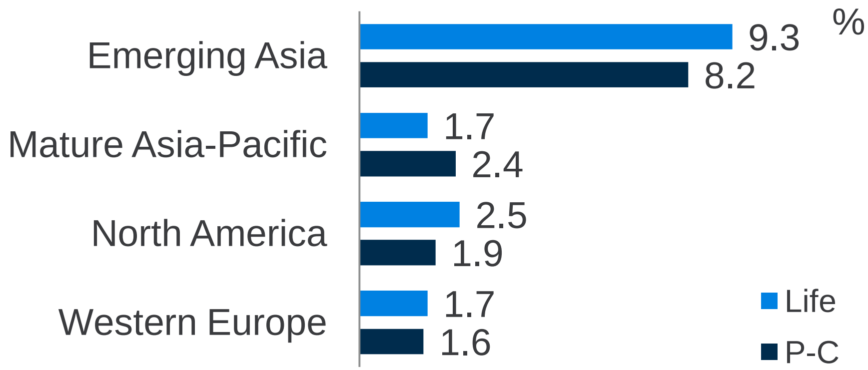
**Ludger Arnoldussen**
Member of the Board of Management
Germany, Asia Pacific and Africa (GAPA)

**Andrew Linfoot**
Head of Australasia
Life Reinsurance

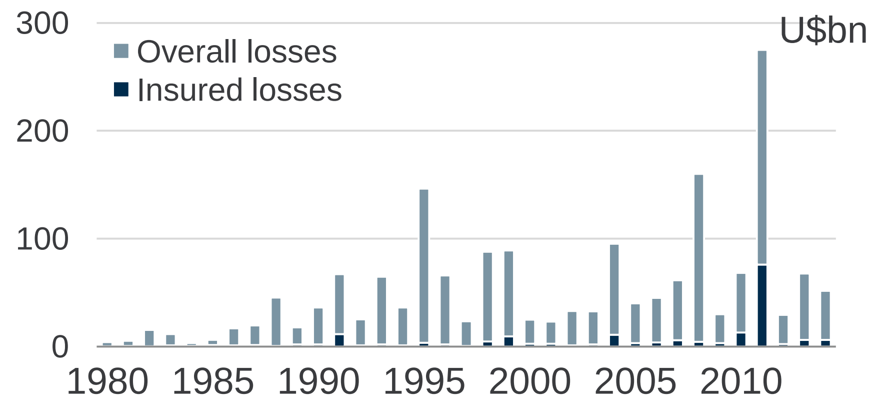
# Why hold an Investors' Day on reinsurance operations in Asia-Pacific?

Munich RE

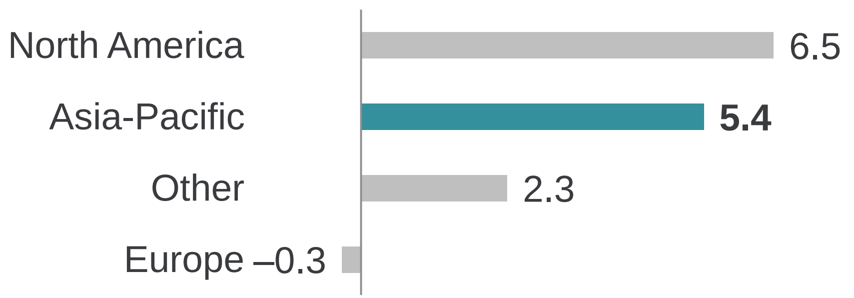
## Attractive markets – Expected real premium growth[1]




## Opportunities in p-c – e.g. insurance gap in nat cat[2]




## Important region for Munich Re – GWP growth[3] %




## Opportunities in life – Economics and demographics

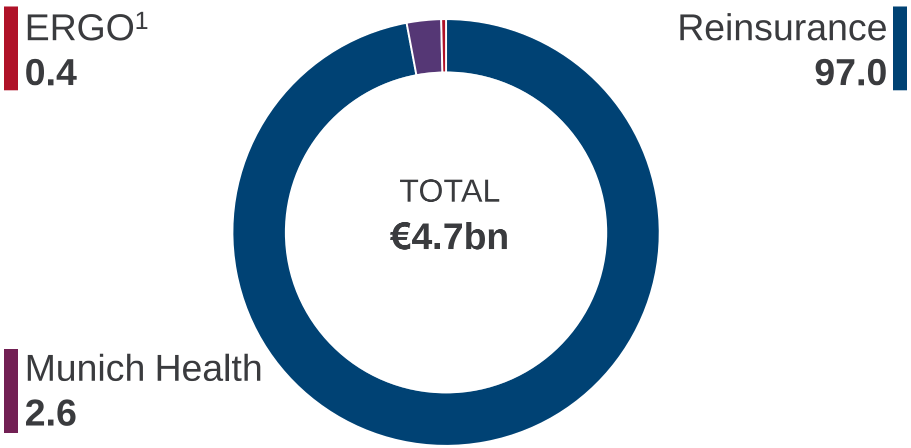
- Growing but ageing population
- Rise of middle class
- Rising wealth
- High, albeit declining, savings rates

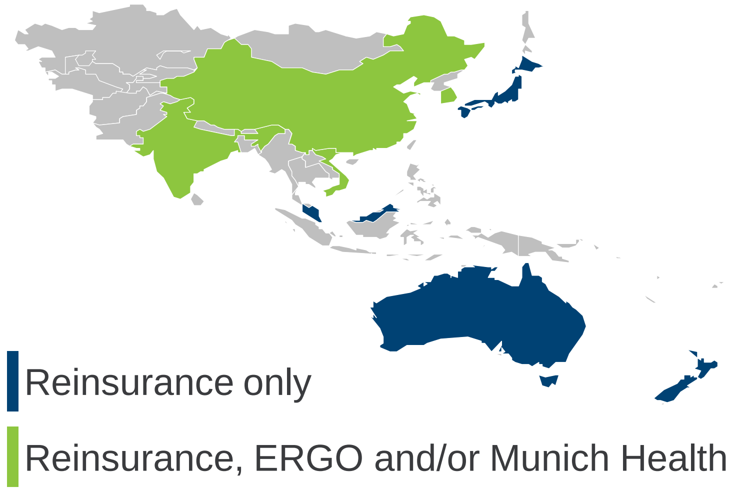
**Numerous opportunities for profitable growth**

[1] Real CAGR 2014–2020 of expected primary insurance premiums. Source: Munich Re Economic Research.
[2] Source: Munich Re, Geo Risks Research, NatCatSERVICE.
[3] Nominal CAGR 2010-2014 of reinsurance gross written premiums in Euro.

# Munich Re Group – A strong presence in Asia-Pacific

## Group presence in Asia-Pacific – Gross written premium as at 31.12.2014 %




## Group synergies

- **Capital/ diversification benefits**
- **Joint organisation**
- **Knowledge exchange**
- **Reinsurance/ fronting**

**Leveraging Group synergies**

[1] Total premiums ~€0.5bn. Minority shareholdings not included in GWP figures as being part of the investment result.
More details on ERGO's operations in Asia-Pacific were provided within the Investor Briefing on ERGO International, 10 July 2013.

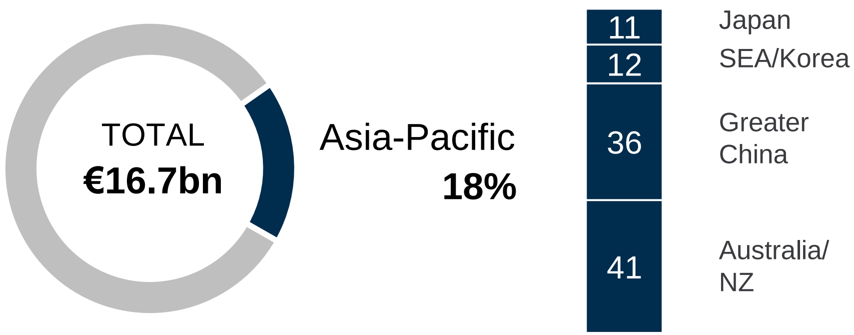
# P-C reinsurance business in Asia-Pacific (APAC) – Written by different business units

## P-C reinsurance – GWP Asia-Pacific[1] €bn

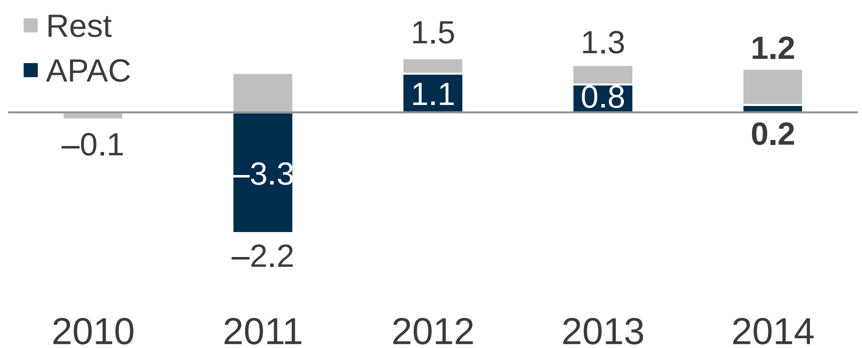
Germany, Asia/Pacific, Africa (GAPA)

- Greater China, Korea, SEA[2]
- Australia, New Zealand, Japan, India
- Germany
- Middle East, Africa


## P-C reinsurance – GWP[1] %




## P-C reinsurance – Underwriting result[3] €bn



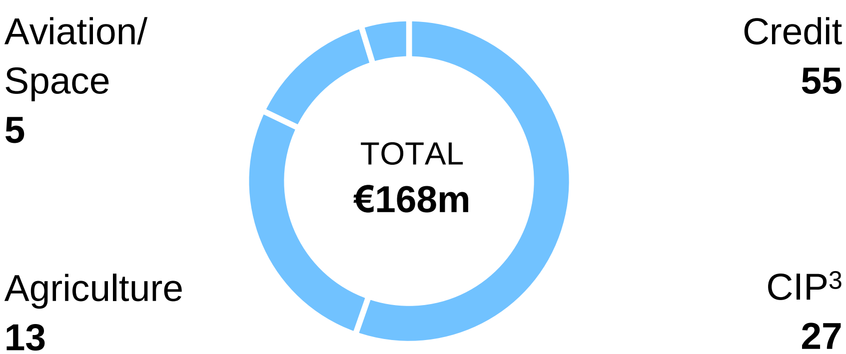

**Asia-Pacific taking a substantial share in top- and bottom-line**

[1] Gross written premium. As at 31.12.2014. [2] Southeast Asia.
[3] Technical result excluding income from technical interest.
[4] SFR = Special and Financial Risks.

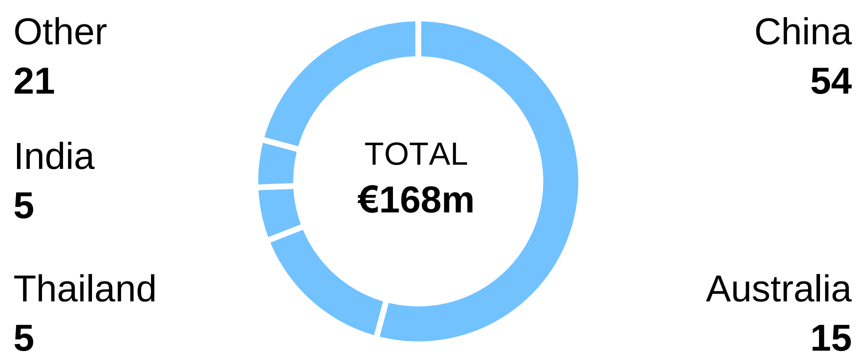
# SFR business[1] in Asia-Pacific – Mainly credit and industrial business in China and Australia

Munich RE

SFR in Asia-Pacific – GWP by line of business[2] %




SFR in Asia-Pacific – GWP by region[2] %




- **Credit**: China is target market – Recent market opening for export-credit – Providing opportunities; develop further business opportunities in Southeast Asia
- **CIP:** Traditional and innovative solutions across all business lines, with footprint in various countries
- **Agriculture:** China and India are strategic markets – Rural Affinity is the leading franchise in Australia
- **Aviation/Space:** Leading satellite launch and in-orbit (re-)insurer supporting satellite operators and launch vehicle manufacturers
- **Marine[4]:** Strong footprint in Asia-Pacific – Watkins Syndicate expanding with Lloyds in the region

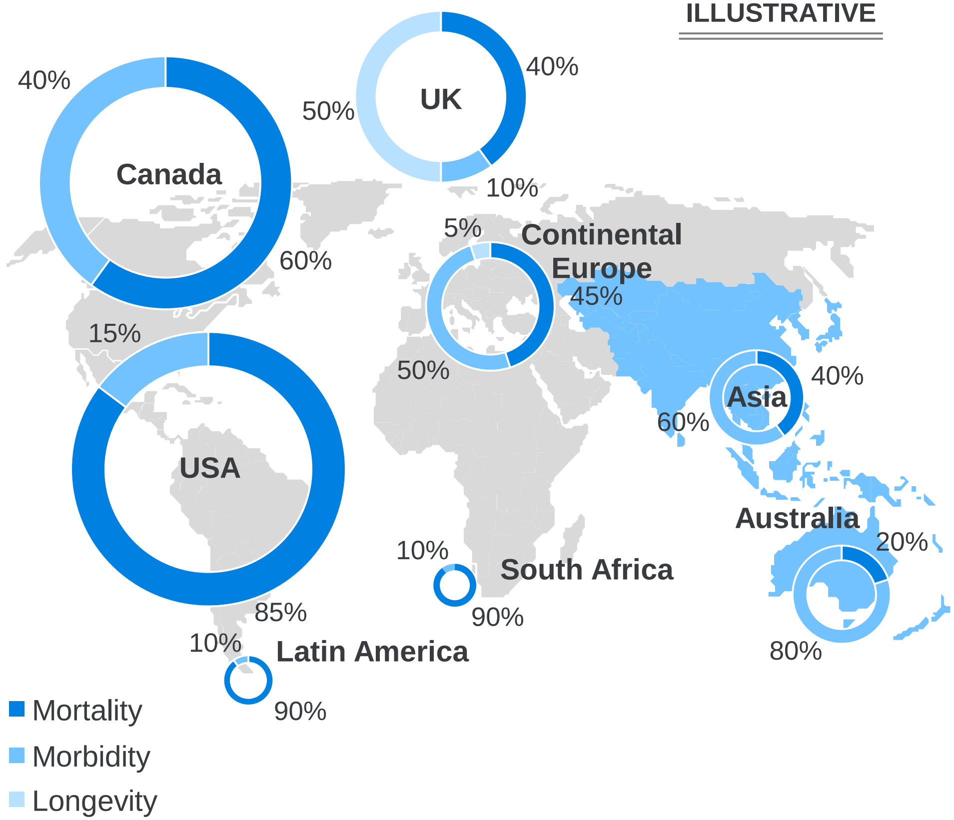
**Continuous expansion in the Asia-Pacific region by increasing local presence**

[1] More details were provided within the Investor Briefing on SFR operations, 11 October 2012.
[2] As at 31.12.2014.
[3] Corporate Insurance Partner. [4] Since 2015 part of SFR.

# Life reinsurance business in Asia-Pacific – Higher share of critical illness and disability products

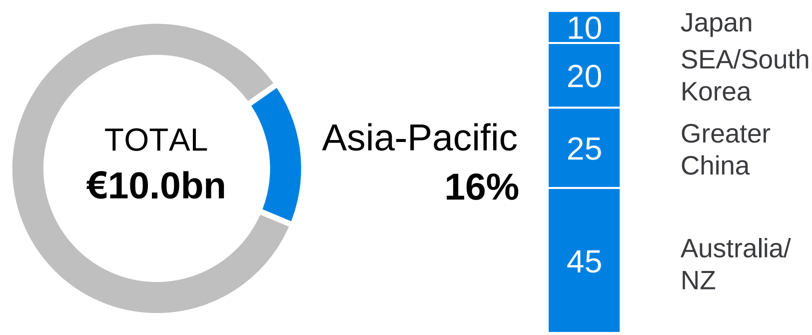
Munich RE

ILLUSTRATIVE



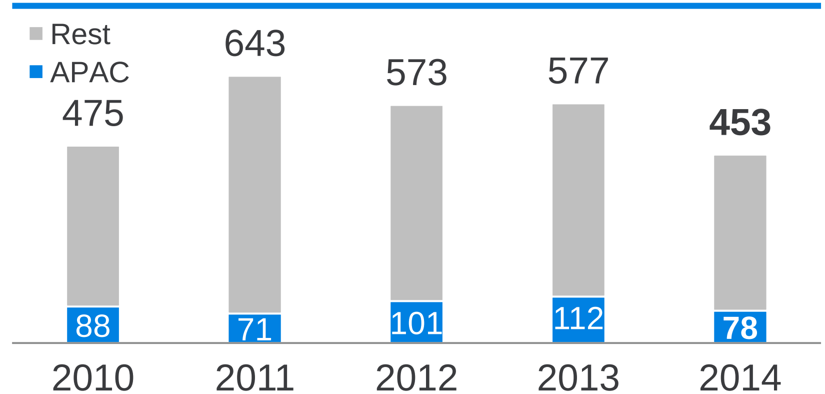

## Life reinsurance – GWP[1]

%




## Life reinsurance – VNB[2]

€m




**Sustained growth path in Asia, challenging environment in Australia**

[1] Gross written premium as at 31.12.2014.
[2] Value of new business.
Size of bubbles indicative of present value of future claims.

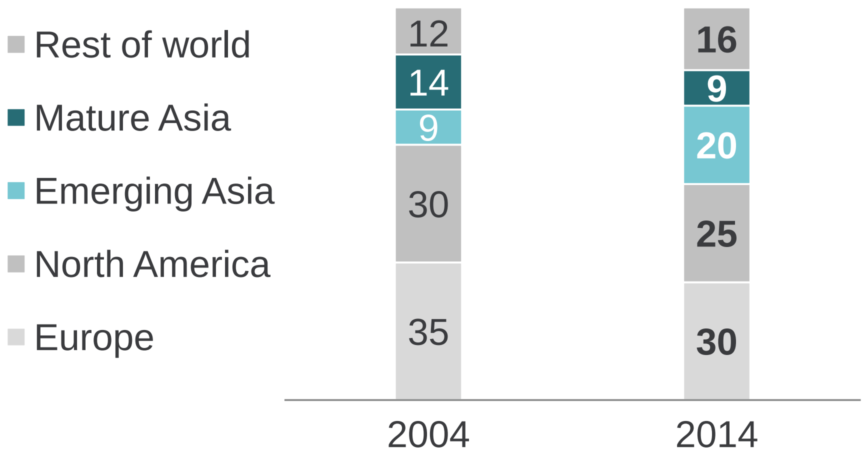
# Agenda

| | |
|---|---|
| Introduction | Becker-Hussong |
| **General introduction to Asia** | **Wenning** |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life reinsurancein Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldusssen |
| Life reinsurancein Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

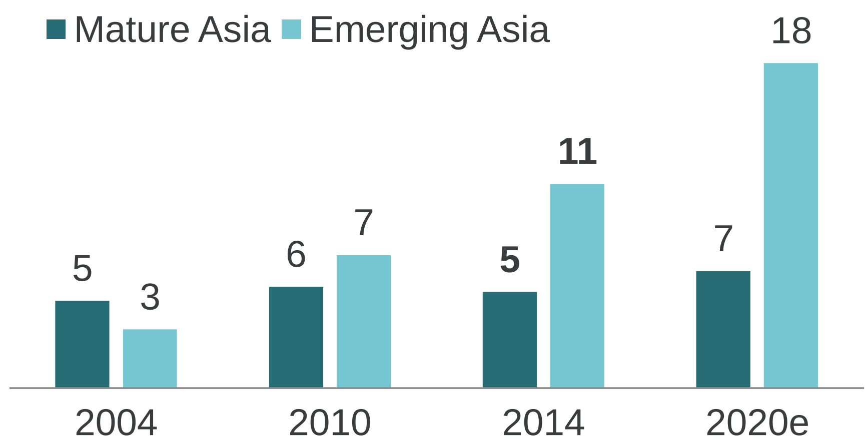
# Emerging Asia's economies are expected to remain global growth drivers

Munich RE

## Regional split of global GDP %




## Nominal GDP €tn



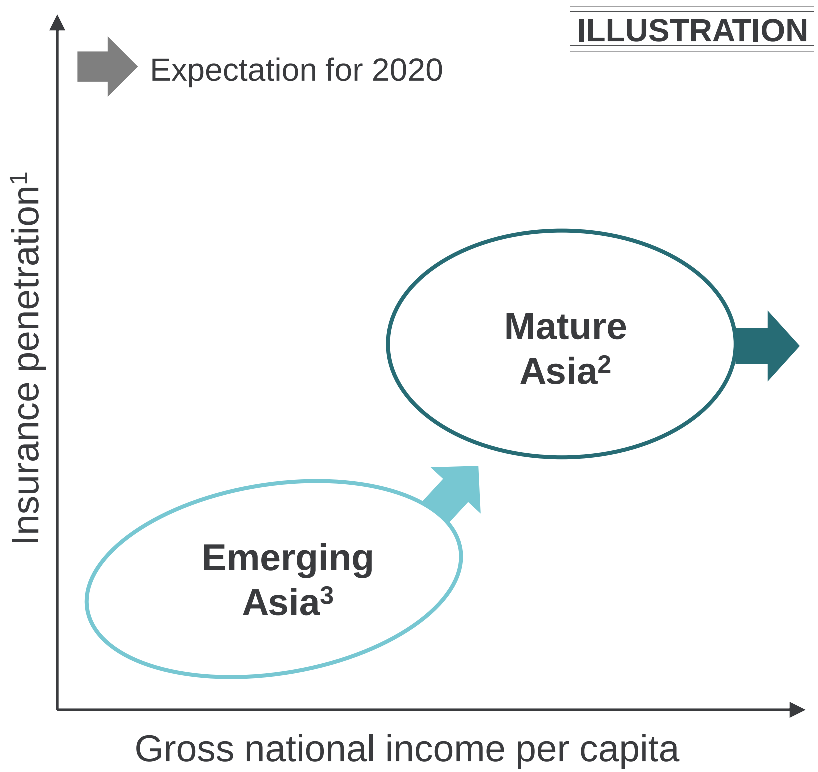

- Two different speeds – Rapid economic growth in Emerging Asia, lower growth in Mature Asia
- Emerging Asia: Heterogeneous mix of countries with different growth characteristics
- Mature Asia: Low growth in Japan, moderate growth in other economies

- Emerging Asia expected to sustain highest growth rates worldwide, albeit at more moderate levels than in the past
- Various risks could somewhat dampen this overall positive view, e.g. capital outflows from some emerging markets after a potential US interest-rate hike

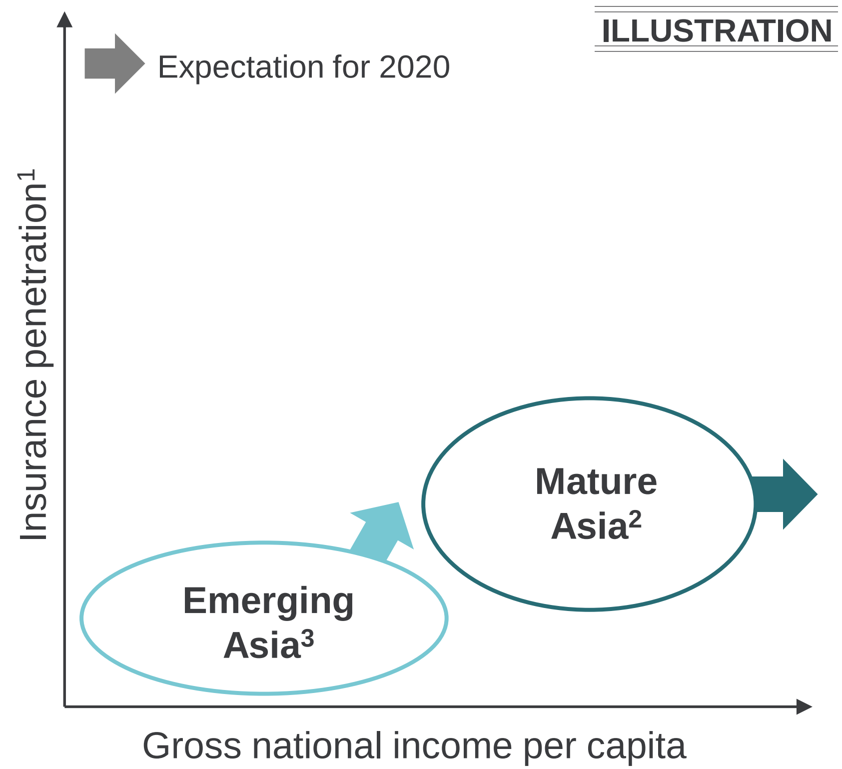
**Growing economic weight also reflected in global insurance markets**

# Emerging Asia expected to catch up with insurance penetration

## Life insurance %




## Property-casualty insurance %



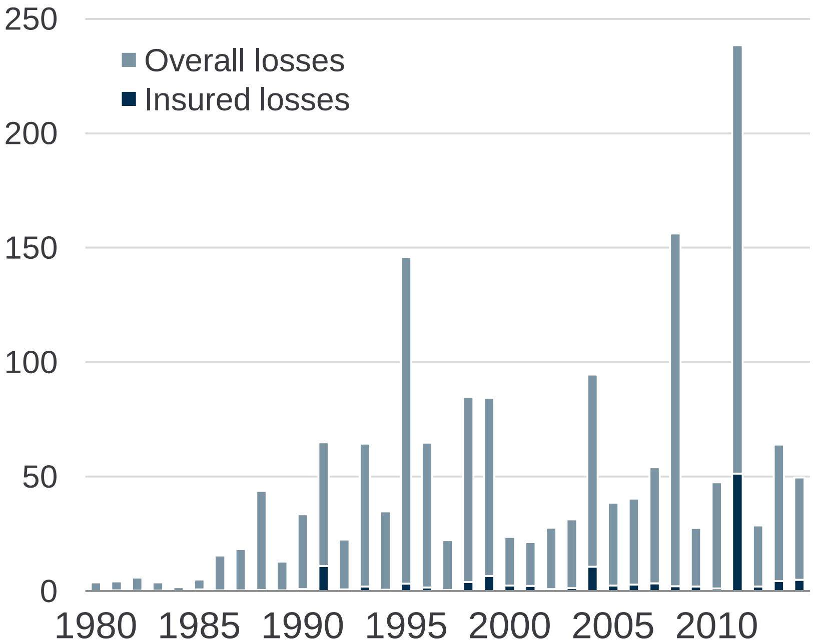

**With growing wealth, better education and higher risk awareness, penetration rate will increase further**

[1] Insurance premiums as % of GDP [2] Among others South Korea, Taiwan, Japan and Hong Kong.
[3] Among others China, India, Indonesia and Philippines.

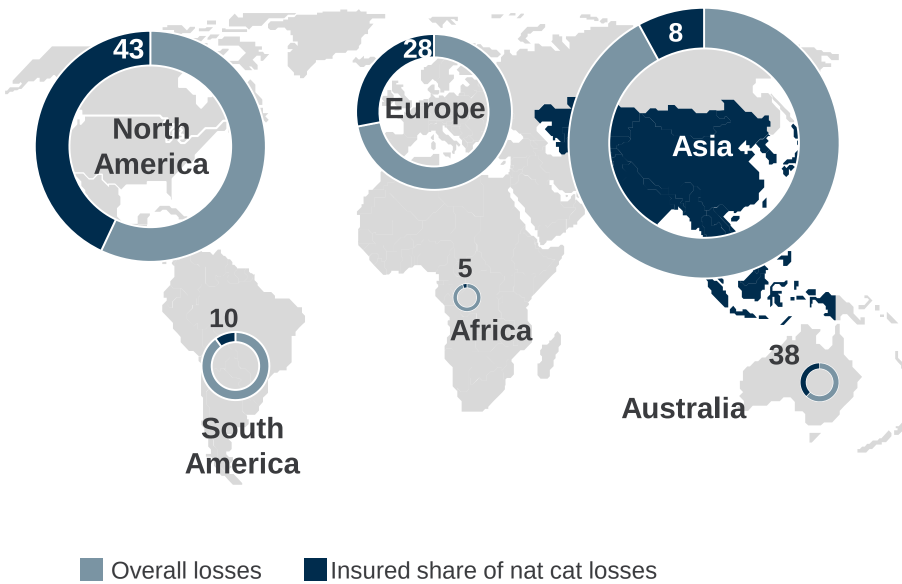
# P-C: Protection gap in Asia – Underinsured market highly exposed to natural catastrophes

Munich RE

## Asia – Overall and insured nat cat losses US$bn




## Overall and insured nat cat losses per continent[1] %




- Munich Re providing sustainable reliable capacity – in particular after historic loss events as in 2011 ...
- ... facilitated by strong capital position and expertise of modeling various nat cat scenarios

**Demand for nat cat insurance covers expected to increase – Munich Re able to absorb high random losses by global diversification within regions and perils**

[1] 1980–2014. Size of bubbles indicative for share of overall losses in this time period – Asian share ~40%.
Source: Munich Re, Geo Risks Research, NatCatSERVICE.

# Life: Catch-up potential in Emerging Asia

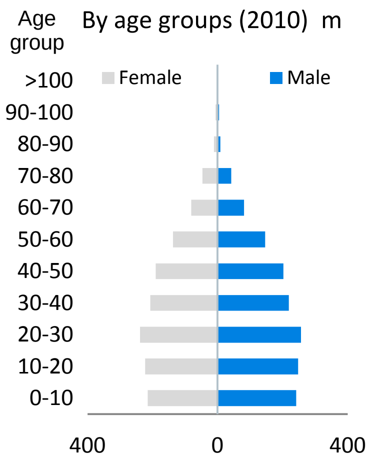
Munich RE

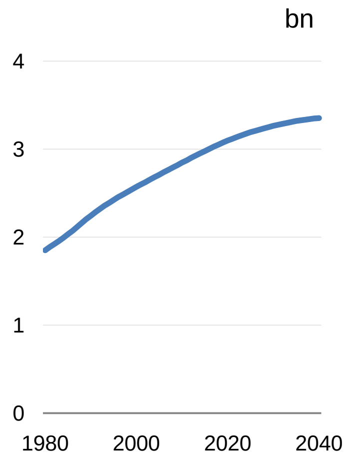
## Emerging Asia[1]

## Mature Asia[2]

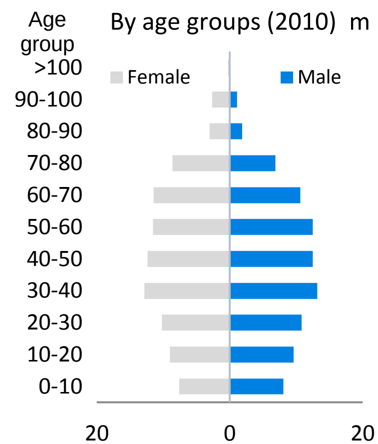
**Population**

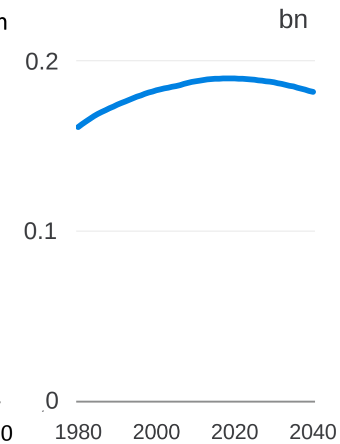
Young … … and growing




Ageing … … and shrinking




**Demographics and economics**

Emerging Asia:
- High GDP growth
- Rising wealth
- Rise of middle class

Mature Asia:
- Low GDP growth
- High wealth
- High savings rates

**Growth in Emerging Asia driven by increasingly affluent middle-class and demographic changes**

[1] Based on China, India and Indonesia.
[2] Based on Japan and South Korea. Source: UN, Oxford Economics.

# Munich Re – Strong footprint in Asia

Munich RE

## Having conducted business in Asia since 1912, Munich Re has established various offices over the years


| | |
|---|---|
| **1962** | Hong Kong |
| **1967** | Tokyo |
| **1975** | Singapore |
| **1981** | Kuala Lumpur<br>Taipei |
| **1989** | Seoul |
| **1997** | Beijing and Shanghai |
| **2014** | Mumbai |

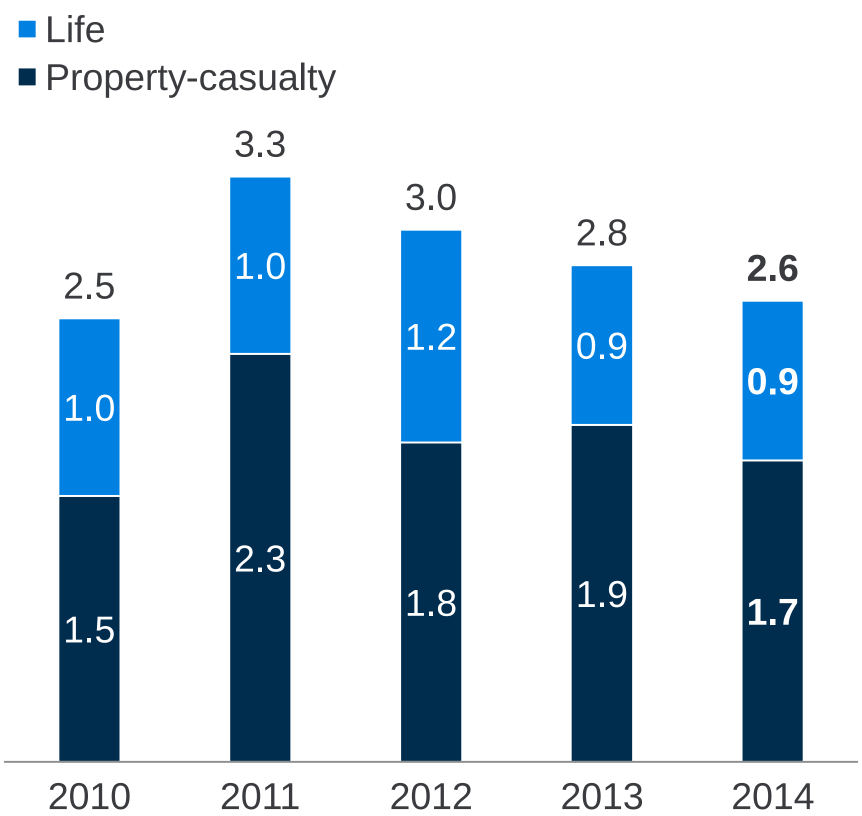
- Asian markets served through nine offices, with currently more than 400 staff
- Strong local presence – unique insight into Asian markets, enabling Munich Re to offer tailored solutions for various needs

**Munich Re has been close to markets and clients for decades**

# Munich Re portfolio in Asia – Premium development

Munich RE

## Asian operations – Gross written premium €bn




## Life

- Sustained growth across all major markets
- Significant broadening of traditional business – continued strong contribution of FinMoRe with volatile top line
- Premium reduction from planned solvency-relief treaty terminations
- Growth supported by state-of-the-art underwriting automation solutions (MRAS[1])

## Property-casualty

- China main growth driver, in particular due to volatile motor solvency-relief deals
- Significant business expansion in Emerging Asia
- Cycle-management-driven premium decline in Japan
- In total, rather stable premium development following strict underwriting discipline

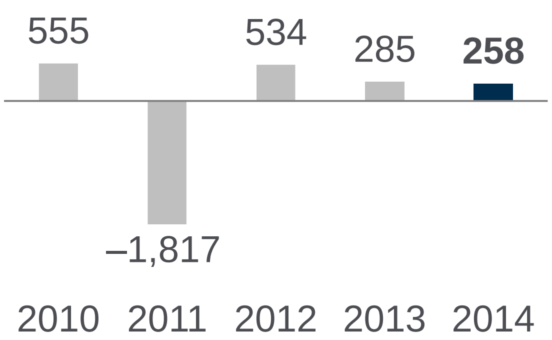
**Munich Re participating in growth opportunities provided by Asian markets while focusing strictly on bottom line**

[1] Munich Re Automation Solutions.

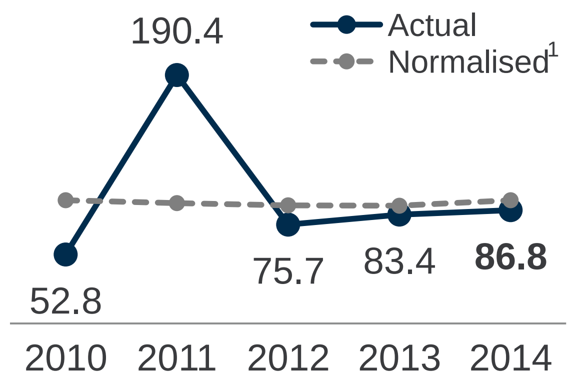
# Munich Re portfolio in Asia – Pleasing profitability

Munich RE

## P-C – Underwriting result €m

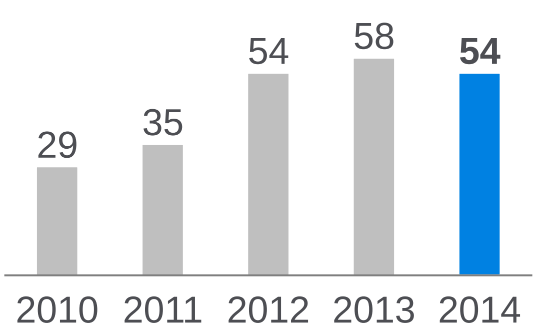



## P-C – Combined ratio %

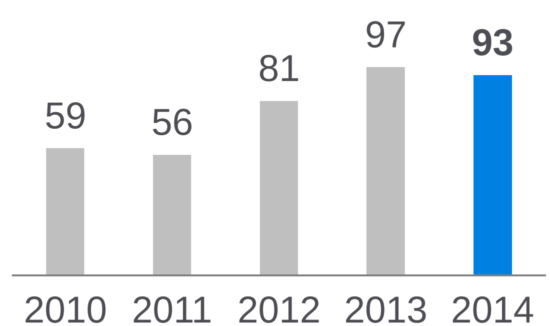



- 2011 burdened by exceptionally high nat cat losses
- Competitive environment becoming noticeable while underlying profitability remains sound
- Higher share of solvency relief deals improving economic profitability but increasing combined ratio

## Life – Technical result €m




## Life – VNB €m




- Strong growth in earnings contribution …
- … expected to persist – with underlying profit growth of 10%–15% p.a. …
- … despite continuing increase in competition and pressure on prices

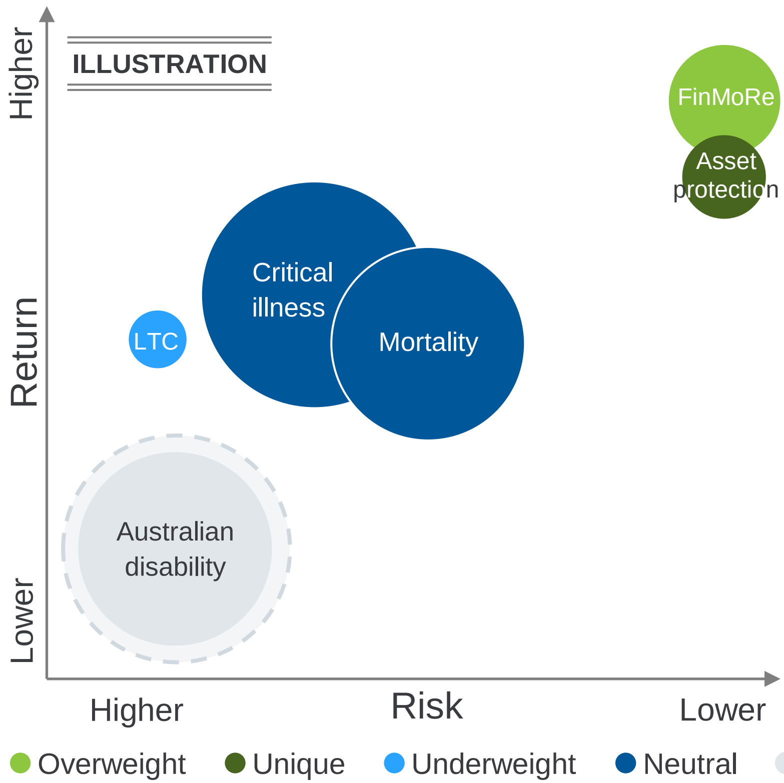
**Asia an integral part of Munich Re's value generation – exploiting strong market position and ability to provide solutions beyond traditional reinsurance**

[1] Adjusted for expected larges losses. 5-year average normalised combined ratio: ~92%.

# Life reinsurance – Portfolio composition

Munich RE

## Risk-return profile of selected sub-portfolios relative to core business




**Traditional mortality/ critical illness**
Representing the core – both in terms of new business value and bottom line

**FinMoRe**
High strategic relevance and strong bottom-line contribution – very attractive risk/ return profile

**Long-term care (LTC)**
Currently written in Singapore

**Asset protection**
Risk/return profile very similar to FinMoRe – currently taking advantage of opportunities mainly in Japan

**High weight in mortality and critical illness business in Asia**

Bubble size: Indicative of present value of future claims.

# Reinsurance property-casualty – Geographic portfolio overview

## Result volatility of market vs. profitability

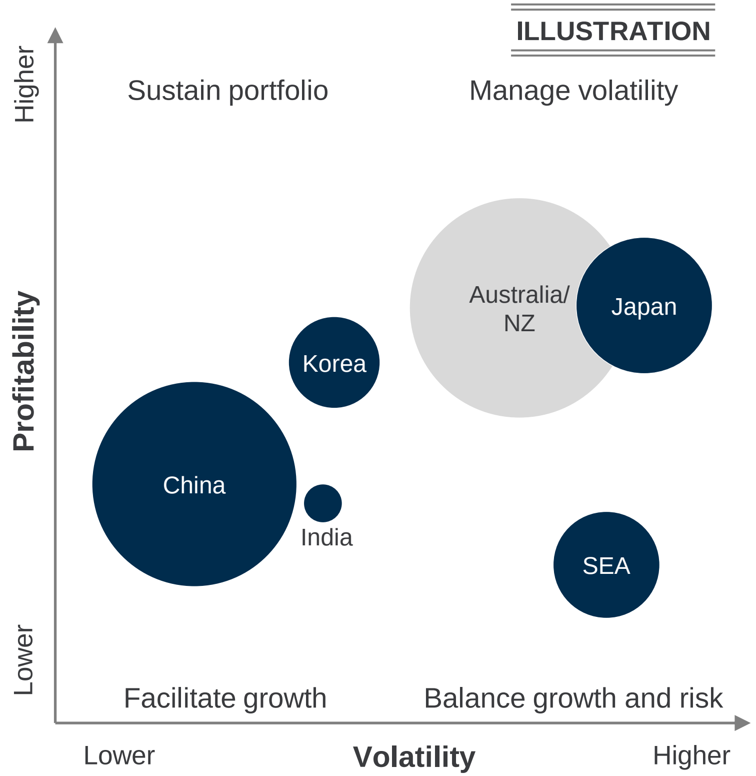
%

### Sustain portfolio

- Developed market with comparatively low nat cat exposure
- Profitable portfolio with limited growth potential given competitive environment

### Facilitate growth

- Participating in profitable growth of cedants via capacity and selective services
- China: While the introduction of C-ROSS will bring uncertainty, good opportunities remain




### Manage volatility

- Achieve sufficient profits over time to compensate for single large loss events
- Growth potential expected for innovative solutions and new distribution channels

### Balance growth and risk

- Many markets still offer good opportunities, but rates are tending to deteriorate
- Selective and cautious underwriting to safeguard profitability

**Well-diversified portfolio has facilitated good profitability in recent years**

Bubble size indicative of current Munich Re premium volume.

# Specifics of the Asian markets

Munich RE

## Regulatory environment

Considerable changes in regulatory framework, e.g. China

Nationalisation/trade barriers, e.g. Indonesia

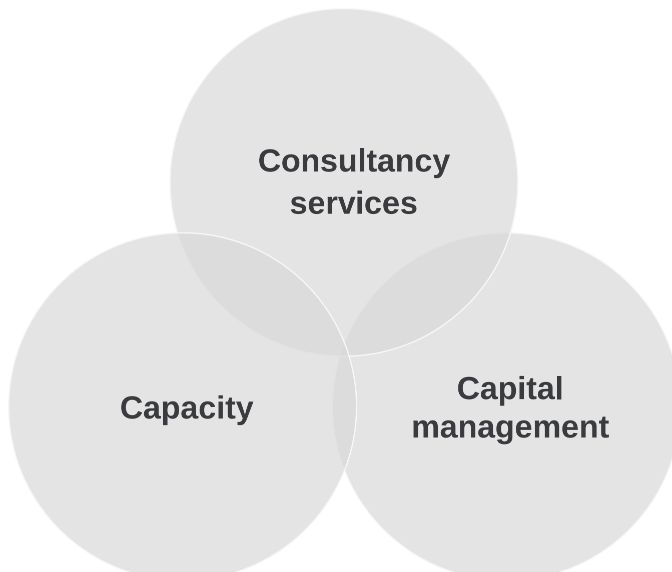
Changing political environment

### Emerging Asia

- Diverging market needs ranging from plain capacity to complex risk solutions
- Underinsured risks, e.g. earthquake China

**Enabling clients' business**

- Sharing best practices
- Offering expertise and value-adding services




### Mature Asia

- Demand for capital management solutions
- Automatic underwriting trend across Asia

**Seeking reliable partners**

- Driving innovation
- Providing capacity
- Tailor-made and structured solutions
- Asset protection, Risk Solutions

**Heterogeneous markets with different reinsurance demand – Regulatory changes may sometimes have significant impact**

# What makes Munich Re different in Asia

Munich RE

| | |
|---|---|
| **Asian markets** | Expected to remain the most attractive growth region despite some challenges |
| **Strong footprint** | Market-leader position and well-established player in many dynamic growth areas |
| **Capital strength** | Reliable provider of significant capacity – based on superior risk modeling expertise and broad portfolio diversification |
| **Solution provider** | Premium reinsurer with product offering beyond pure capacity and traditional reinsurance – facilitating profitable future growth while improving portfolio quality |
| **Outlook** | Profitability of Asian business expected to remain above Group average |

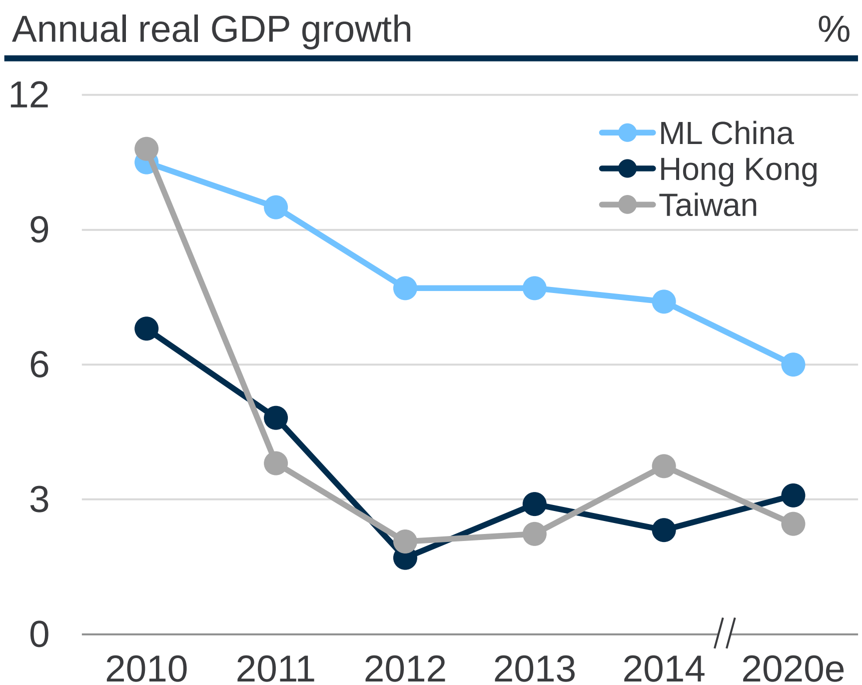
# Agenda

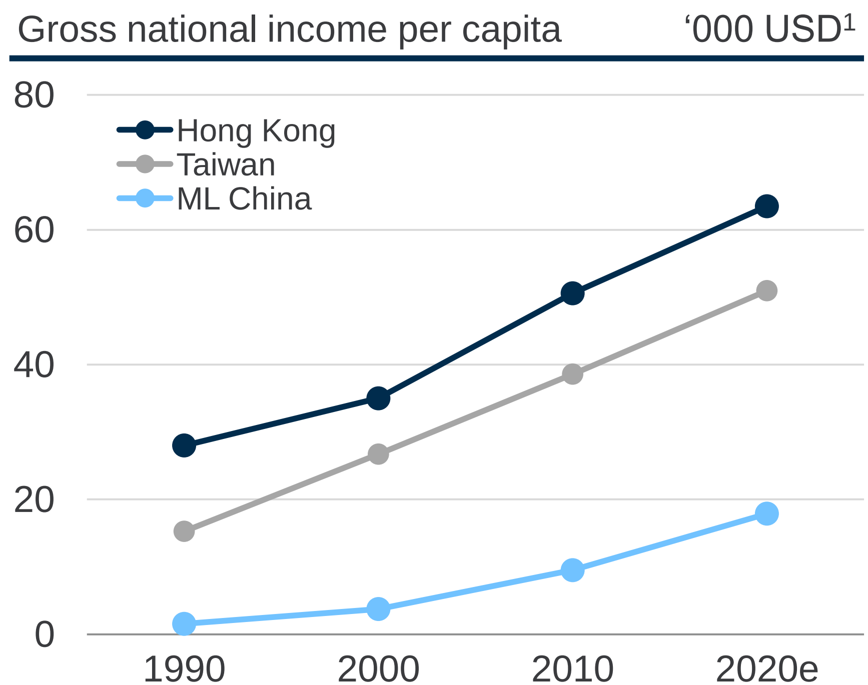
Munich RE

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| **P-C reinsurance in Greater China** | **Chang** |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life reinsurancein Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurancein Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

# Greater China – Two different faces

Munich RE



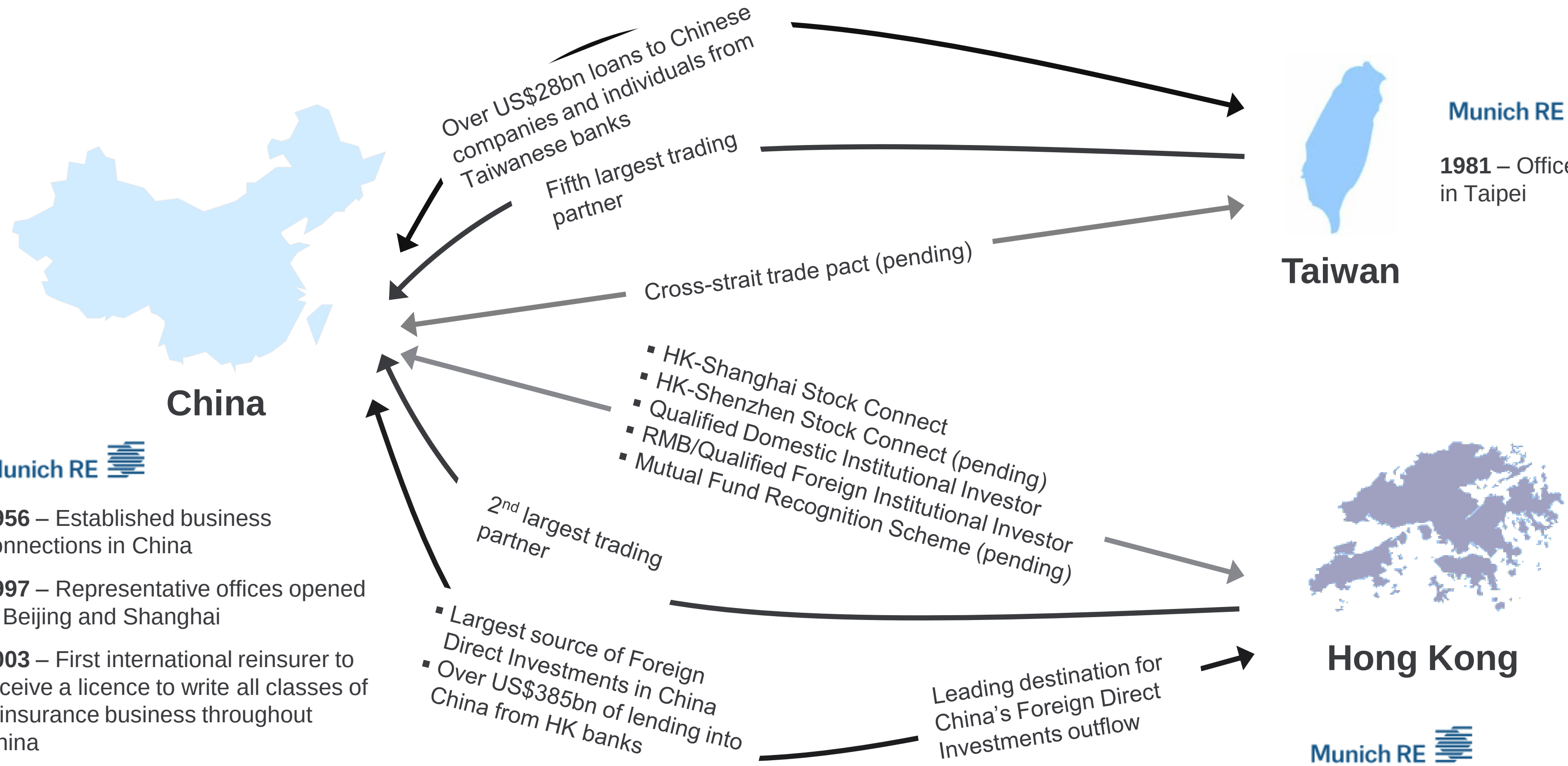

- Mainland China (ML) – The global growth engine, although at a slower pace
- Hong Kong and Taiwan – Wealthy economies with solid growth exceeding that of most Western countries

**High GDP growth and sharp increase in wealth in Mainland China indicate immense (re)insurance potential**

[1] Constant 2013 USD based on purchasing-power parities.
Source: Munich Re Economic Research, IHS Global Insight, World Bank.

# Economic ties getting closer as the country opens up its market further

Munich RE




Munich RE

**1981** – Office opened in Taipei

Munich RE

**1956** – Established business connections in China

**1997** – Representative offices opened in Beijing and Shanghai

**2003** – First international reinsurer to receive a licence to write all classes of reinsurance business throughout China

**2004** – ERGO participates in the founding of PICC Health, China's first private health insurer

Munich RE

**1962** – Office opened to reinforce presence in Asia

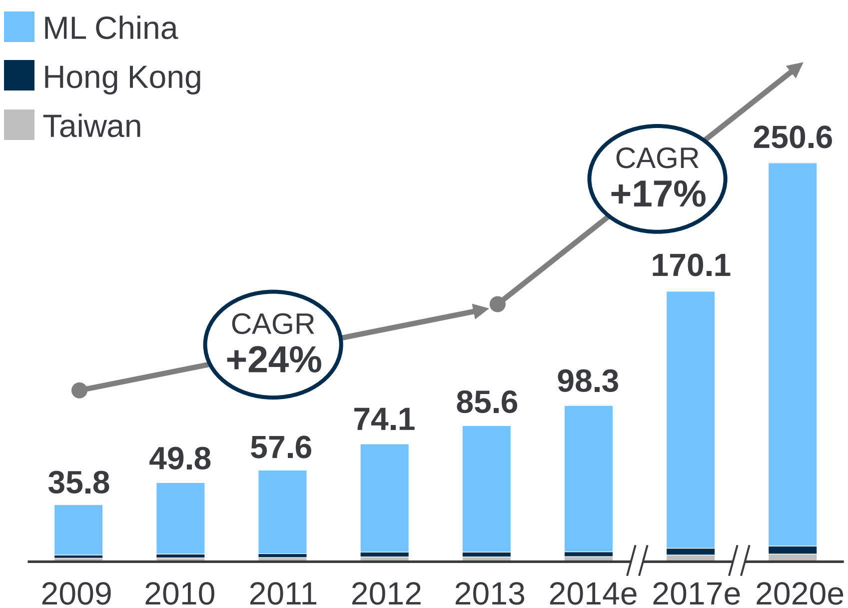
**Munich Re well positioned to exploit the market potential in Mainland China thanks to strong franchise and value proposition in the region**

Source: Hong Kong Trade Development Council; Financial Supervisory Commission; Hong Kong Monetary Authority; Standard Chartered; Bloomberg.

# Substantial premium growth vs. small underwriting margins

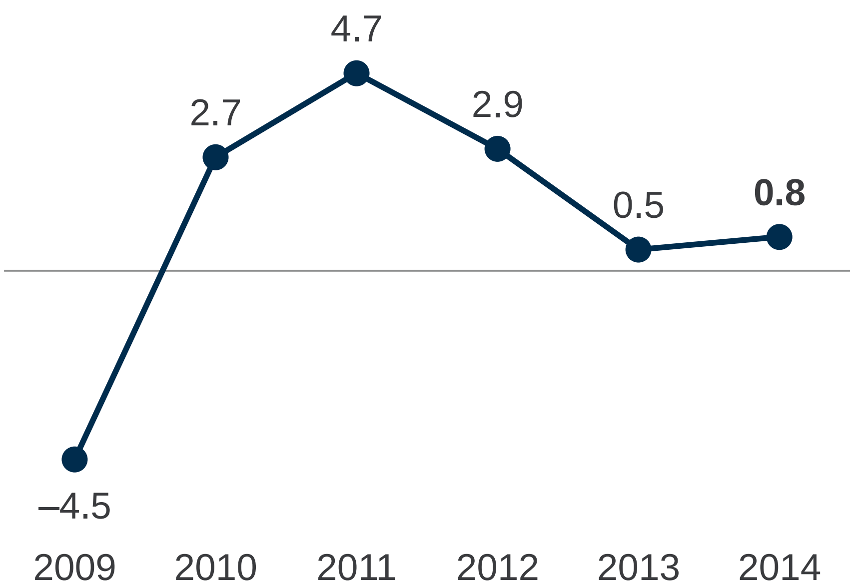
Munich RE

## Gross written premiums €bn




Growth momentum continues – Mainland China will be among top 3 insurance markets by 2020

## Underwriting margins[1] %




Underwriting cycle dominated by motor insurance performance and strongly influenced by regulators' action

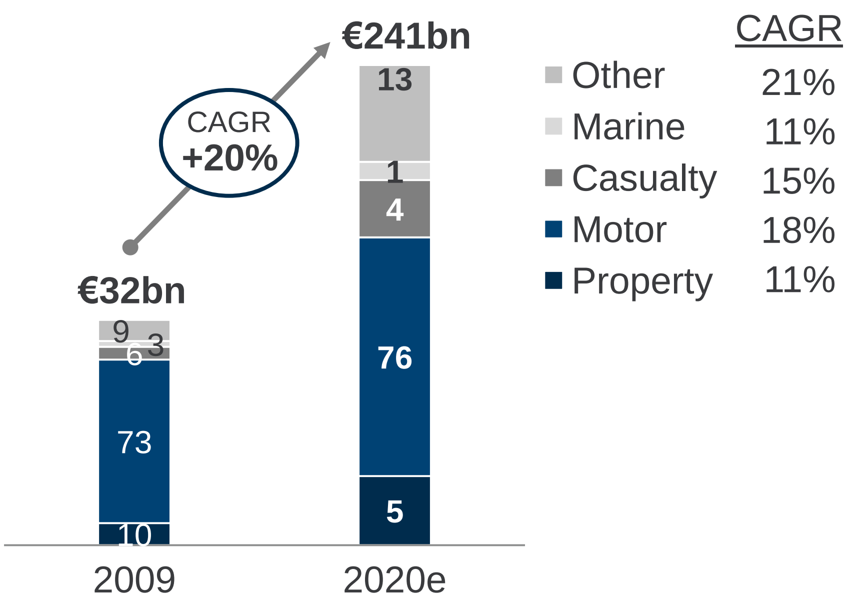
**Munich Re believes in the long-term potential of Chinese market and remains fully committed – China is not one, but many, markets**

[1] 100% minus combined ratio.
Source: Munich Re; CIRC Yearbook; EUR/RMB = 8.2.

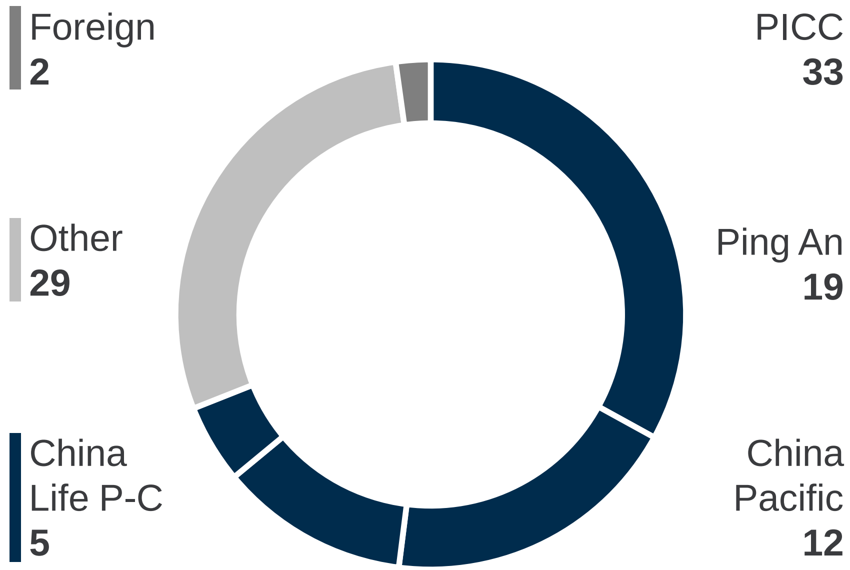
# Primary insurance market dominated by motor business and top 4 domestic insurers

Munich RE

## ML China: Market development – GWP %




## ML China: Market share of P-C insurers (2014) %




- Market dominated by motor
- Insufficient insurance penetration for property hindering development of this business

- Top 4 account for ~70% market share
- 22 foreign-owned insurers with only marginal shares and at clear disadvantage

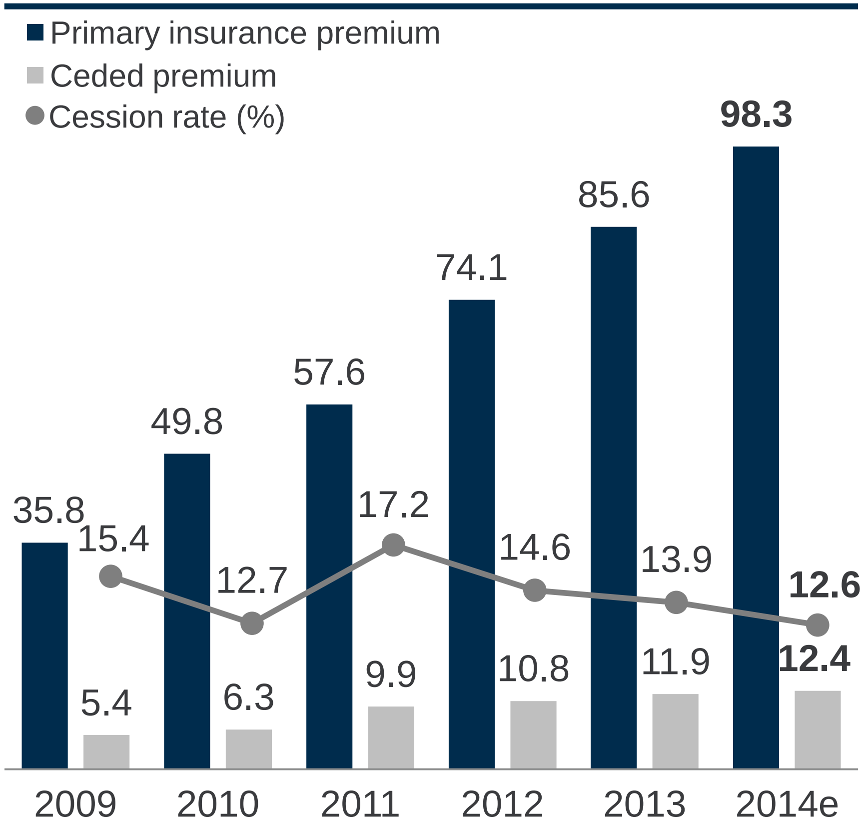
**Motor remains backbone, though potential in other business lines – Largest growth rates by top 4 insurers**

Source: Munich Re, Credit Suisse. Casualty incl. personal accident (CAGR: ~8%) and liability (CAGR: ~20%), Others incl. agro, credit. Nominal CAGR.

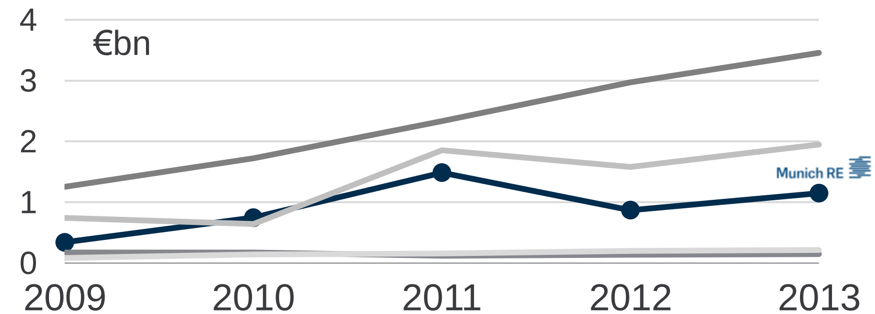
# Disproportionate growth in reinsurance due to reduced motor cessions

Munich RE

## Greater China – GWP vs. ceded premium €bn




## Leading onshore reinsurers in Greater China – GWP




## Domestic vs. international/regional reinsurers %

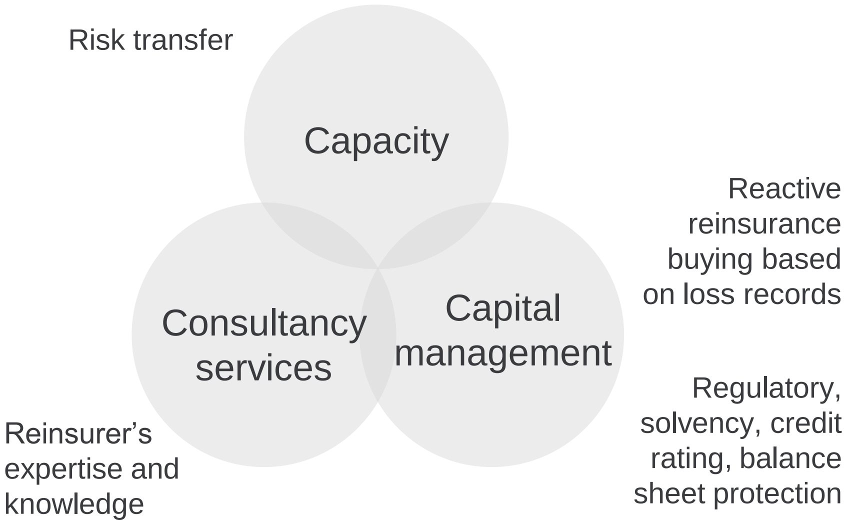

**Sitting on comfortable capital levels, insurers intend to retain more business – Munich Re among top 3 onshore reinsurers, though strict bottom-line focus prevails**

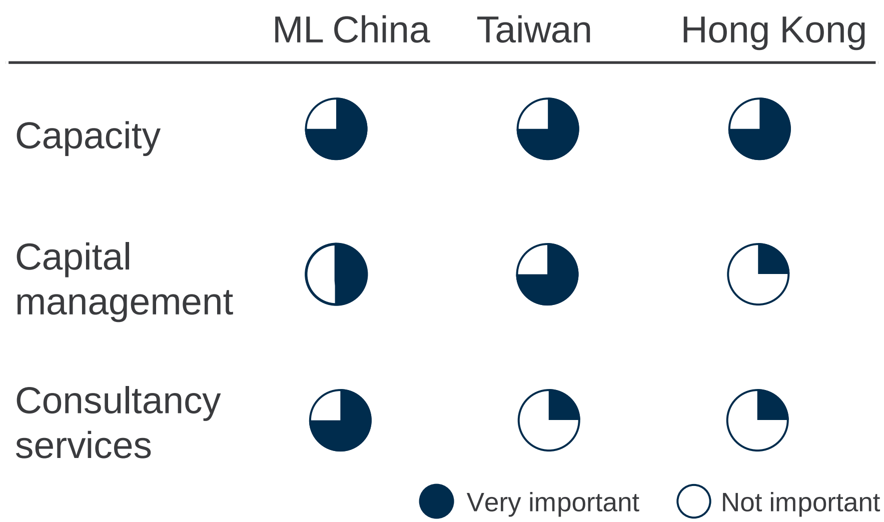
[1] Excludes reinsurance premium ceded offshore.
Source: Munich Re estimates.

# Munich Re's global risk expertise fits well with the reinsurance buying motivation in emerging markets

Munich RE

## Reinsurance buying motivation in Greater China




### Mainland China

- Opportunistic buying behaviour
- Cedants demand large capacities for risk transfer and meeting solvency requirement as well as …
- … services and support for new products
- Growing demand expected from new government initiatives

### Taiwan

- Transfer of nat cat and accumulation risks
- Need capacity to maintain credit ratings and fulfill solvency and other regulatory requirements

### Hong Kong

- Demand mainly for traditional solutions

# "New national 10 articles" highlight importance of insurance in supporting national development

Munich RE

**New national 10 articles**

1. **5% insurance penetration and RMB 3,500 premium per capita by 2020**
2. **Insurance as part of social security system**
3. **Develop liability insurance**
4. **Refine nat cat insurance mechanisms**
5. **Insurance to support social development**
6. **Develop insurance for agriculture business**
7. **Expedite reform and opening of insurance industry**
8. **Enhance insurance supervision and regulatory system**
9. **Enhance infrastructure/ systems (e.g. database, platforms)**
10. **Refine government policies (e.g. tax, subsidies)**

**Expected to be major growth driver for the industry – Munich Re well positioned to engage with CIRC/government bodies and leverage its global expertise**

Source: CIRC.

# C-ROSS[1] – China evolving from a current volume-based to a risk-based capital regime

Munich RE

## Current solvency regime in China (Solvency I)

- Similar to Solvency I, based purely on premium and incurred loss amount of the insurer
- Minimum capital calculation based on previous year's premium and the average of last three years' incurred claims, net of reinsurance and tax

## C-ROSS framework (final release Feb. 2015) – Aiming for a balance between risk management and growth

**Centralised supervision**
**Designed for Emerging markets**
**Risk-oriented with value consideration**

| Pillar 1 | Pillar 2 | Pillar 3 |
|---|---|---|
| Quantitative capital requirement | Qualitative supervisory requirement<br>Integrated risk rating (IRR) and SARMRA[1] | Market discipline mechanism<br>Reporting and disclosure |

**Cession rates in motor expected to decrease substantially – Different credit risk charges for on-/offshore give onshore reinsurers clear competitive advantage**

[1] China Risk Oriented Solvency System.
[2] Solvency Aligned Risk Management Requirement and Assessment.

# C-ROSS: Impact on primary and reinsurance

Munich RE

## Primary market and deregulation

C-ROSS

Motor deregulation ↔ Underwriting loss

- C-ROSS may release €5bn solvency capital for the major p-c market and will impact Munich Re's current solvency-driven business model
- Motor deregulation will further narrow underwriting margins
- Competition in non-motor lines should stabilise

## Reinsurance market and deregulation

C-ROSS

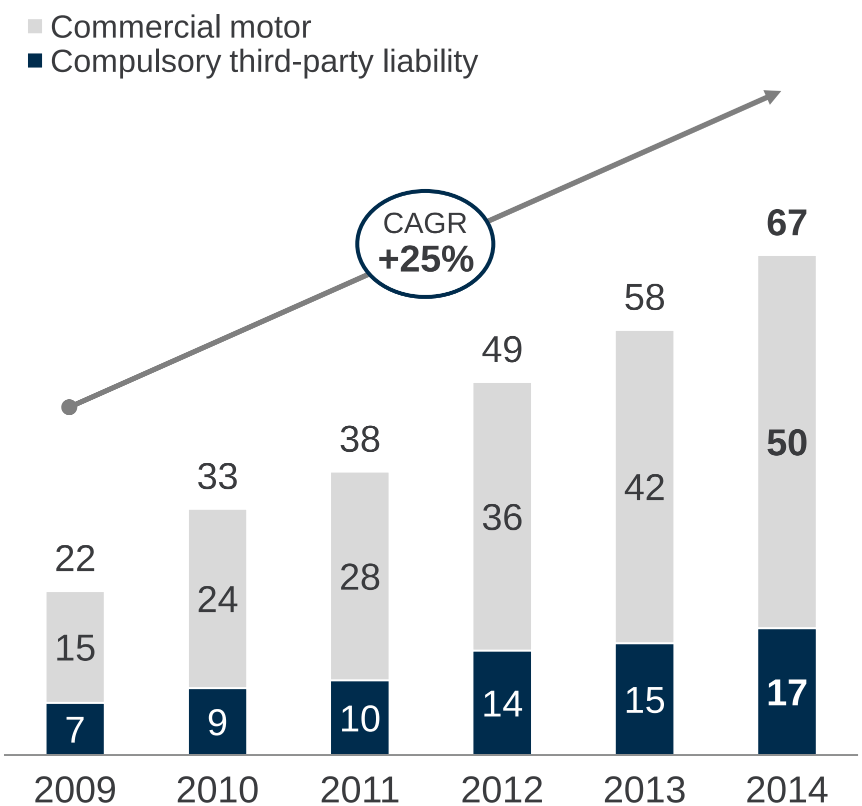
Capital management ↔ Innovation

- C-ROSS will require foreign reinsurance branch to establish local capital position
- Capital relief deals will be in new form due to decreased risk capital on motor – Capital/reinsurance demand for more volatile lines of business will increase
- Innovation, especially for new products, will be a key differentiator, e.g. Munich Re to pursue consultative business model and to invest in primary insurance expertise

**Munich Re's strategy: Reinforce local presence to strive for profitable business in non-motor lines and fuel innovation**

# Commercial motor de-tarification reform

## China motor market premium — €bn




## Commercial motor de-tarification reform

Pricing data collection → Base rate setting → Own price setting

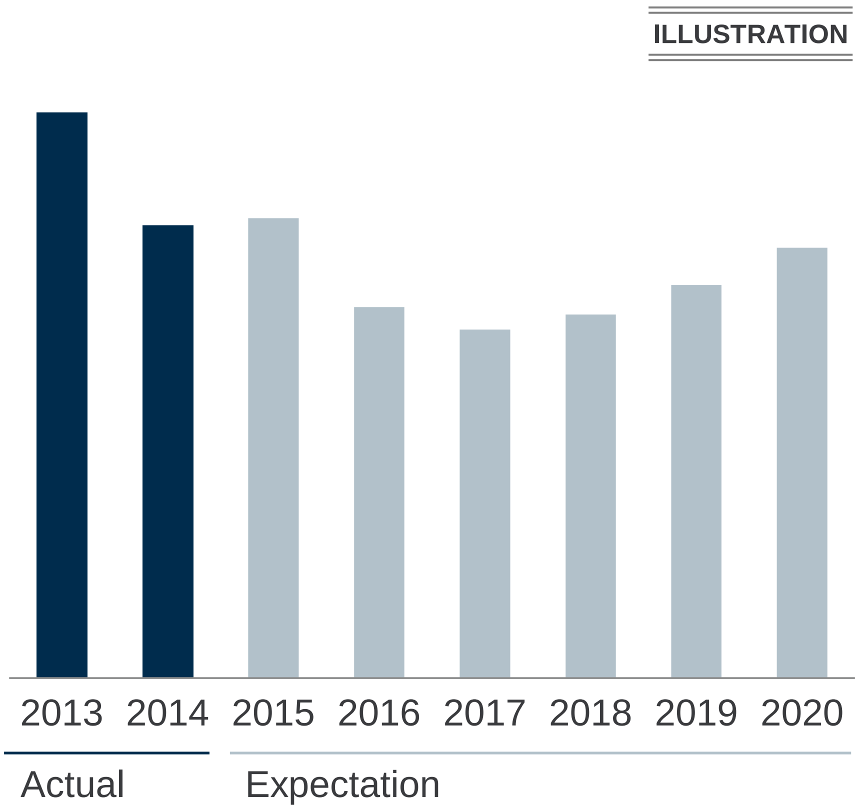
- The pilot reform roll-out in the six provinces/cities began in April 2015 – full implementation in other regions will follow
- Qualified insurers have more flexibility to set their own premium by adjusting the expense loadings, e.g. underwriting and distribution channel factors
- Possibly increase product sales through other channels, e.g. online/internet, with lower costs of sales
- In the medium/long term, the reform should lead to better risk pricing as insurers build up a comprehensive risk database

**Munich Re leverages its global product know-how to analyse potential needs for reinsurance solutions in commercial motor business post de-regulation**

Source: Munich Re analysis; Credit Suisse and BofAML research reports.

# P-C motor quota-share treaties

## Munich Re portfolio – P-C quota shares[1]




## Comments

- Large p-c motor quota-share treaties balance out other volatile treaties written in ML China
- Thin margins for these treaties reflect the limited volatility/downside due to large motor proportion and sliding-scale commission
- Treaties offered by major players in ML China to their strategic reinsurance partners, who support them in many areas in long term
- Treaties used by cedants to improve solvency ratio under current solvency regime
- Higher combined ratios, but low risk capital requirements

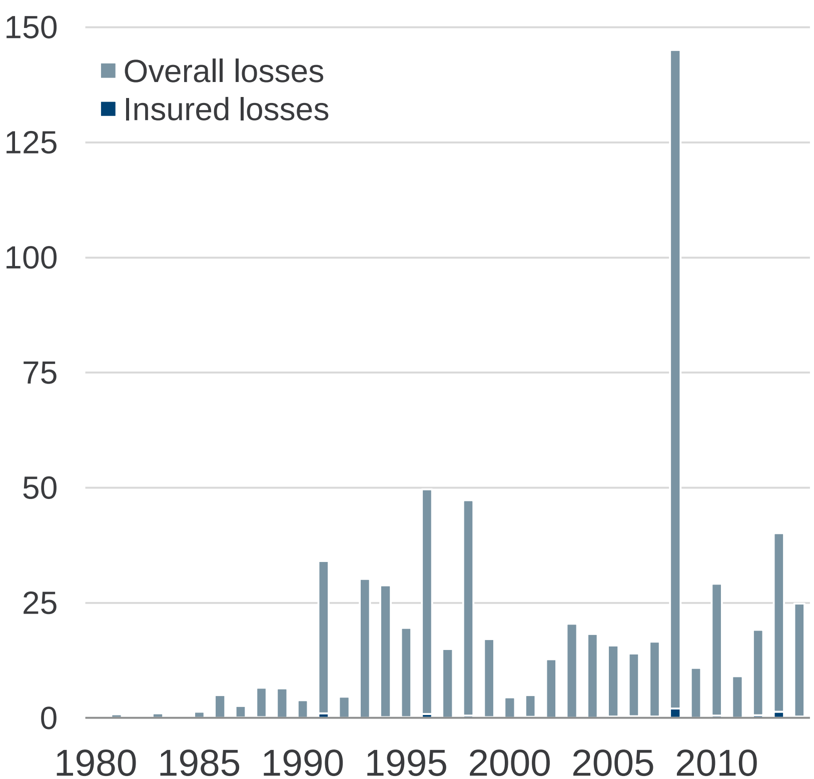
**Under C-ROSS, motor cessions will be reduced as it will have little impact on solvency – Reinsurance premiums will drop in the first years of implementation**

[1] Gross written premium.

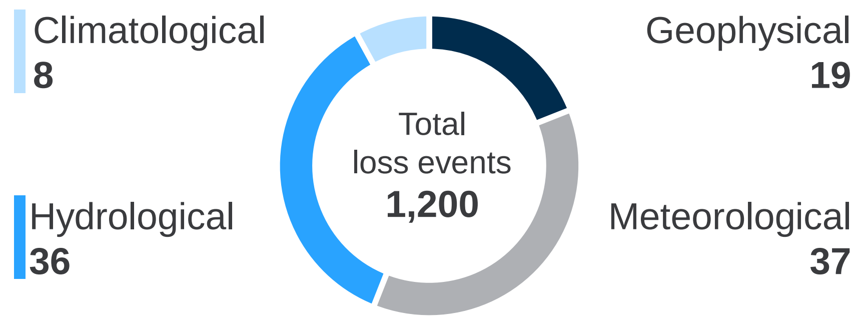
# Loss events in China 1980–2014

Munich RE

## Overall vs. insured nat cat losses in China US$bn




## Majority of losses from typhoons and floods … %




## …while earthquakes cause most fatalities %


**Insured losses very low – Underlining the need for better nat cat protection in China**

Source: Munich Re, Geo Risks Research, NatCatSERVICE.

# Munich Re nat cat strategy in ML China

Munich RE

## Nat cat strategy

### Government schemes

- Government-initiated nat cat programmes
- Disaster expense cover

### Earthquake pool

- Nation wide residential earthquake pool
- Capital market solutions

### Commercial programmes

- Commercial nat cat programmes
- Tailor-made cat solutions

Existing

Exploring

Upcoming

- Nat cat strategy one of the main strategic building blocks for Munich Re's future positioning in ML China
- Munich Re developed a proprietary risk model for Chinese earthquake risk

**Nat cat strategy will support diversification into non-motor lines while releasing immense profit potential of nat cat reinsurance**

# Chinese government initiating the establishment of various nat cat insurance programmes

Munich RE

## State Council's main goal

Accelerate the development of the modern insurance industry

## Main covers under Government programmes

Personal accident, property damage, natural perils, e.g. typhoon and flood, depending on the schemes

## Munich Re's role and value proposition

Rating, modelling, structural input, sparring partner for public authorities, capacity provider

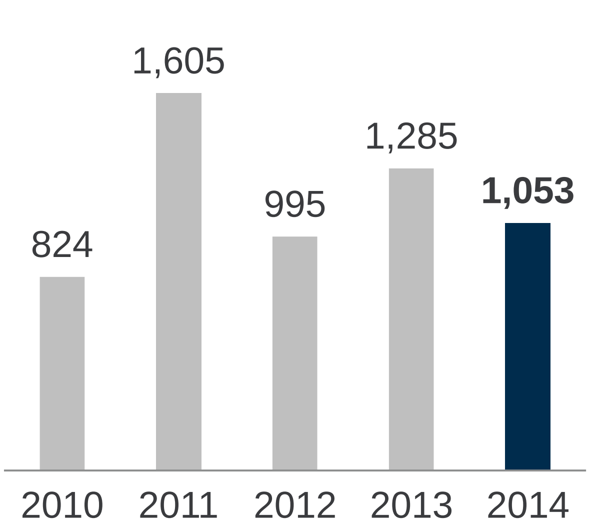
## Government programmes in ML China


**Munich Re acts as consultant and capacity provider to support the development of these programmes**

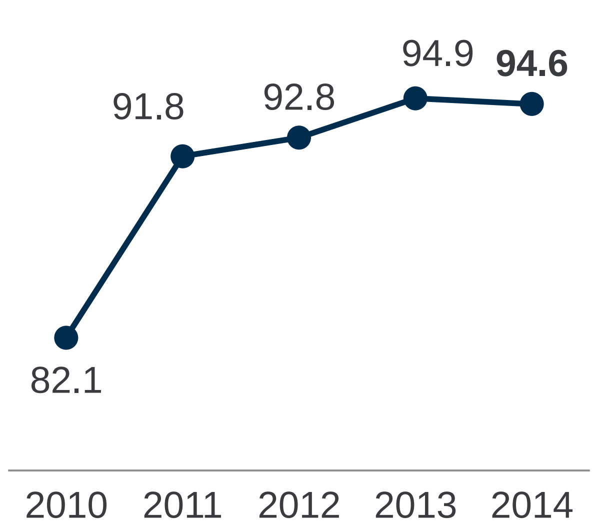
# Key financials – Decent profitability

Munich RE

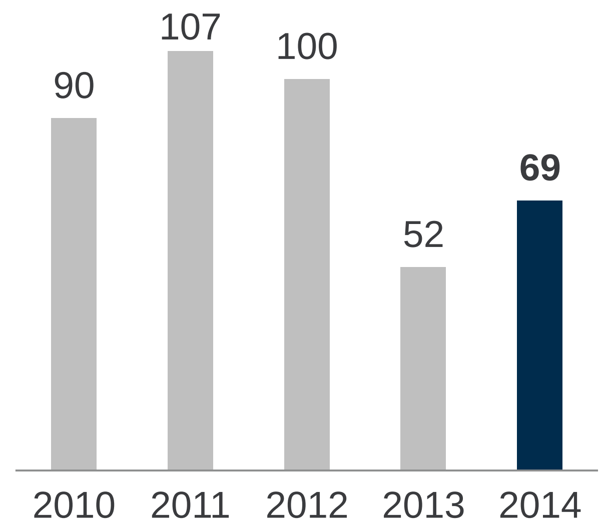
Gross written premium €m




Combined ratio %




Underwriting result €m




- Development in line with reinsurance market growth
- Spikes in 2011 and 2013 due to capital relief transactions

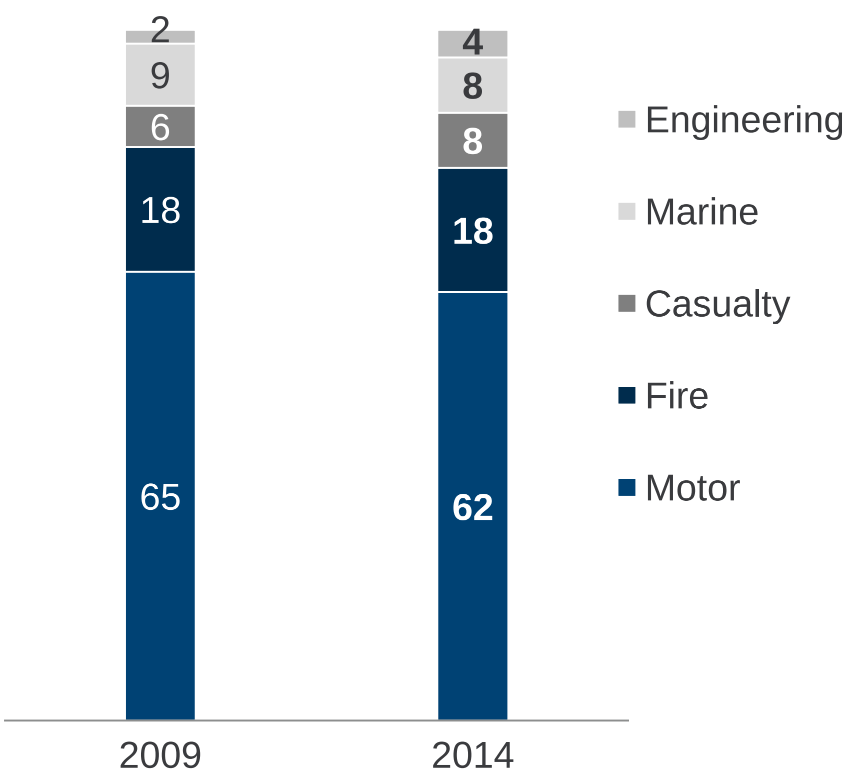
- Good results due to selective underwriting and favourable loss development in the early years
- Exceptionally high fire and typhoon losses in 2013
- Results currently under pressure due to intensifying competition in both the primary and reinsurance markets

**Continuous bottom-line focus and selective underwriting approach to protect technical results amid intensifying competition**

# Munich Re – Development of business portfolio

Munich RE

## Premium split by line of business %




## Comments

- Moderate motor share reduction:
  In 2014 and 2015, no participation in motor solvency deals and general trend towards reduced motor cessions under quota shares – this trend will continue beyond 2015
- Over 95% proportional business, mainly due to large quota-share participations – XL and facultative business still minor
- Mainly direct business, also due to our excellent longstanding relationships with Chinese clients

**Decline in motor share expected to continue**

# Market challenges and opportunities

Munich RE

## Major market challenges

- In the primary insurance market, esp. the commercial sector, premium rate is far below risk-commensurate level
- Data transparency improved but still lack of systematic approach, i.e. white spots
- Overcapacity at reinsurance end – new capital chasing cash-rich programmes
- Main competitors in primary insurance market have clear top-line-driven strategy which has intensified the competition

## Opportunities

- Nat cat programmes and quasi-compulsory liability products driven/encouraged by the government
- Further impressive growth of the top 4 insurers
- Emerging demand for special and individualised products, growth of special lines
- China still a growth market for new client groups and small and medium-sized insurance companies

## Munich Re's competitive advantage and strategic response

**Full Group value chain offerings**

**Provider of knowledge and technical expertise**

**Innovation partner**

**Local presence and brand recognition**

**Utilising USPs to tackle market challenges and realise business opportunities**

# Key takeaways and outlook

Munich RE

| | |
|---|---|
| **Financial results** | ▪ Underlying premium development in line with growth of the reinsurance market<br>▪ Decent profitability despite challenging market environment |
| **Strategic positioning** | ▪ Munich Re well positioned in Greater China with its strong franchise<br>▪ Dedicated local team, long-lasting relationships and offerings along the full insurance value chain while supporting new government initiatives |
| **Portfolio** | ▪ Motor business remains backbone with growing potential in non-motor segments<br>▪ Offer new innovative products and services |
| **Outlook** | ▪ Dynamic operating environment due to C-ROSS and intensifying competition<br>▪ Growing demand expected due to more nat cat and peak-risk coverage<br>▪ Continuous bottom-line focus to safeguard profitability |

# Agenda

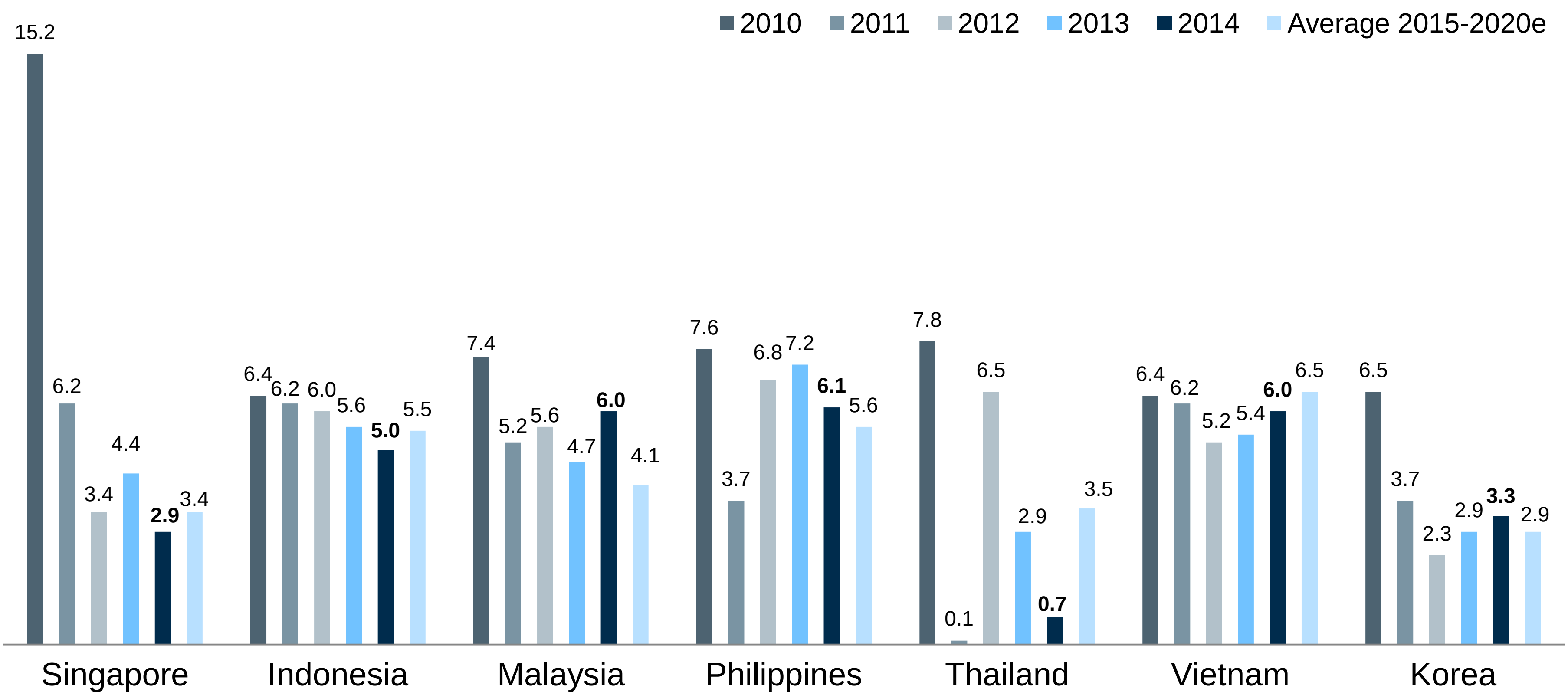
Munich RE

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| **P-C reinsurance in Southeast Asia and South Korea** | **Buholzer** |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life reinsurancein Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurancein Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

# Continuous GDP growth …

Munich RE

Annual real (inflation adjusted) GDP growth %



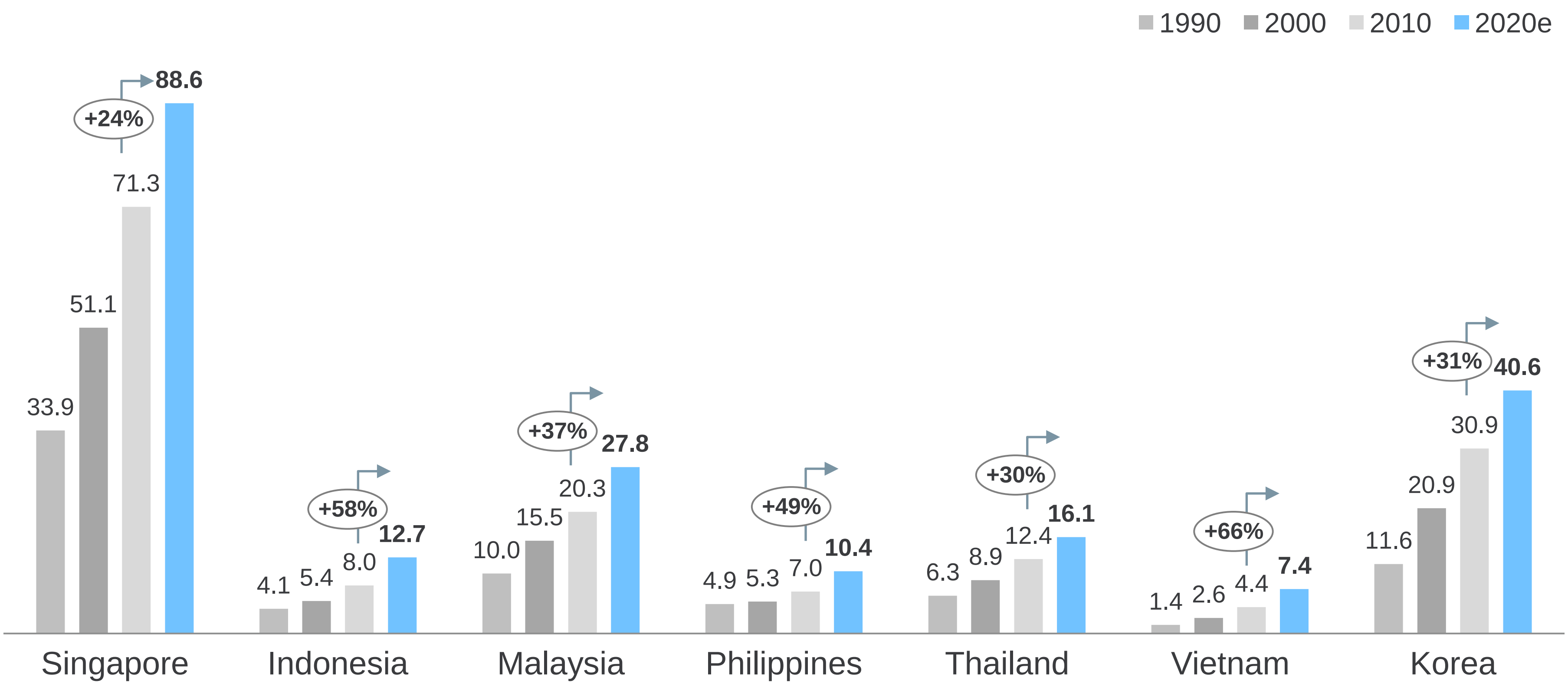

**Southeast Asia one of the world's largest growth engines – Growth rates in most of these countries still well above most European and US markets**

Source: Munich Re Economic Research, IHS Global Insight.

# … and rising wealth, especially in Vietnam and Indonesia

Munich RE

Gross national income (GNI) per capita USD '000[1]




**Economic prospects indicate vast latent potential for ASEAN markets – South Korea with moderate potential as a mature market**

[1] Constant 2013 USD based on purchasing power parities.
Source: Munich Re Economic Research, IHS Global Insight.

# ASEAN region – Key features of (re)insurance markets

Munich RE

- Fragmented insurance markets with approx. 350 players and large growth potential
- Heterogeneous characteristics in each market with varying needs for reinsurance
- Non-domestic reinsurers hold major shares of the markets
- Munich Re's current target markets: Singapore, Malaysia, Thailand, Philippines

## What makes the ASEAN markets attractive for Munich Re

- One of fastest-growing economic areas and (re)insurance regions worldwide
- Munich Re Group services selected strategic partners with its fully-fledged set-up and whole value chain according to their differing (re)insurance needs:
  - High nat cat exposures require the sustainable and significant capacity of a top-rated reinsurer
  - We see a lot of potential in emerging ASEAN markets and support their development

**Expand Munich Re's business with clear focus on selected strategic partners**

# South Korea – Key features of (re)insurance market

Munich RE

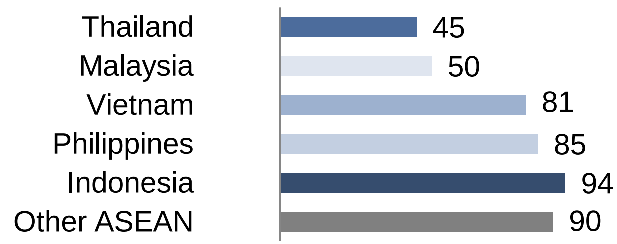
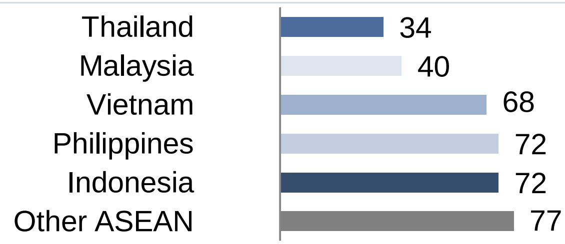
- Ninth-largest p-c insurance market in the world, third-largest in Asia
- Market share of top 4 insurers: ~75%
- Mature and saturated p-c market, growth mainly driven by long-term savings business
- Overall, low demand for reinsurance – low nat cat exposure, increasing retentions by primary insurers
- Seven international reinsurers with fully fledged operations, including Munich Re

## What makes the South Korean market attractive for Munich Re

- Changing market conditions with increasing need for state-of-the-art expertise and solutions for complex issues
- Consistent demand for at least A-rated capacity for commodity business
- Regulatory changes opening up new business opportunities
- Large insurers are internationalising, requiring global level capacity and expertise

**Twofold growth strategy: Support top 4 insurers with Munich Re's full product range and develop selected smaller and medium-sized insurers**

# Primary and reinsurance markets – Key features

| Stage of development | Mature markets | Emerging markets[1] % |
|---|---|---|
| Insurance density | South Korea: High<br>Singapore: Medium | Low |
| Growth potential primary insurance (2014–2020, total growth)[2] |  |  |
| Growth potential reinsurance (2014–2020, total growth)[2] |  |  |
| Level of regulatory environment | Well regulated with high standards | Regulated with a trend to further tightening, e.g. Indonesia |
| Demand for reinsurance | South Korea: Low<br>Singapore: Medium | High |

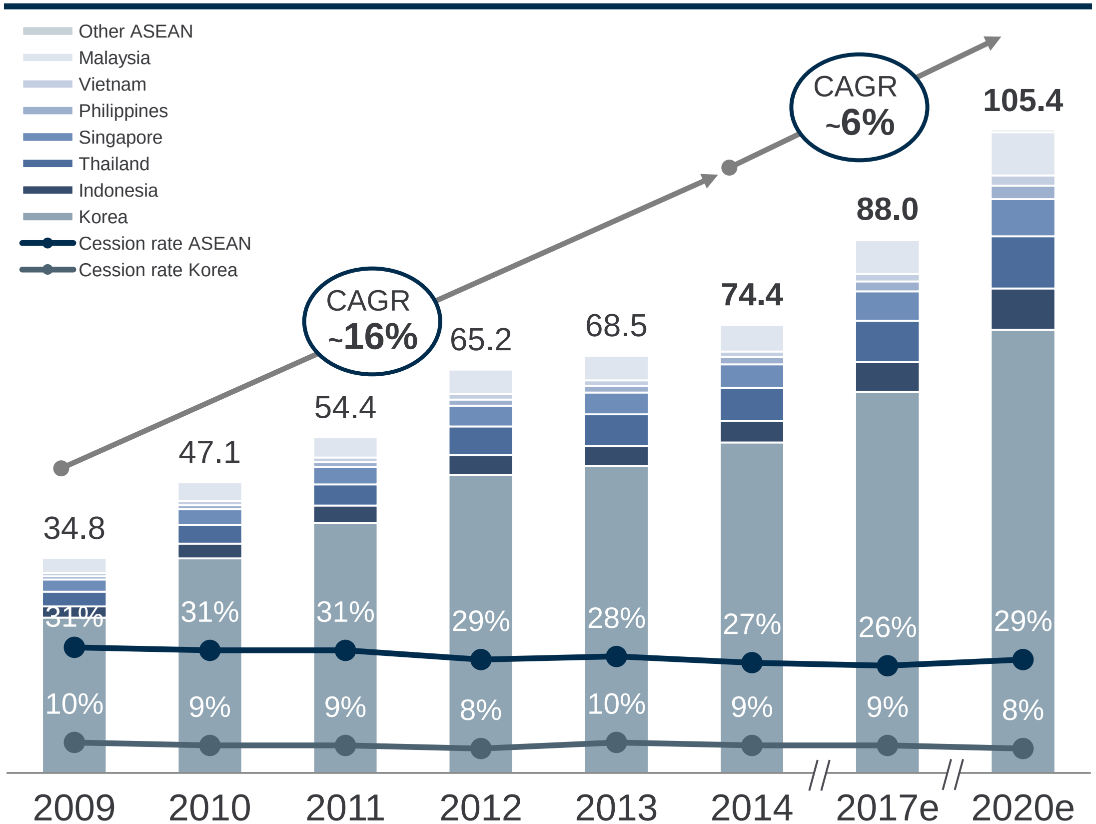
**ASEAN: Heterogeneous markets in terms of developmental stage and regulatory environment – South Korea: lower growth potential and tight regulation**

1 Other ASEAN: Brunei, Cambodia, Laos, Myanmar. Source: Munich Re Economic Research.
2 Gross premium written.

# Primary and reinsurance markets – Premium development

Munich RE

## Gross written premiums €bn




## Premium growth 2013–2020

**ASEAN: ~€14bn**

- Over all periods ~30% of premium volumes accessible for private reinsurance markets
- Slightly declining cessions in future due to new regulatory restrictions increasing blocking of offshore cessions, e.g. Indonesia, Malaysia and Myanmar

**South Korea: ~€21bn**

- Ceded premium volume stable as increased retention offsetting overseas expansion

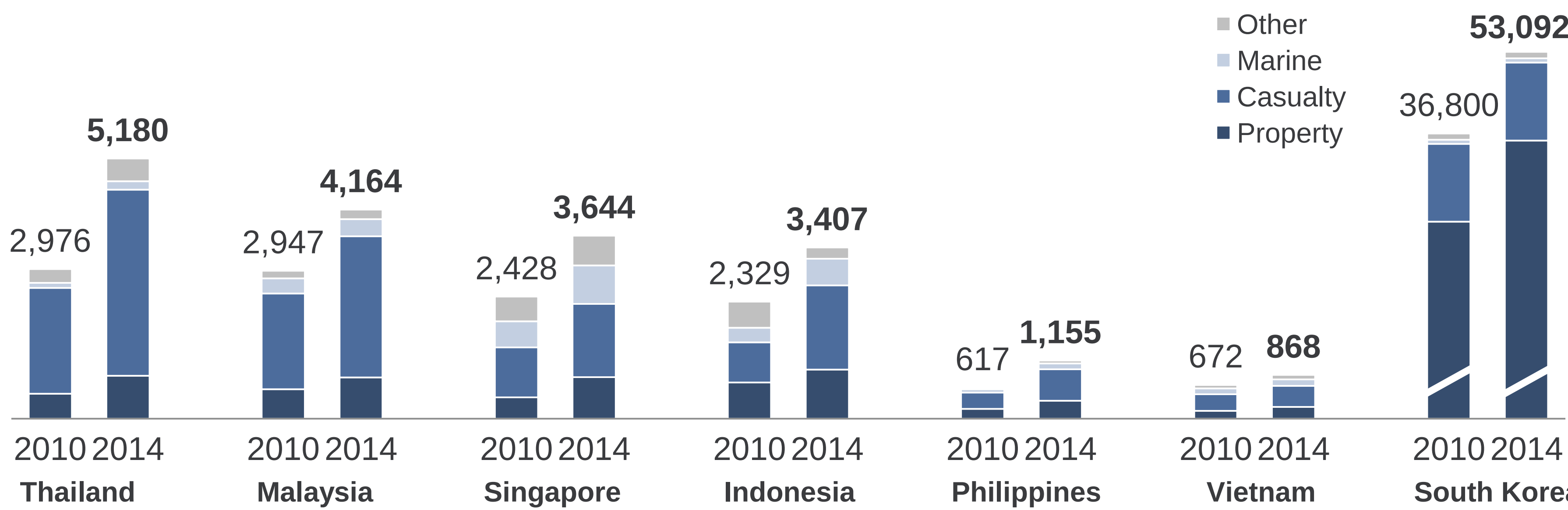
**Solid growth in all primary insurance markets – Cession rates in ASEAN region almost four times those in South Korea**

Source: Munich Re Economic Research.

# Primary insurance market – Line of business composition

Munich RE

Gross written premiums €m




Dominated by casualty/motor

Property relatively strong

Long-term insurance accounts for over 70% of premium income

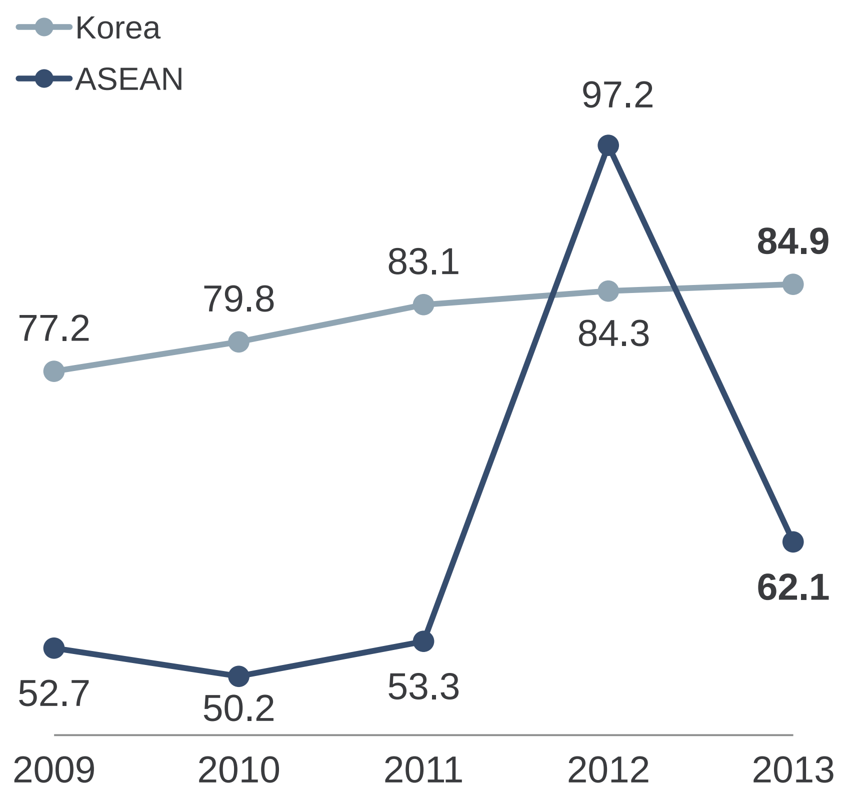
**Big differences within ASEAN region – South Korea unique**

Source: Office of Insurance Commission (OIC) reports, Munich Re assumptions.

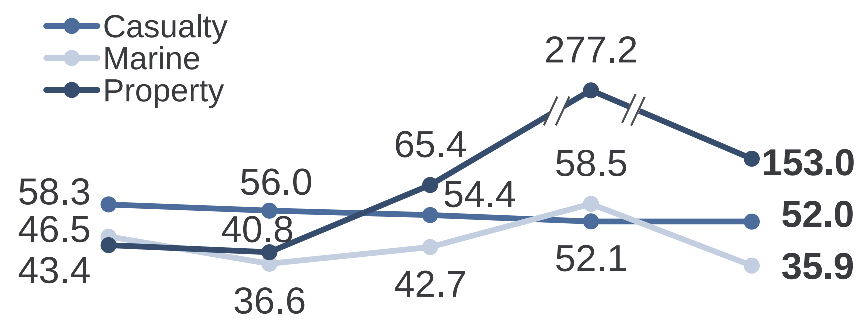
# Primary insurance market – Development of loss ratios

Munich RE

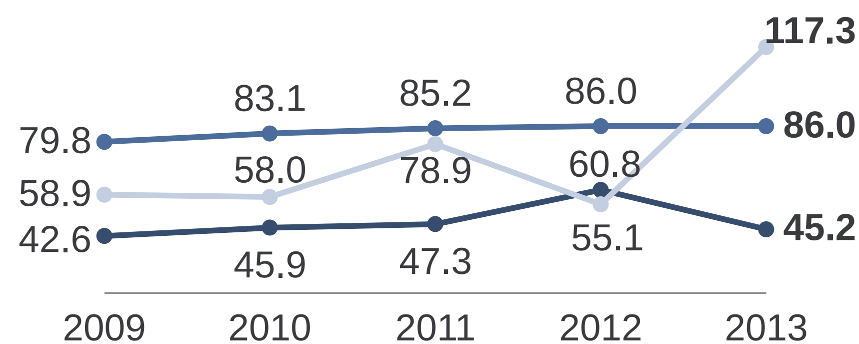
## Loss ratios for largest ASEAN markets[1] %




## ASEAN – Loss ratio by line of business %




## South Korea – Loss ratio by line of business %



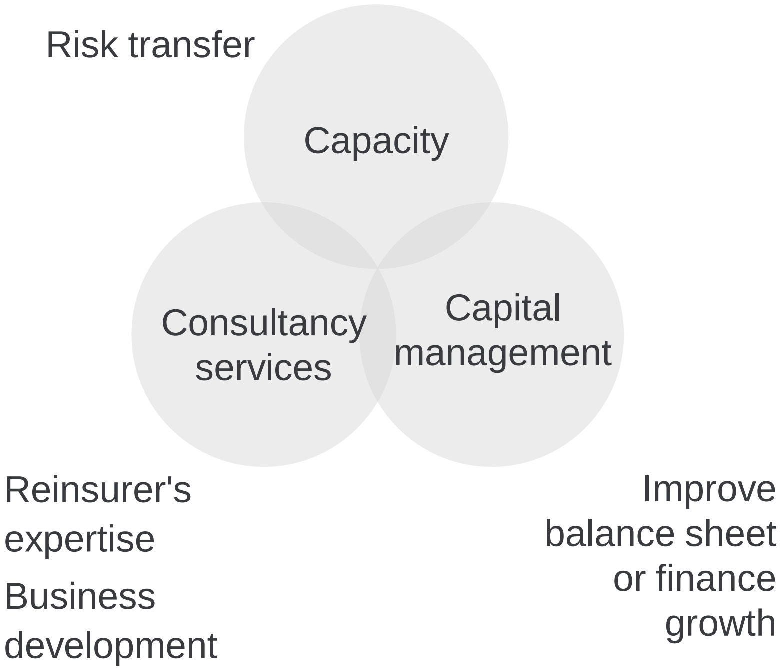

**ASEAN region prone to large nat cat losses – Higher, but much more stable, loss ratio in South Korea due to higher proportion of motor and long-term segments**

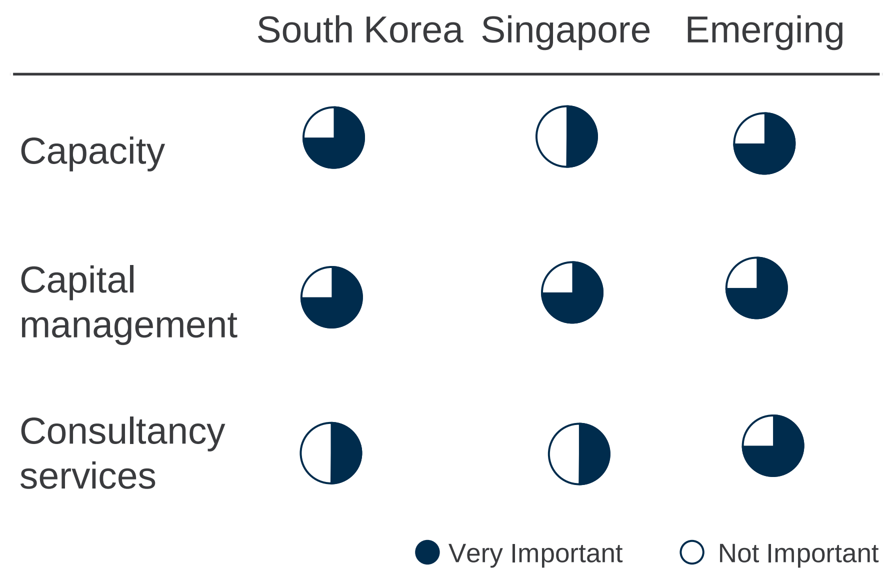
[1] Indonesia, Malaysia, Singapore and Thailand.
Source: National insurance regulators, Munich Re estimates.

# Reinsurance – Buying motivations

Munich RE

## Reinsurance buying motivation in Southeast Asia and South Korea

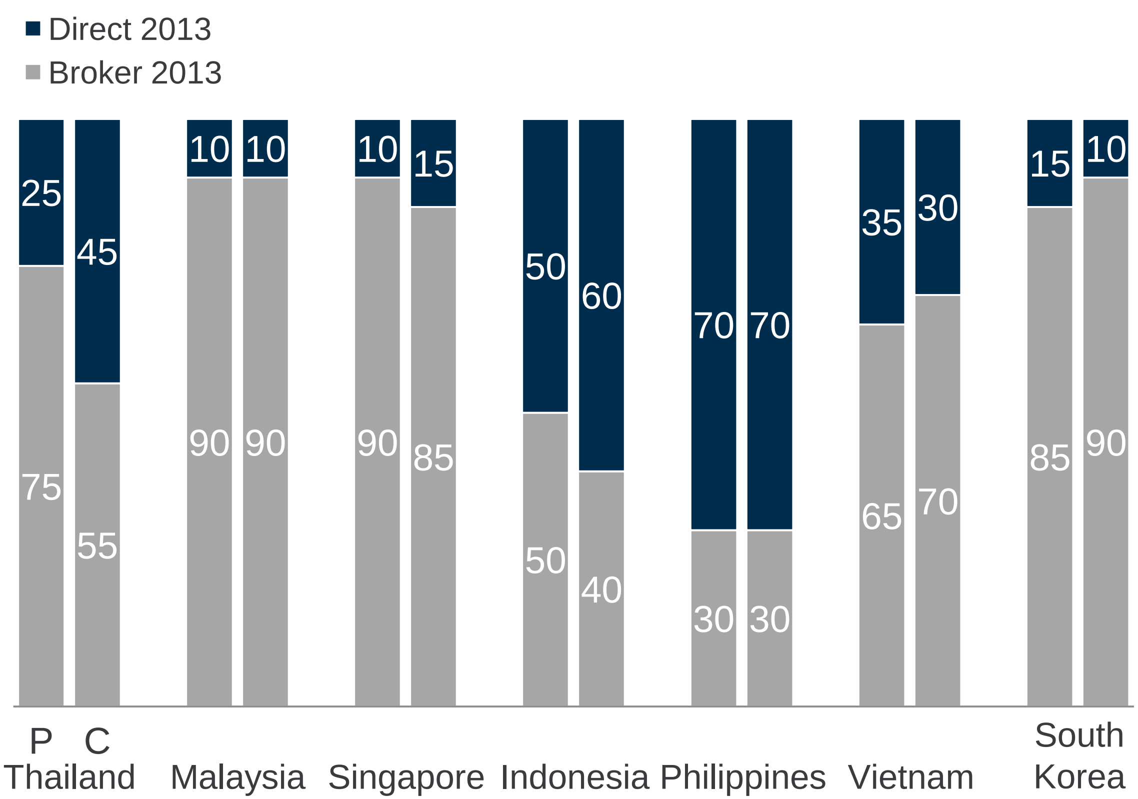


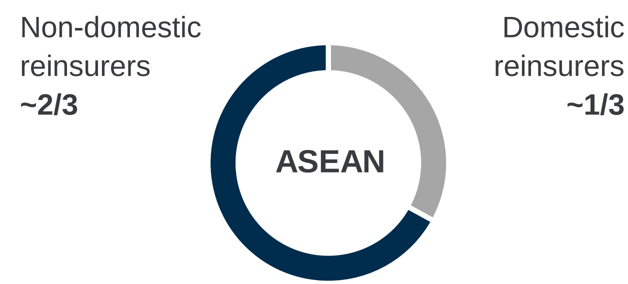

**Munich Re well prepared to serve divergent reinsurance buying motivations according to market development stages**

# Reinsurance – Distribution channels and market shares

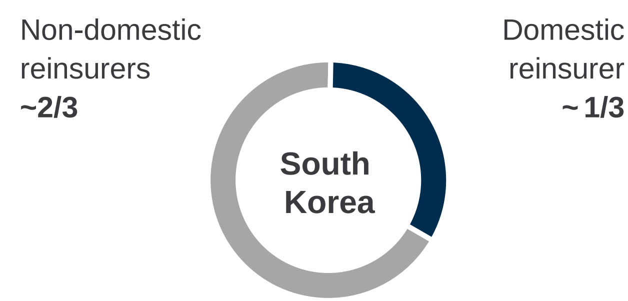
## P-C reinsurance market premium (share of ceded premiums) %




## Market shares




**Munich Re among top 10 reinsurers**




**Munich Re among top 3 reinsurers**

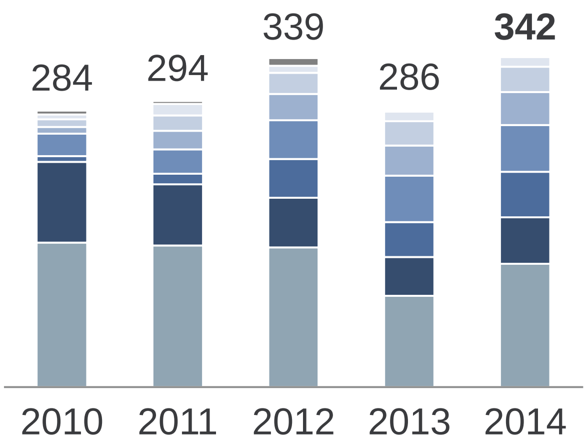
**Strong footprint of non-domestic reinsurers in all markets – Share of broker placements increasing as markets mature**

P = Property C = Casualty
Source: OIC reports, Munich Re assumptions.

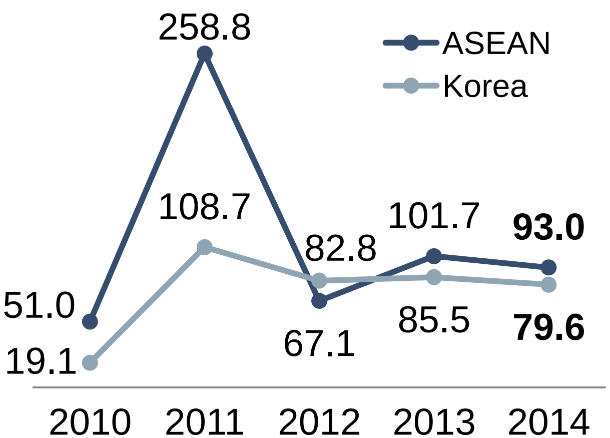
# Munich Re – Key financials

Munich RE

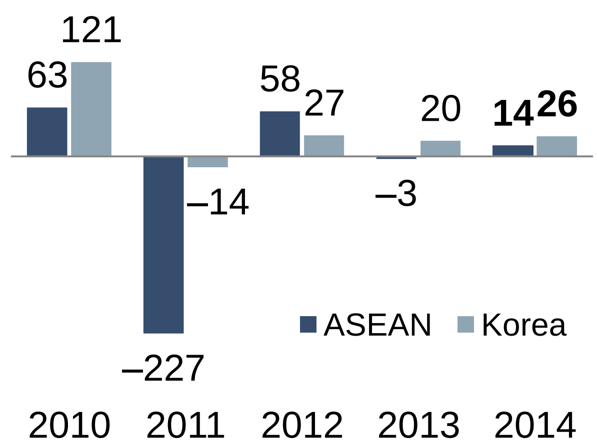
Gross written premium €m




Combined ratio %




Underwriting result €m




**ASEAN**

- 2012: Strong growth due to hardening markets after Thai floods
- 2014: Further portfolio expansion in Thailand and Singapore in casualty

**South Korea**

Stable development – 2013 only nine months (change of fiscal year)

**ASEAN**

- Exceptionally high nat cat losses in 2011 (Thai floods)
- Improvement in 2012 due to selective underwriting and benign losses
- Since then results under pressure due to intensifying competition
- 2013: Large fire losses in the Philippines (Typhoon Haiyan)

**South Korea**

Fluctuation in 2010 and 2011 caused by prior years' development

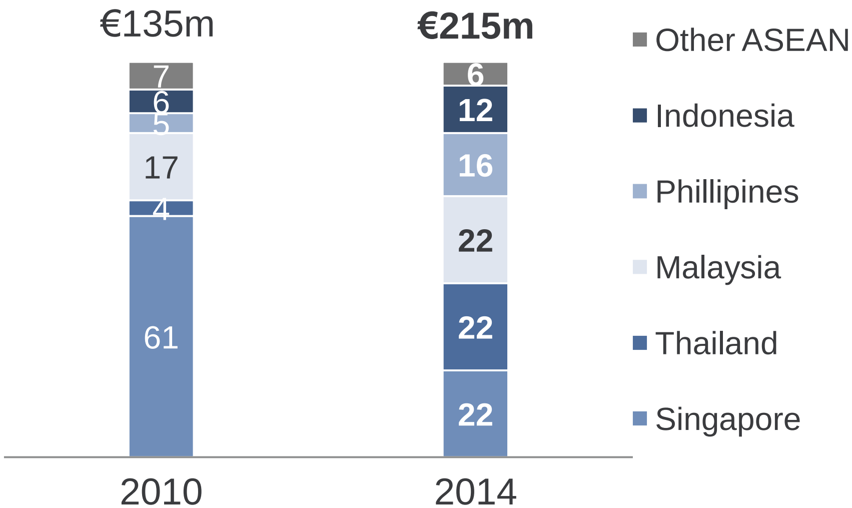
**Bottom-line-oriented approach will continue in view of still increasing competition, closer cooperation with selected strategic partners**

Other ASEAN | Indonesia | Malaysia | Singapore
Vietnam | Philippines | Thailand | Korea

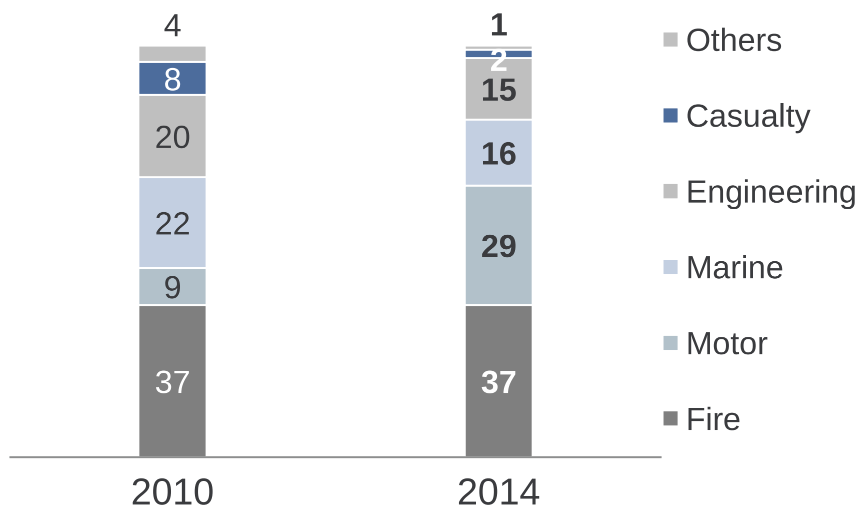
# Munich Re – Business in ASEAN

Munich RE

## GWP – Breakdown by region %




## GWP – Breakdown by line of business %



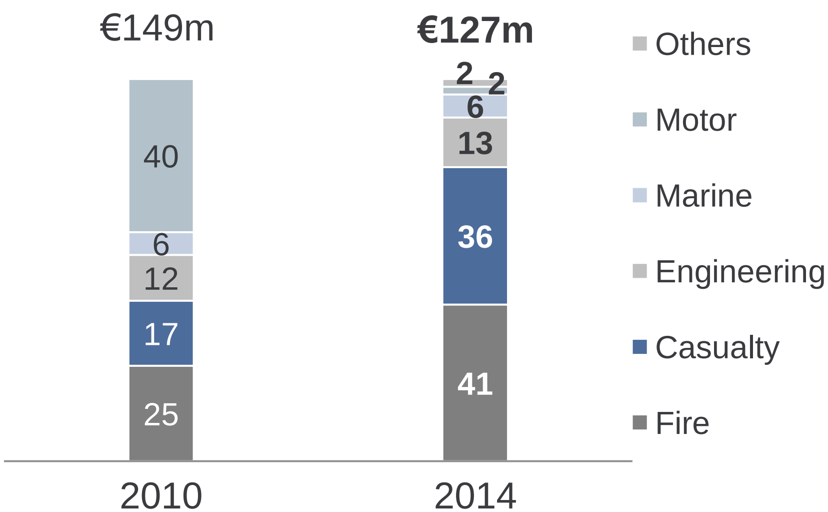

- Singapore, Thailand and Malaysia: Increase in motor solvency deals since 2011 supported by Munich Re's motor consulting unit
- ~60% proportional business, ~20% non-proportional and ~20% facultative business
- ASEAN countries subject to regulatory changes – Munich Re well-positioned to meet the challenges

**Singapore overtaken as leading market due to large motor quota-shares from other markets – Motor has become an important business line over recent years**

# Munich Re – Business in South Korea

Munich RE

## Split by line of business %




- Over 40% proportional business, almost 25% non-proportional and ~35% facultative business
- Large motor quota-shares all cancelled in 2014

## Outlook

- Continuing soft market given abundant capacity and increasing retentions
- Frequent sizable single losses due to higher values and business interruption element
- Regulatory developments and insurers' internationalisation creating new opportunities
- Increasing demand for new products and coverage concepts to overcome saturation, mainly in casualty lines
- Munich Re well-positioned
  - Solid local presence and global expertise
  - Provision of significant capacity in traditional business …
  - … while offering innovative products
  - Differentiation through range and quality of services

**Strong growth in fire and casualty driven by persistent pursuit of private placements – Strict focus on bottom-line prevails**

# Singapore – Leading insurance market place in Asia

Munich RE

## Economy

- Triple-A rated economy with strong growth potential
- Sound and stable location for business expansion into Asia
- World's fourth most important financial centre, easily accessible
- Robust and transparent legal framework coupled with political stability

## Market

- Small competitive domestic market
- Growth potential from regional business
- Local players and many major international insurers
- Asian hub for international reinsurers

## Workplace

- Attractive living environment and workplace for international/regional staff …
- … stimulating battle for talented people
- International financial centre promoted by tax incentives
- Very proactive, business-friendly regulator

**Singapore gaining importance as financial centre and insurance hub**

# Special feature – Lessons learnt from Thai floods in 2011

Munich RE

## Background – Flood causation

- Monsoonal and tropical cyclone-triggered rains – braking floodgates and allowing water to traverse irrigation canals into large areas of paddy fields
- Early and mid-October 2011, 40% above-average rainfall added to the problem following on from the typhoon – an area the size of Denmark flooded
- Prompted Government to release more than 9 billion cubic metres down the river basin
- Economic losses: ~US$43bn
- Insured losses: ~US$20bn

## Conclusions and recommendations

- Control risk accumulation, especially for nat cat scenarios – Munich Re flood modelling and Risk Mapper
- Assess protection measures for risks (flooding)
- Understand (contingent) business interruption risks, the nature of the business and production process along the entire supplier-manufacturer-customer chain
- Improve wordings
- Prepare for nat cat events

**Now aware of increasing numbers and importance of industrial parks all over Asia, reinsurers need to improve transparency and limit exposures**

# Munich Re – Medium-term strategy in ASEAN region

Munich RE

### Opportunities

- GDP growth, push for higher insurance density
- Increasing sophistication of regulatory frameworks
- Improved risk information/transparency
- Expansion of multi-national clients
- Flight to quality
- Large-scale projects
- Liability products emerging

### Munich Re's strengths

- Strong presence with full mandate
- Bundling of specific expertise
- Substantial shares/lead-positions
- Structured reinsurance solutions
- Risk Solutions

### Challenges

- Reinsurance/broker competition
- Political risk
- Increasing retentions at multi-national clients
- Changing regulation
- Nationalisation/trade barriers
- Complex unknown loss scenarios, e.g. Thai floods

### Munich Re's USPs

- Sustainable commitment to all ASEAN markets and longstanding presence
- Focused approach to strategic partners
- Servicing various markets according to their specific needs

**Striving for strengthened market presence and positioning as strategic partner**

# Key takeaways and outlook

Munich RE

| | |
|---|---|
| **South Korea** | ▪ Twofold growth strategy:<br>Support top four insurers with Munich Re's full product range and develop selected smaller and medium-sized insurers |
| **ASEAN markets** | ▪ Attractive growth markets despite some challenges<br>▪ Heterogeneous markets call for differing approaches |
| **ASEAN strategy** | ▪ Strengthening market presence and expanding business with clear focus on strategic partners<br>▪ Strong footprint in entire region, ideal partner for multinational clients |
| **Outlook** | ▪ Fiercer competition challenging profitability<br>▪ High underwriting discipline and strict bottom-line focus, further developing portfolios in emerging markets |

# Agenda

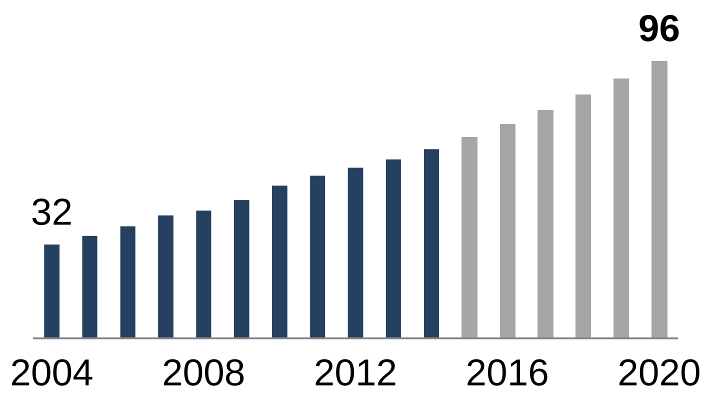
Munich RE

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| **P-C reinsurance in India** | **Kotak** |
| P-C reinsurance in Japan | Eckl |
| Life reinsurance in Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurance in Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

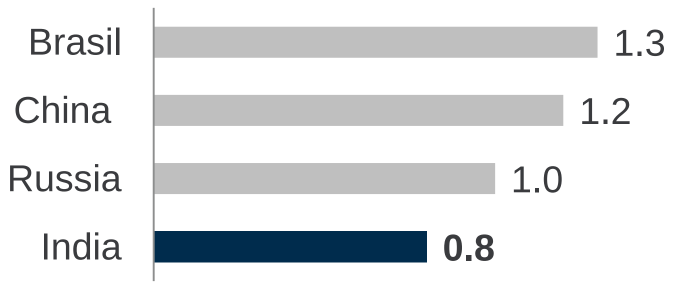
# Market: Strong momentum building up for resurgence in economic growth

Munich RE

GDP INR tn




Non-Life insurance penetration 2014 %




After recent slowdown, economy expected to grow by ~7% p.a. to the third largest economy by 2020s – main drivers:

- Demography: population of 1.27 billion representing 17.3% of world population – 65% below 35 years of age
- Demand: 250 million middle-income households – close to total US population
- Services and manufacturing: contribute 86% of GDP – mix of internal consumption and export of knowledge-led sectors
- Infrastructure investments: needed by new government

- Growth rates elevating India to eleventh largest insurance market by 2020s
- Future growth linked to consumer demand (agro, motor, liability), regulatory reforms (property), infrastructure (construction, energy) and adequacy of cat protection
- Pricing concerns, fierce competitive (amongst reinsurers) can be growth barriers

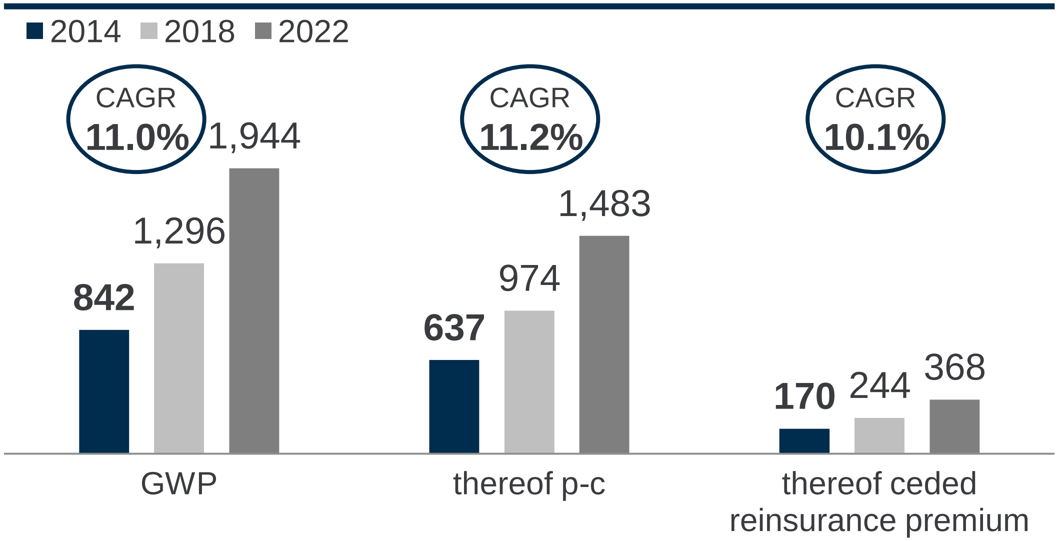
**Indian market shows high potential in the medium to long term, with substantial growth opportunities and stable political regime**

Sources: US Central Intelligence Agency (CIA) Factbook, Kohlberg Kravis Roberts & Co. (KKR) research, National Statistical Office – India, Munich Re Economic Research. INR 1 bn = €14.0m / USD 15.6m / GBP 10.2m.

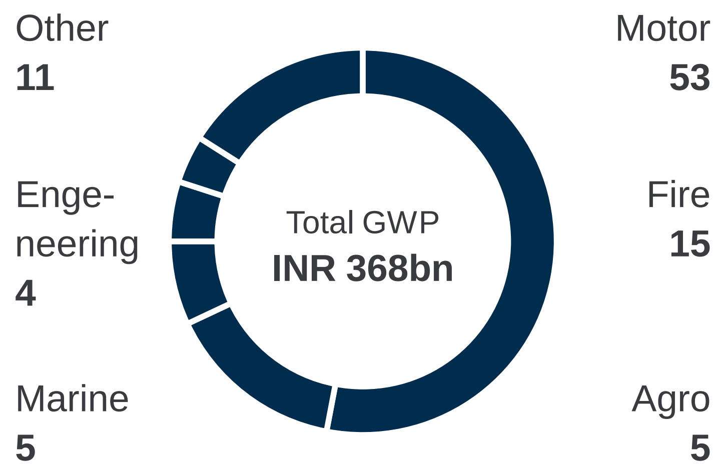
# Much-awaited insurance reforms add to the overall attractiveness of Indian p-c market

Munich RE

Primary and reinsurance premium projections INR bn




Breakdown by line of business in 2022 %




- Long-awaited Insurance Amendment (since 2008) passed by Indian parliament in March 2015
- Foreign JV partners to increase stake to 49% (currently 26%) through FDI[1] or FII[2]
- International reinsurers can open branches in India
- More autonomy given to Insurance, Regulatory and Development Authority of India (IRDAI) on future regulatory changes and framework

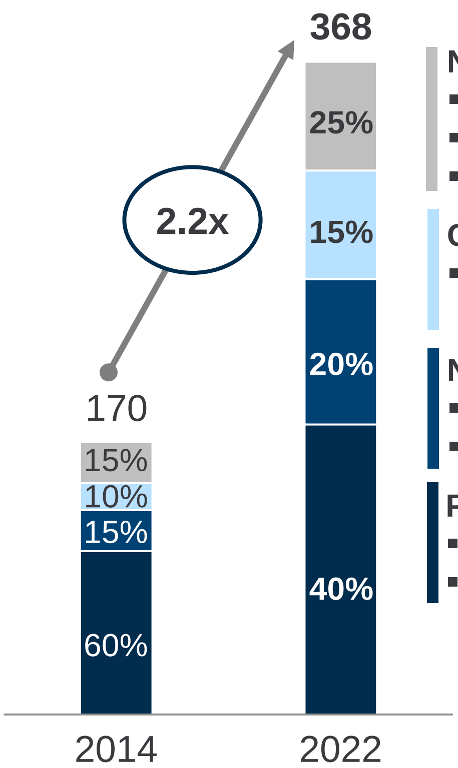
**The underlying growth potential together with the insurance reforms present favourable opportunities for Munich Re**

[1] Foreign Direct Investments. [2] Foreign Indirect Investments.
Sources: McKinsey India p-c reinsurance report, Munich Re analysis. INR 1bn = €14.0m/USD, 15.6m/GBP 10.2m.

# Focus on four key pillars to explore p-c reinsurance opportunities in India

Munich RE

## Development of ceded reinsurance premiums — INR bn




**New segments**
- Agro
- Casualty and financial lines
- Energy

**Capital management**
- RBC- and capital-relief-related solutions

**Nat cat and structured solutions**
- Nat cat (higher limits)
- Whole account solutions

**Property conventional**
- Surplus
- XL

## Growth drivers

- **Under-penetration** to meet growing needs of large consumer base (motor, personal accident, home-owners)
- **Regulatory reforms** allowing reinsurance branches to be set up to develop capacity, technical expertise and innovative products
- Government's impetus on **infrastructure development** leading to growth in construction, capacity expansion areas (power, oil and gas, renewable energy)
- **Services-led economy** driving growth of casualty and financial lines (cyber, general liability, technology D&O)
- **New companies** requiring more expertise and capacity through relaxation of FDI cap from 26% to 49%

**Munich Re aiming to be amongst the first branches of foreign reinsurers in India and gearing up to explore the growing reinsurance opportunity**

Sources: Munich Re analysis.
INR 1 bn = €14.0m/USD 15.6m/GBP 10.2m.

# Munich Re (Group) in India – Strong presence and commitment

Munich RE

## Reinsurance

Presence through representative office: Property-casualty (1998) and service company, life (2004) covering India and the sub-continent

- Business presence in India for six decades – first treaty in 1951
- Consultancy office (1989) converted to a representative office (1998)
- Current focus: Property and life segments with solutions-based approach in a competitive reinsurance space
- Investing in future growth opportunities (nat cat solutions, infrastructure, agro and casualty) through new product developments, skill transfer and client engagement
- Closely tracking the regulatory front in anticipation of reinsurance reforms – allowing reinsurers to set up branches in India

## ERGO and Munich Health

Three joint ventures – HDFC ERGO for p-c (2007), Apollo Munich for health (2007) and Avantha ERGO[1] for life

HDFC ERGO GENERAL INSURANCE

ApolloMunich HEALTH INSURANCE

AVANTHA ERGO LIFE INSURANCE


**Strong footprint in India through presence across all possible Group companies – only country outside Europe to have full Group presence**

[1] Under application stage with the Indian regulator.

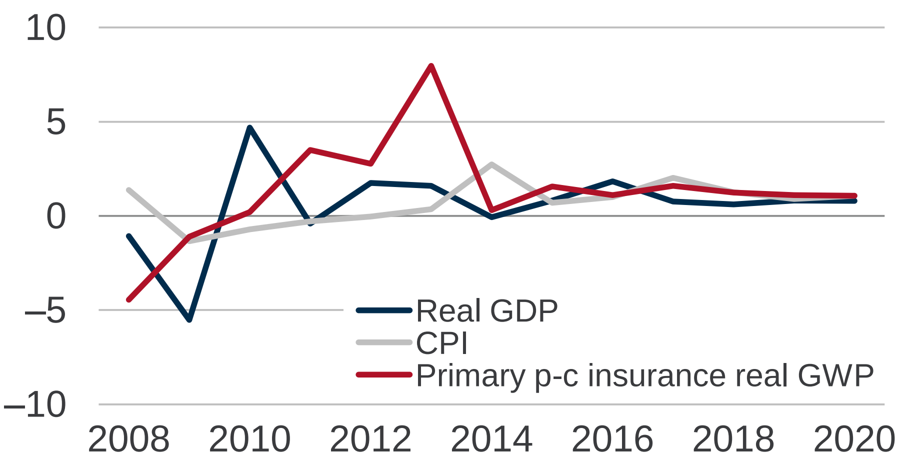
# Agenda

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| **P-C reinsurance in Japan** | **Eckl** |
| Life reinsurance in Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurance in Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

# Japan – Saturated and highly professional insurance market …

Munich RE

## Limited growth opportunities … %




- Japan the third-largest economy in the world
- Base trend of low growth expected to continue …
- … e.g. due to declining population – leading to lower unemployment rate and increasing labour cost
- Japanese corporations have recovered quickly from Tohoku earthquake by 2012

## … with efforts by primary insurers to escape from this "growth trap" – supported by reinsurers

**Innovation**

Making the pie bigger by exploring new risk covers

**International expansion**

Partly compensating for subdued growth prospects of domestic market

**Improve efficiency**

Centralising buying programmes

**Exploring new markets and risks**

# … dominated by top three insurance groups

Munich RE

## Macro environment

### Regulation

- Focus on policyholder protection
- Economic value-based solvency regime under discussion
- Some moves to restructure government insurance schemes

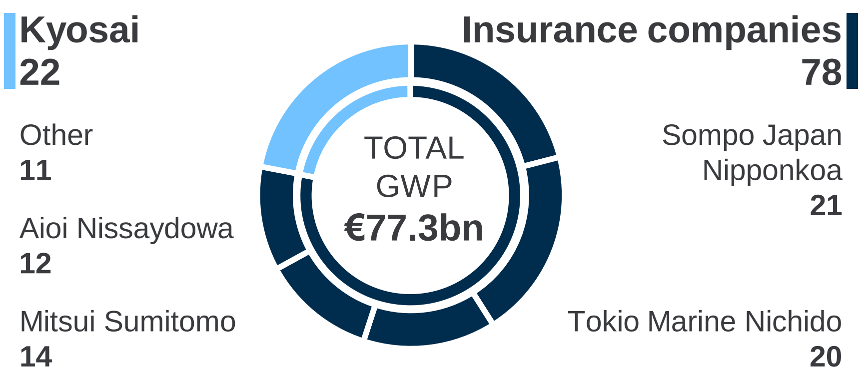
### Technology

- Advanced intelligent transportation system
- Advanced disaster prevention technology

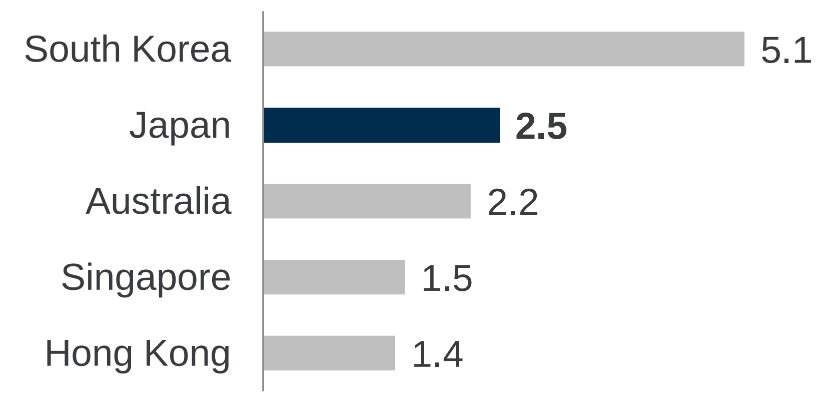
### M&A

- Industry consolidation in the mature domestic market

## Primary p-c market[1] (2014e) %




## Insurance penetration p-c (2014) %



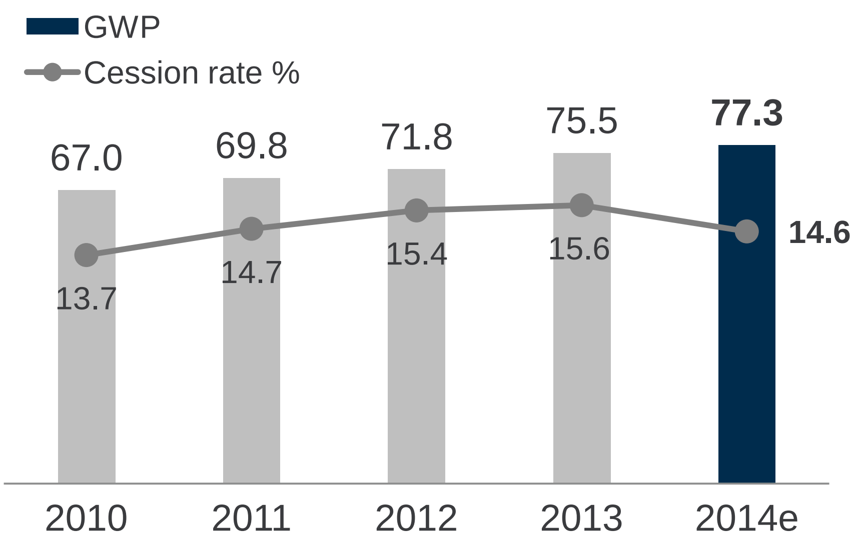

**Japan – Comparatively low insurance penetration given high wealth and significant nat cat exposure**

[1] Source: Statistics of Japanese non-life insurance business, General Insurance Association of Japan (Japanese fiscal year is from April to March). Source: Munich Re Economic Research.

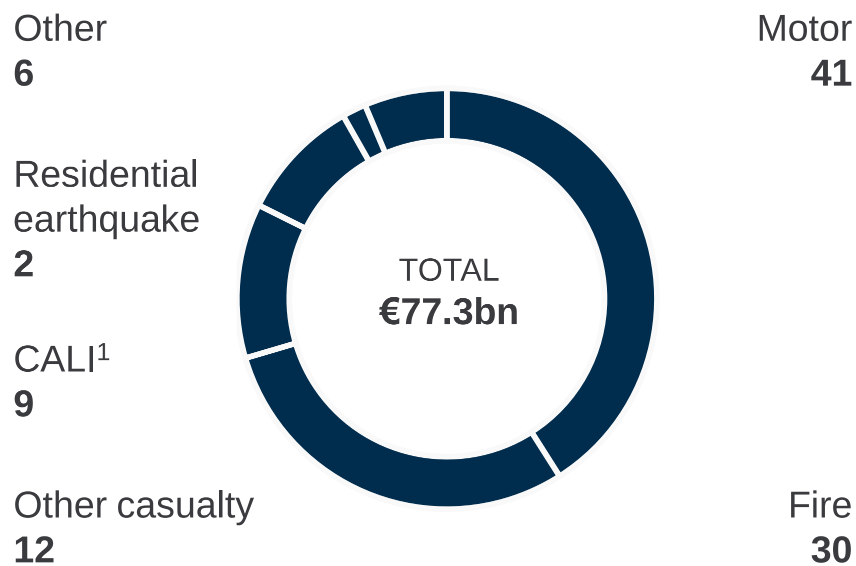
# Primary insurance market – Steady top-line growth

Munich RE

## Primary insurance – GWP €bn




## Breakdown by line of business – GWP 2014e %




- Low single-digit premium growth in a rather saturated market
- Major primary insurers seeking growth opportunities overseas
- Extremely strong and solid capital base with very high solvency ratios

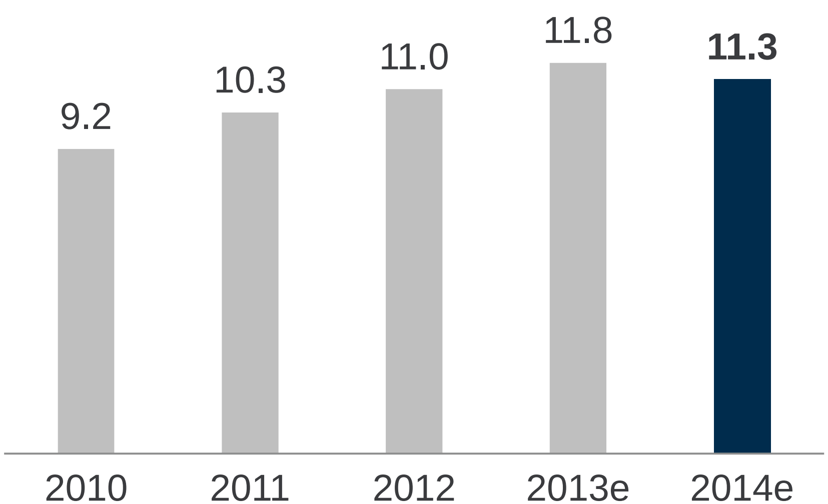
**Lower cession rates in 2014 due to mergers of clients/programmes**

[1] Compulsory auto liability insurance.
Source: Statistics of Japanese non-life insurance business, General Insurance Association of Japan.

# Reinsurance market – A competitive environment

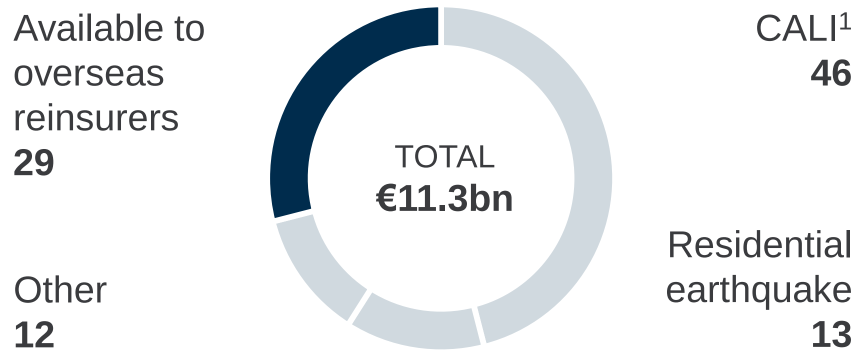
Munich RE

## Ceded reinsurance premiums (incl. Kyosai) €bn

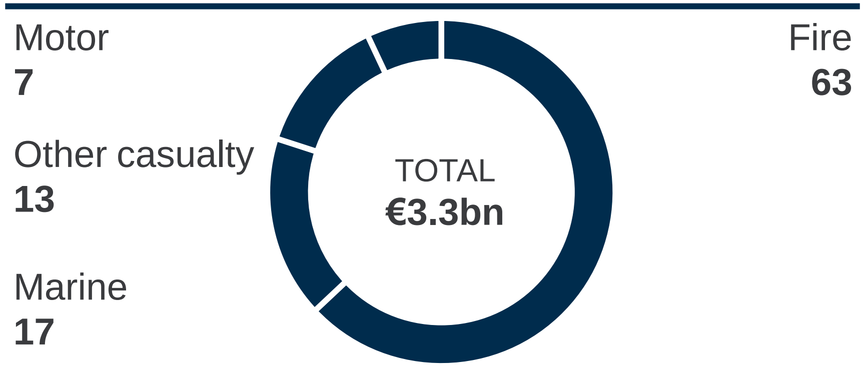



- Hardening of market after 2011 earthquake now fading away
- CALI[1] and residential earthquake: Government schemes not available to overseas reinsurers – pools set up on a non-profit/non-loss basis

## Breakdown by line of business (total) %




## Breakdown “available to overseas reinsurers” %




**Less than 30% of ceded premiums available to overseas reinsurers – Mainly nat cat risks**

[1] Compulsory auto liability insurance.
Source: Statistics of Japanese non-life insurance business, General Insurance Association of Japan.

# Munich Re – History of more than 100 years in Japan

Munich RE

## Munich Re in Japan

- Business relations with the Japanese insurance market since 1912
- First permanent representative assigned to Tokyo in 1953
- First foreign reinsurer to open liaison office in Tokyo in 1967 – Converted to a full-service company in 1999


**1912**

First contract concluded with a Japanese client – Nippon Fire (now Sompo Japan Nipponkoa Insurance)

**1953 – 1969**

First reinsurer to write engineering business – Beginning of long-standing relationship between Japanese market and Munich Re

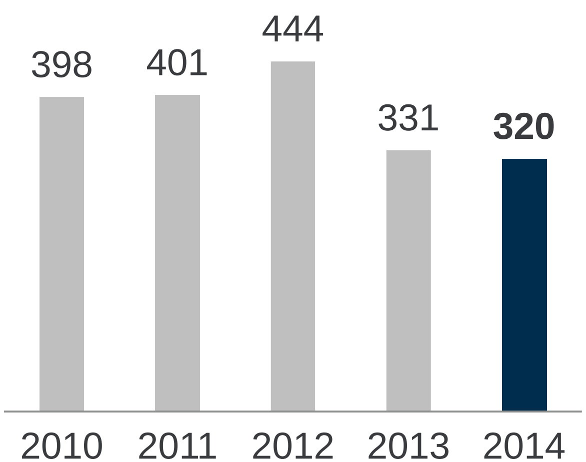
**1999 – today**

Greater need for reinsurance due to liberalisation of market – Munich Re positioned as stable and reliable partner

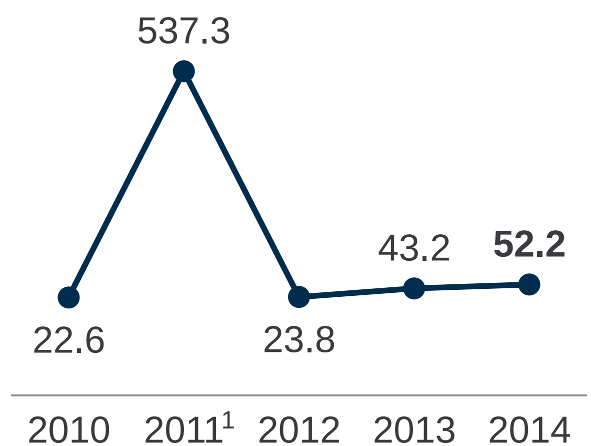
# Munich Re – Key financials

Munich RE

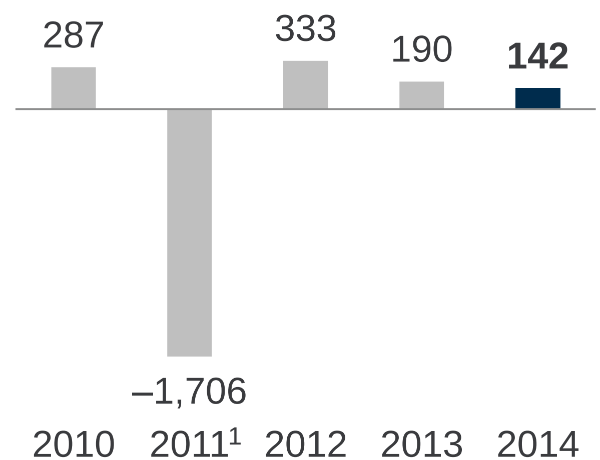
Gross written premium €m




Combined ratio %




Underwriting result €m




- Top-line strongly impacted by weak JPY – adjusted for FX stable premium development
- Active cycle management
- Higher retentions and combination of programmes

- 2011: Strongly influenced by Tohoku earthquake and Thai floods
- Improved terms in the aftermath of these events fading away
- 2014: Affected by snow losses in Japan

**Active risk management maintains profitability in nat cat driven portfolio and supports optimisation of portfolio mix**

[1] Before insurance risk transfer to the capital markets, being part of the investment result (€211m).

# Munich Re portfolio

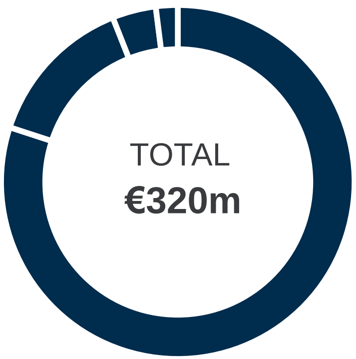
Munich RE

## Breakdown by line of business – GWP 2014 %

Other
**2%**

Marine
**4%**

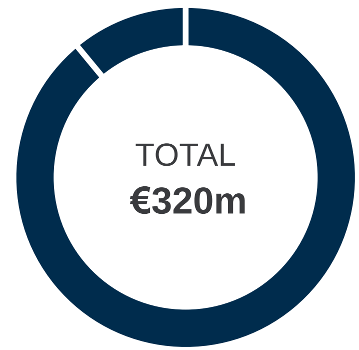
Casualty
**14%**




Property
(almost exclusively
nat cat)
**80%**

## Breakdown by nature of business – GWP 2014 %

Facultative
**11%**




Treaty
**89%**

## April renewal 2015 – Market environment

- Challenging soft market environment
- Continued strong earthquake rates in primary insurance …
- … while reinsurance rates decrease overall

## April renewal 2015 – Portfolio development

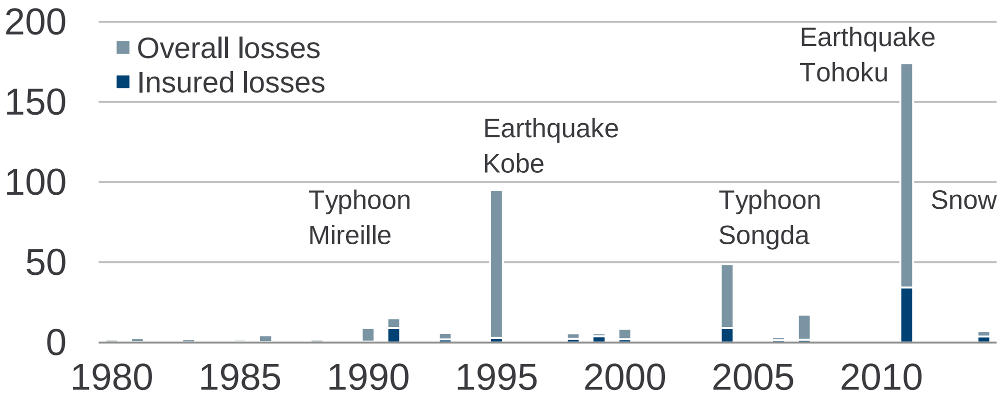
- Active cycle management through expansion of earthquake and reduction of wind business
- Diversification continued
- Foster position of Munich Re through new business initiatives

**Successful portfolio management throughout the cycle**

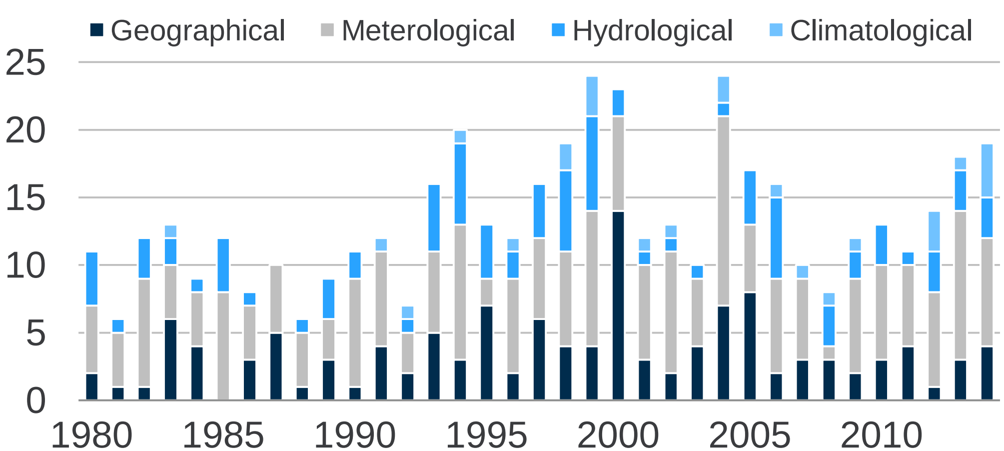
# Natural catastrophe business in Japan

Munich RE

## Nat cat losses in Japan US$ bn




## Number of nat cat events in Japan




## Munich Re positioning

- Munich Re writing earthquake and wind/flood business in Japan
- Despite upward trend in nat cat losses, long-term commitment facilitating writing of profitable business over the cycle
- After the Tohoku earthquake in 2011, the Japanese market has once again proved its discipline and loyalty
- Competitive advantage
  - Longstanding experience
  - Own well-established nat cat models
  - Premium reinsurer – offering tailor-made solutions, which are the key to success in managing a sustainable book of business

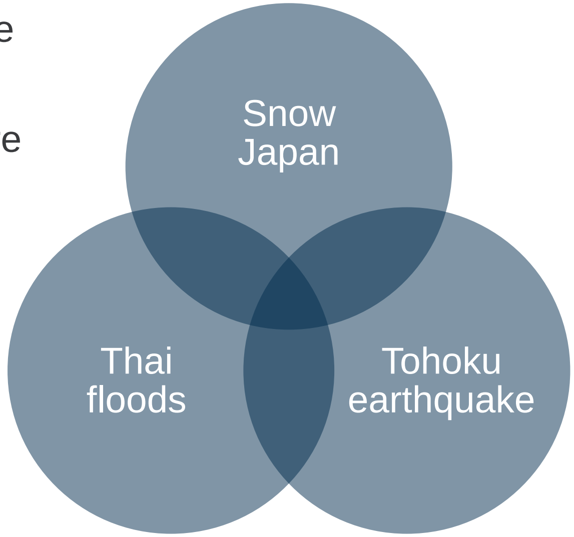
Source: Munich Re, Geo Risks Research, NatCatSERVICE.

# Significant nat cat events in recent years

Munich RE

### Thai floods (10/2011)

- Accumulation of single large risk losses
- Detailed exposure data were not available
- Deep understanding of risk spread over each country
- In-depth understanding of economic relations and interdependencies of Japanese corporates




### Snow Japan (2/2014)

- Fourth costliest insured nat cat event in Japan
- Timely and sufficiently accurate market data are necessary
- Support clients' cat loss estimation process

### Tohoku earthquake (3/2011)

- Return period: ~100 years
- No losses reported under personal accident
- Nuclear contamination not insured but makes claims handling difficult

- Coverage and accumulation control is essential
- Early communication with clients after the loss (post-event strategy)
- Claims handling remains a challenge

**Major nat cat events prove value of partnership and cement client relationships**

# Munich Re's strategic positioning – Unique selling propositions

Munich RE

### Premium capacity provider

- Offering large capacities with sustainable terms and conditions …
- … while positioning reinsurance as highly flexible and effective capital substitute

### Premium partner

- Strong local presence providing clients access with global expertise
- Active role as "opinion leader" and "sparring partner" in selected topics[1]
- Create tailor-made values – dedicated client team and services

### Premium solution provider

- Providing solutions in Japan and beyond
- Tailor-made solutions by holistic client management
- Supporting the development and provision of concepts for complex and newly emerging risks

- Maintain target portfolio in spite of challenging market environment
- Broaden portfolio mix by further diversification – client segments and products
- Further strengthen key client relationships, making investments with a long-term perspective
- Differentiation from competitors – bringing unique/essential value to the client relationships

**Position Munich Re as a stable core partner today and for the future**

[1] E.g. natural hazards, risk management, claims management, new technologies and emerging risks.

# Business opportunities

Munich RE

**Tailor-made solutions**
- Capital efficiency solutions – close interaction with C-levels via dedicated teams
- Special product lines – e.g. renewable energy, sport events, pet insurance

**Clients' international expansion**
- Global covers – international presence and centralised buying support
- Local covers outside Japan – global office network

**Government/ public sector**
- Nat cat cover for public sector
- Agriculture – liberalisation to generate (re-)insurance demand
- Benefitting from experience in other markets

**Cyber**
- Rising data volume creating potential for new risk segment
- Munich Re already active in the USA and Europe …
- … and prepared to support Japanese clients

**Telematics/ motor consulting**
- Government's ambition for 2020: Telematics transportation system in Tokyo area
- Dedicated motor consulting unit
- Capital relief solutions

**First port of call**
- Sparring partner and enabler of innovations
- Local office presence with global expertise
- Dedicated to making the pie bigger together with clients

**Munich Re an innovative, proactive, client-oriented solution-provider**

# Key takeaways and outlook

Munich RE

| | |
|---|---|
| **Financial results** | ▪ Prone to volatile results due to high nat cat share<br>▪ Reliable partnership indispensable to perform in the Japanese market |
| **Strategic positioning** | ▪ Sustainably provide capacity<br>▪ Support clients in their global growth strategies – Emerging global covers<br>▪ Promote product innovation and public sector solutions |
| **Portfolio** | ▪ Active risk management to maintain profitability in a competitive environment<br>▪ Access new markets and risks with innovative solutions |
| **Outlook** | ▪ Strict cycle-management and diversification remain key<br>▪ Managing nat cat volatility while further expanding product scope |

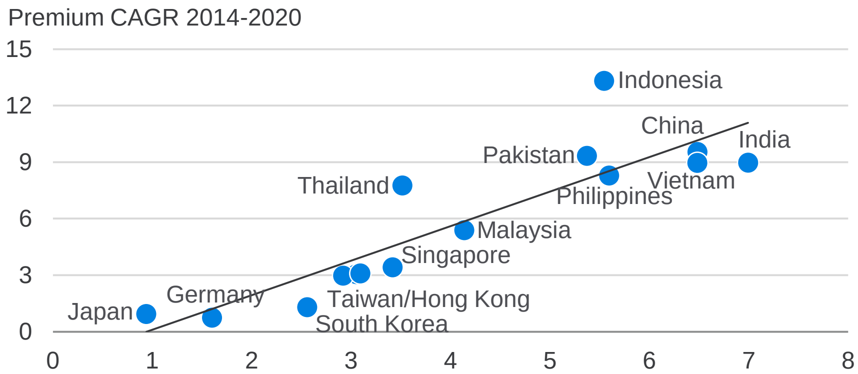
# Agenda

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| **Life reinsurance in Asia** | **Cossette** |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurance in Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

# Life insurance in Asia

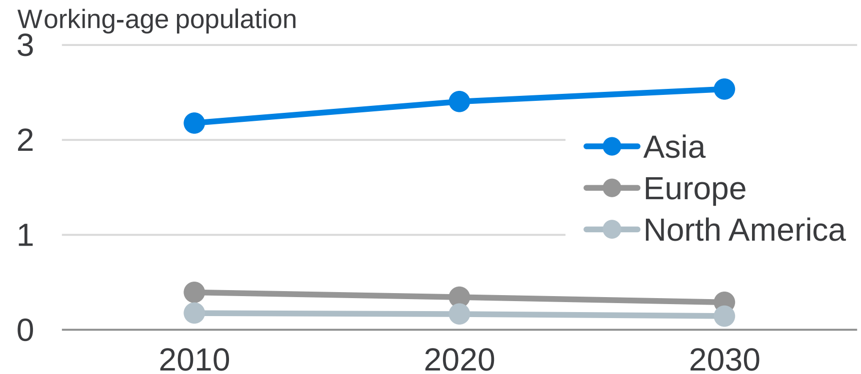
Munich RE

## GDP growth will drive life insurance spending %



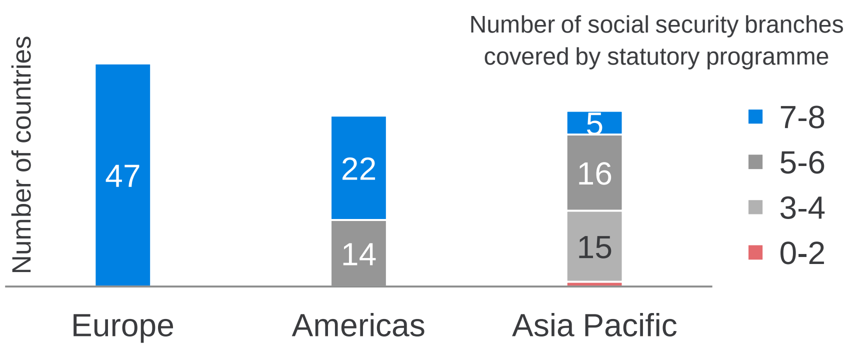

Source: Munich Re Economic Research

## Large and growing workforce bn



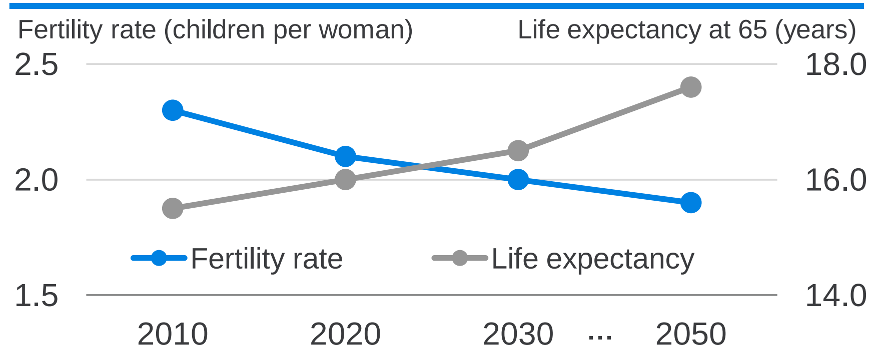

Source: UN DESA[1]

## Comparatively limited social security cover




Source: International Social Security Association

## Smaller family units, longer retirement




Source: UN DESA[1]

**A generation of growth ahead**

[1] Department of Economic and Social Affairs.

# Highly-diverse mix of mature and emerging markets

Munich RE

Mature Asia — Emerging Asia

Japan | Hong Kong | Singapore | Taiwan | South Korea | China | India | Malaysia | Thailand | Philippines | Indonesia | Vietnam

High — Low

Ageing population
Insurance penetration
Product sophistication
Pensions gap

Low — High

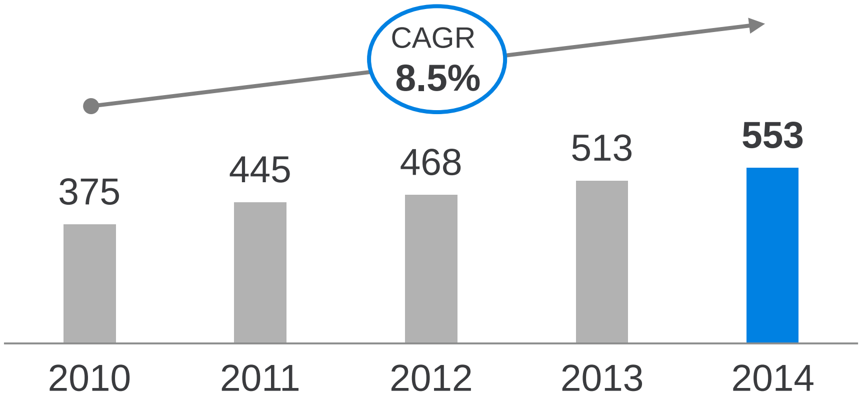
Economic growth
Interest rates
Population growth
Knowledge gap
Protection gap

**Need to adapt products and services to each market**

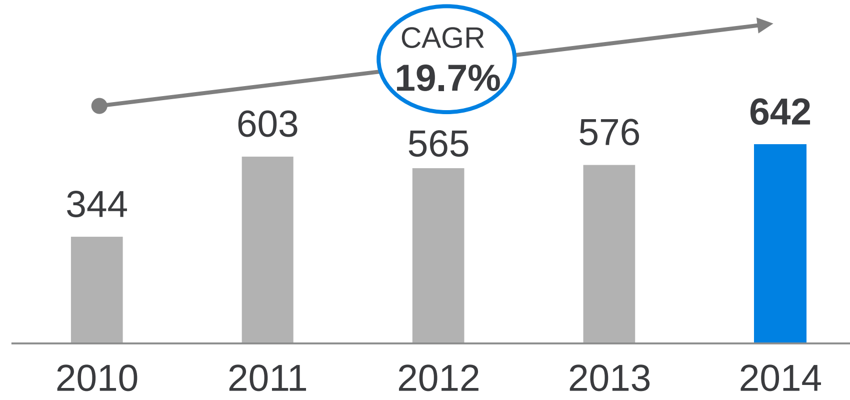
# Life reinsurance market[1] in Asia

Munich RE

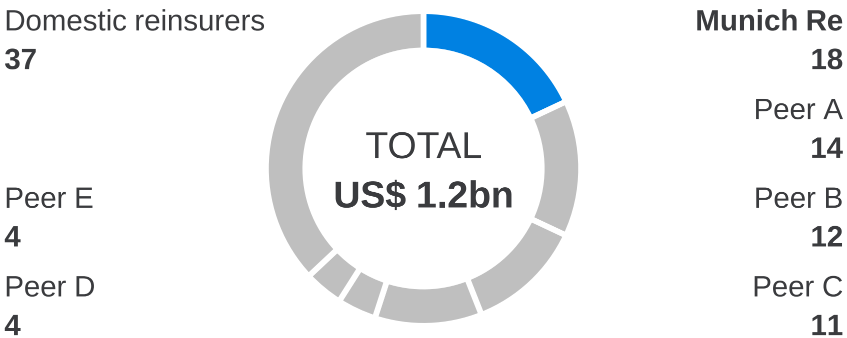
## Individual new reinsurance premium US$m




## Group total reinsurance premium US$m




## Reinsurer market shares – Premium %




Source: NMG, individual new and group total traditional business

## Past trend to continue driven by

- Primary market protection growth
- Emerging Asia: Demand for knowledge transfer
- Mature Asia: Demand for capital and process optimisation

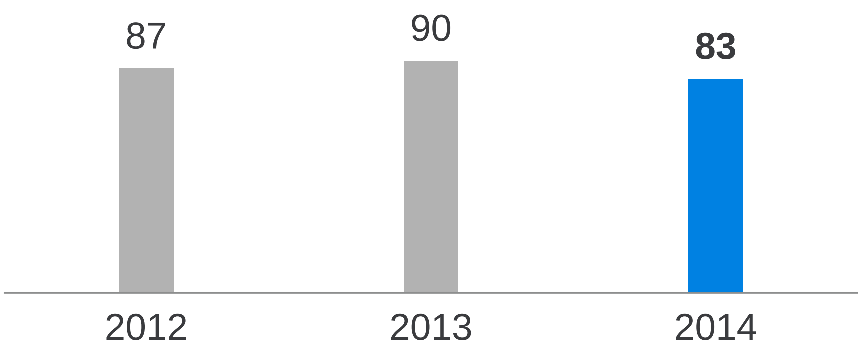
**Life reinsurance market expected to grow by 10%-15% p.a. in nominal terms over the next five years**

[1] Contestable life traditional reinsurance market excluding capital-motivated transactions.
Source: NMG Consulting Asia Life and Health Reinsurance Programmes 2009-2014.

# Life reinsurance environment

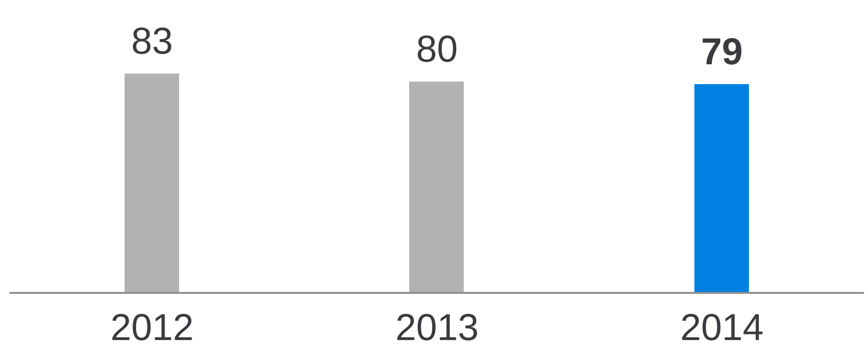
## Non-cyclical %

View that adequacy of life reinsurance pricing in Asia is rational




## High barrier to entry %

Market share of contestable cessions of top six reinsurers in Asia




## Market (generally) disciplined

- Competition is intense, but generally pricing meets technical requirements
- High degree of technical sophistication among all life reinsurers

## Difficult market for a new entrant

- Asia is expensive to serve
- Strong footprint needed, esp. for distribution
- Substantial decentralised infrastructure needed
- Large capital and expertise resources needed
- Brokers play a minor role in life reinsurance

**No significant deterioration in market conditions expected**

Source: NMG Consulting Asia client survey 2014.

# Munich Re life reinsurance in Asia

## Decentralised structure


- Regional hub in Singapore
- Takaful hub in Malaysia
- Strong local presence in all key markets
- Infrastructure mostly complete

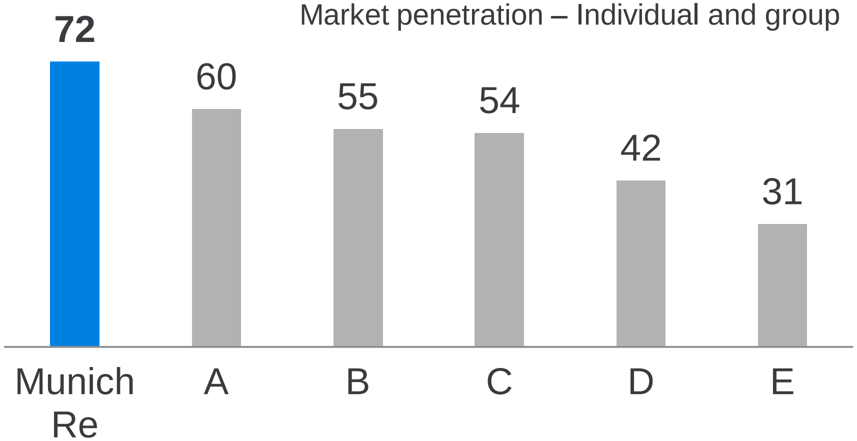
**Munich Re well-positioned to participate in future growth in Asia**

# A leading life reinsurer

Munich RE

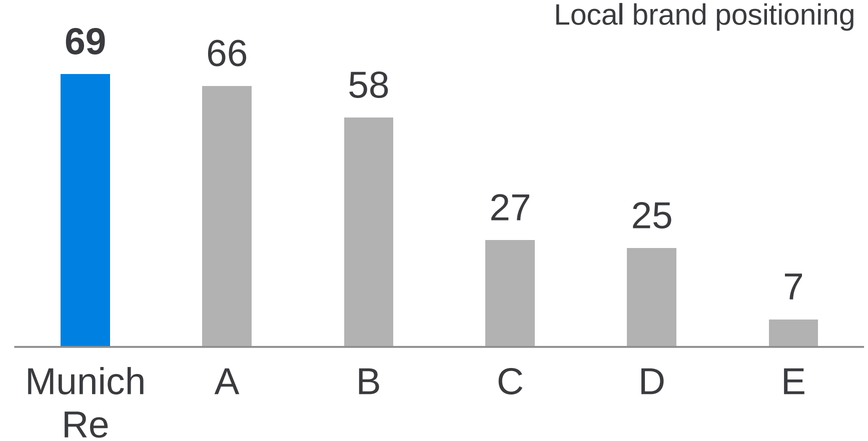
## The no. 1 player %

Market penetration – Individual and group



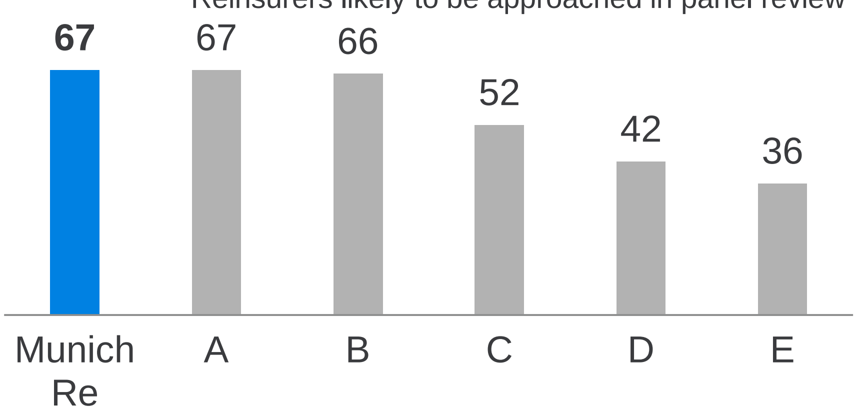

## The leading brand in Asia %

Local brand positioning



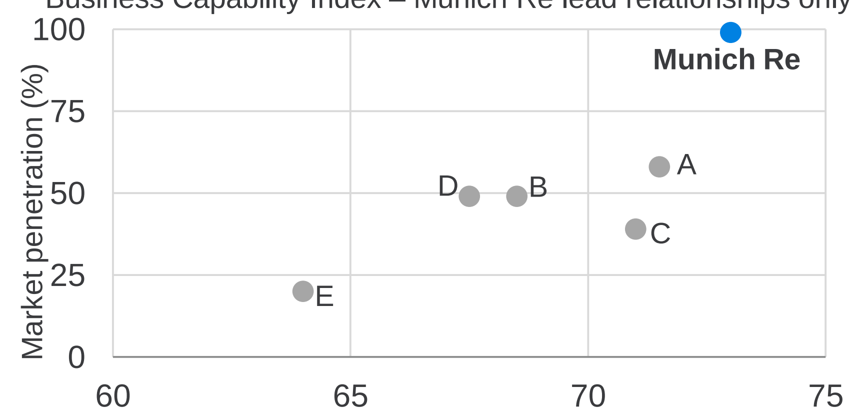

## Pole position %

Reinsurers likely to be approached in panel review




## Pre-eminent position with clients

Business Capability Index – Munich Re lead relationships only

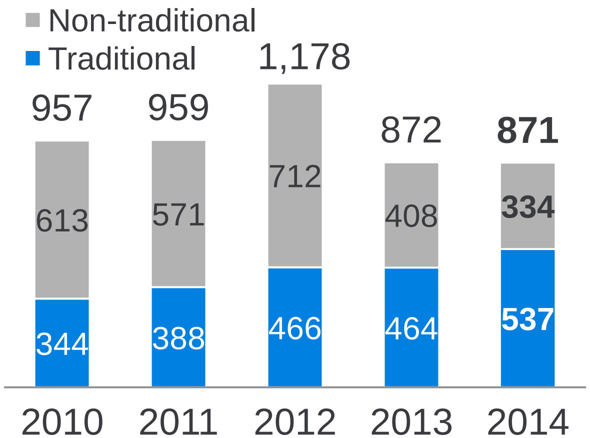



Source: NMG Consulting Asia Life & Health Reinsurance Programme 2014.

# History of profitable growth

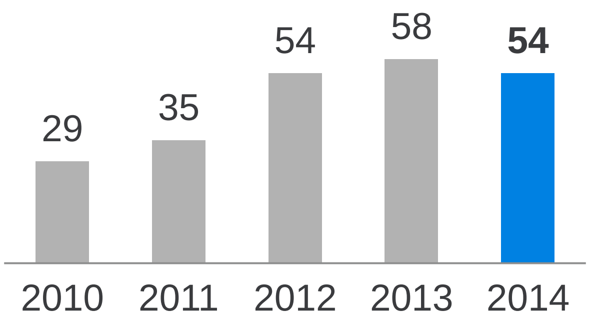
Munich RE

## Gross written premium €m



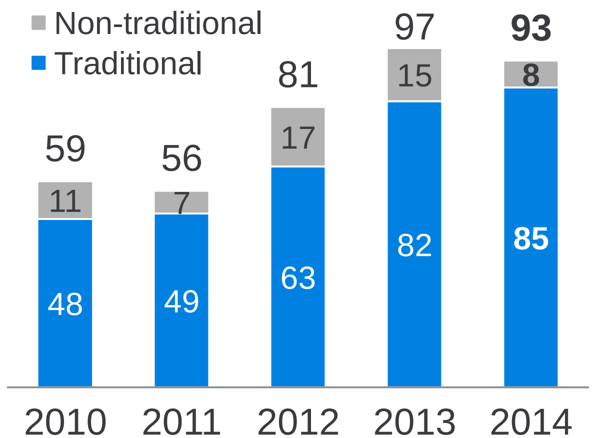

Solid traditional business –
CAGR: 11.8%

## Technical result €m




Bottom line focus –
CAGR: 16.8%

## Value of new business €m




Strong value generation –
CAGR traditional: 15.4%

## Traditional

- Emerging markets
- Service-driven
- Living benefits

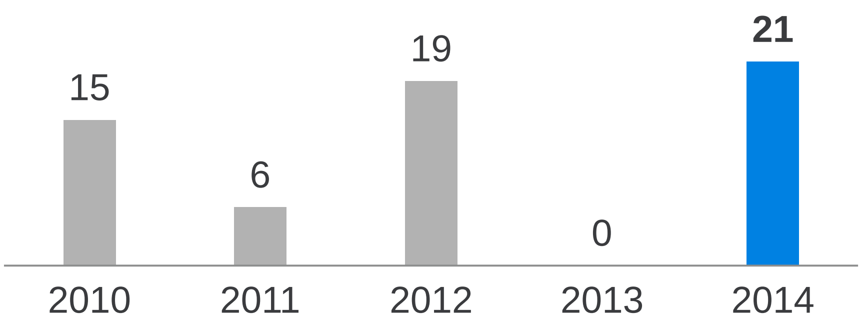
## Non-traditional

- Mature markets
- Complex, structured transactions
- Financially-motivated reinsurance

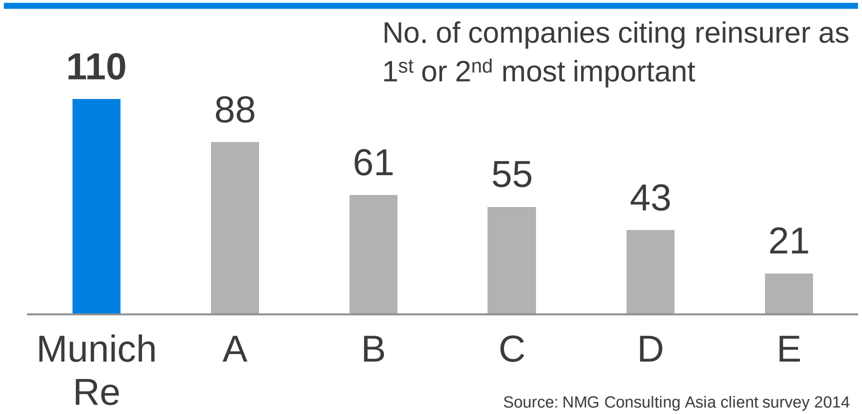
**Top- and bottom-line expected to grow at 10%-15% p.a.**

# Quality back book

## Claims experience better than assumed[1] €m

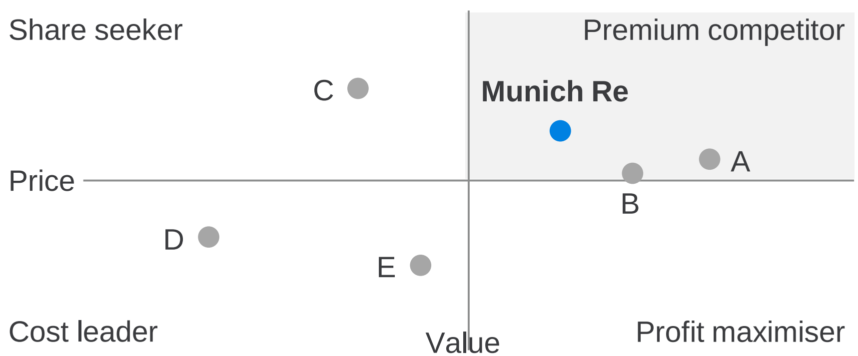



## Lead relationship




Source: NMG Consulting Asia client survey 2014

## Positioned as premium provider




Source: NMG four-year average 2011-2014

## Back book

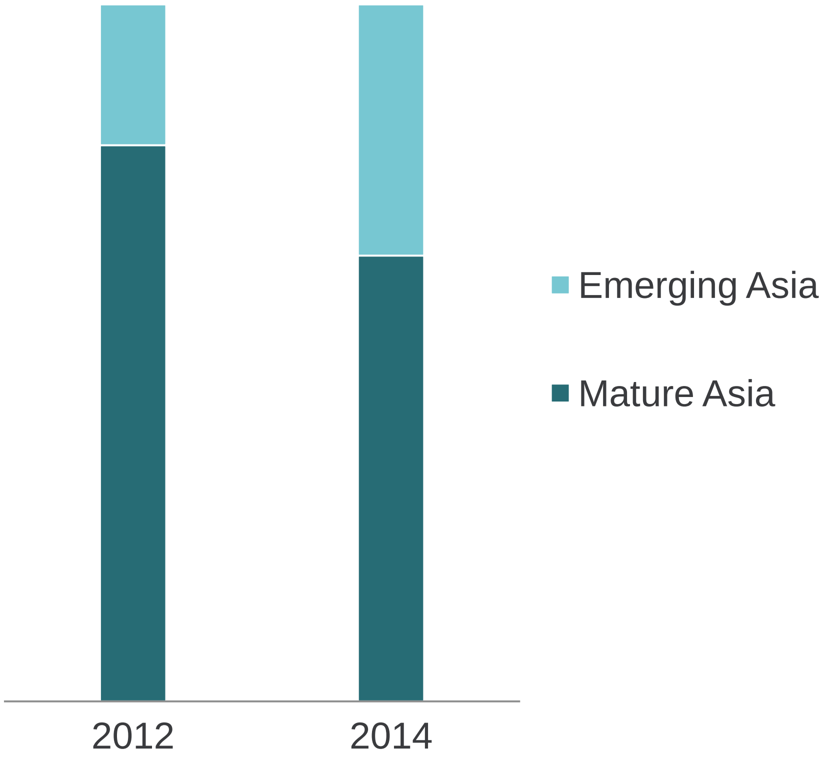
- Acquired mostly through services standing out from competitors
- Long-term partnership
- Limited exposure to long-term guarantees on living benefit products
- Sustainable pricing

**Munich Re evidence-based and disciplined underwriting policy to continue**

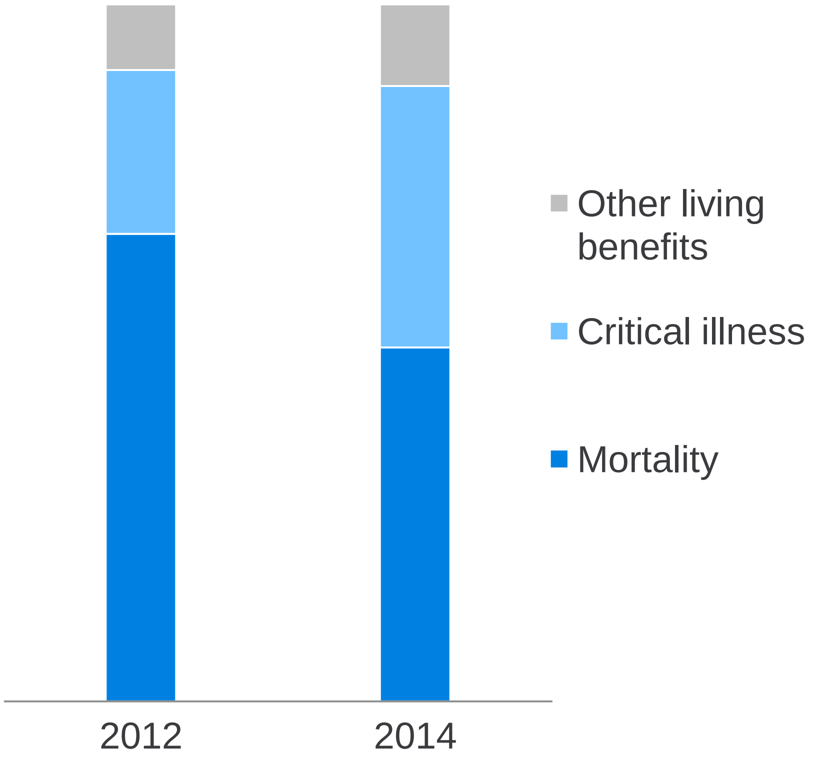
[1] Operating variances and assumption changes.

# Munich Re Asia life reinsurance portfolio

## Shift to emerging markets – Premium income %




## Shift to living benefits – Premium income

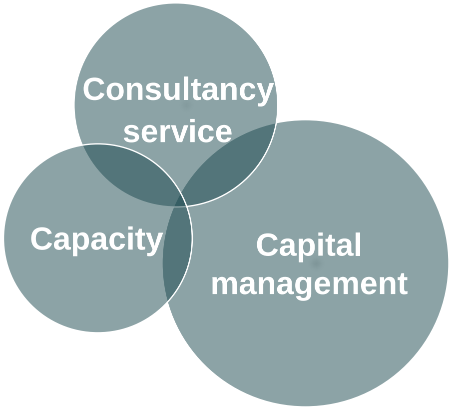



**Risk profile is stable, limited exposure to long-term guaranteed living benefits**

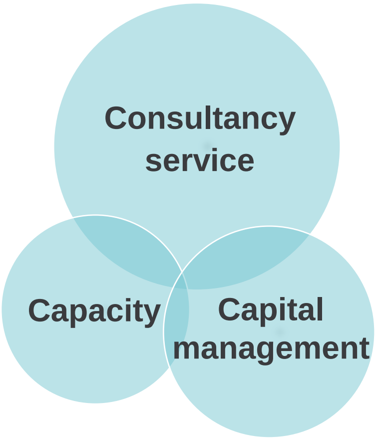
# Value proposition tailored to market needs – Optimisation vs. know-how transfer

Munich RE

## Mature




## Emerging




## Optimisation

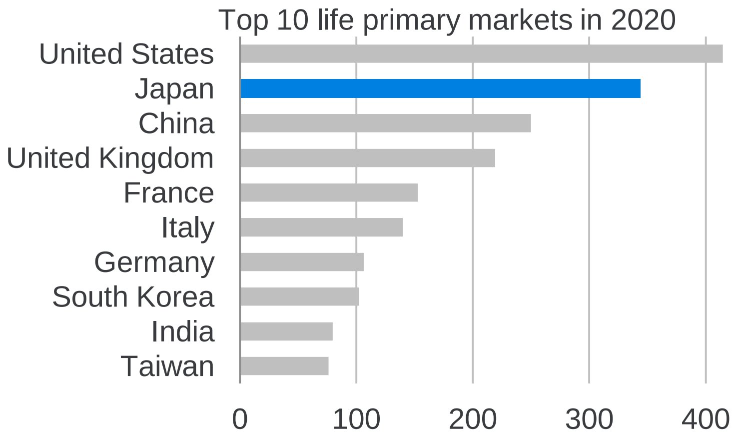
- Industry-leading automation provider (MRAS)
- Capital management founded on financial strength with large, liquid balance sheet, and structuring expertise with strong record of execution
- High capacity provider
- Good understanding of risks through data, system, and research teams
- Asset protection

## Know-how transfer

- Local market knowledge
- Access to global network
- Intellectual capital with expertise in all product lines
- Product ideas and development support
- Underwriting tools, audits, and reviews
- Claims assessments, reviews and process consultancy

# Mature Asia market – Example: Japan

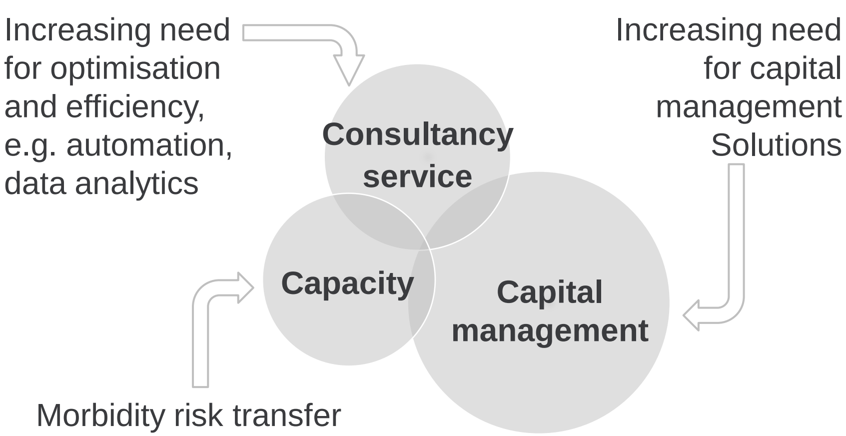
## Large but not growing €bn




## Challenging environment

- Little or no GDP growth
- Challenging demographics
- Life insurance in structural decline except for tertiary sector (living benefits)
- Significant disintermediation risk
- Increase in regulatory capital requirements
- Cost pressure

## Market needs



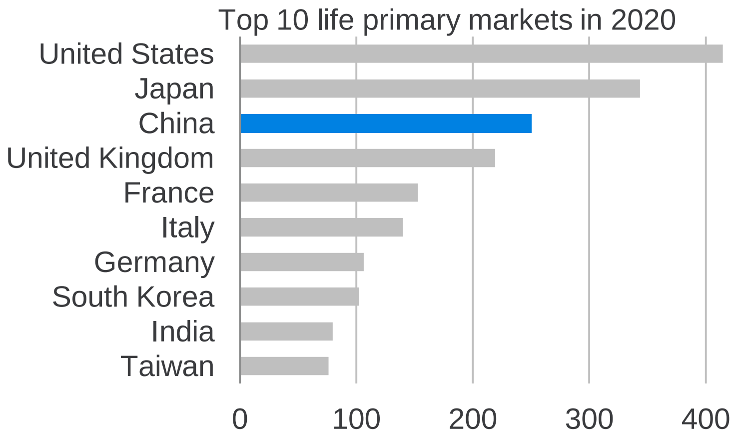

## Reinsurance outlook

- Low growth in traditional reinsurance
- Growing demand for capital management and asset-protection solutions
- Growing demand for automated underwriting solution

Source: Munich Re Economic Research.

# Emerging Asia market – Example: China

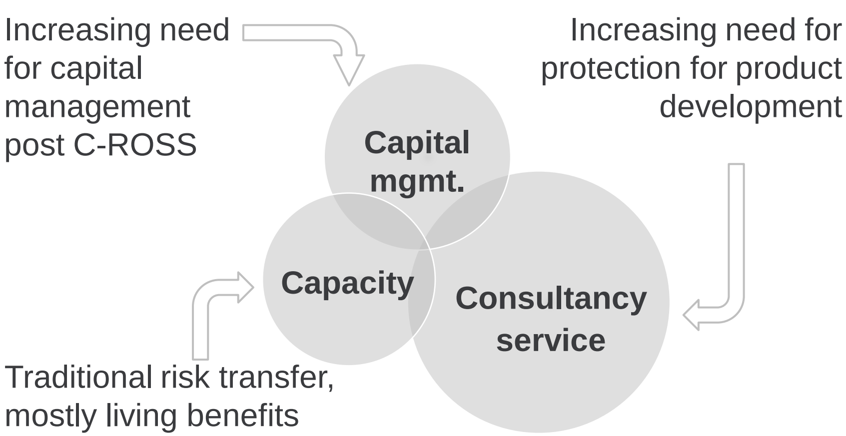
## Large and growing €bn




## Positive growth outlook

- Strong policy support
  - Target: 5% penetration by 2020, implies 15%+ CAGR
  - “national ten” initiatives
  - scheduled tax break (health, pension)
  - product liberalisation
- Underinsured population
- More focus on protection products

## Market needs




## Reinsurance outlook

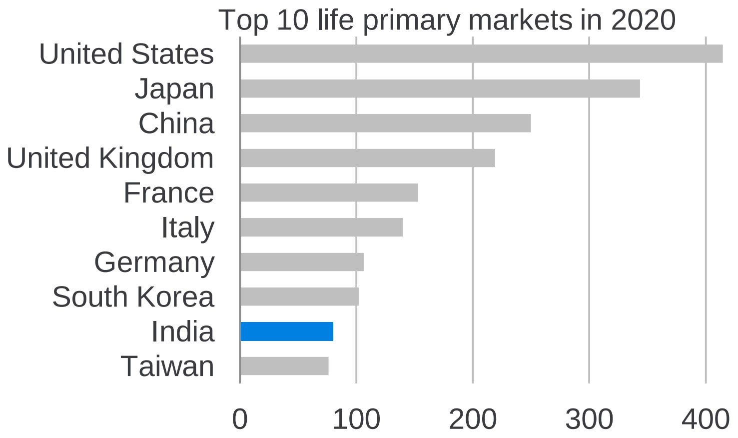
- Solid growth of traditional reinsurance expected to continue, mostly driven by underlying primary insurance growth
- Strong demand for reinsurer’s capital, service and training

Source: Munich Re Economic Research.

# Emerging Asia market – Example: India

Munich RE

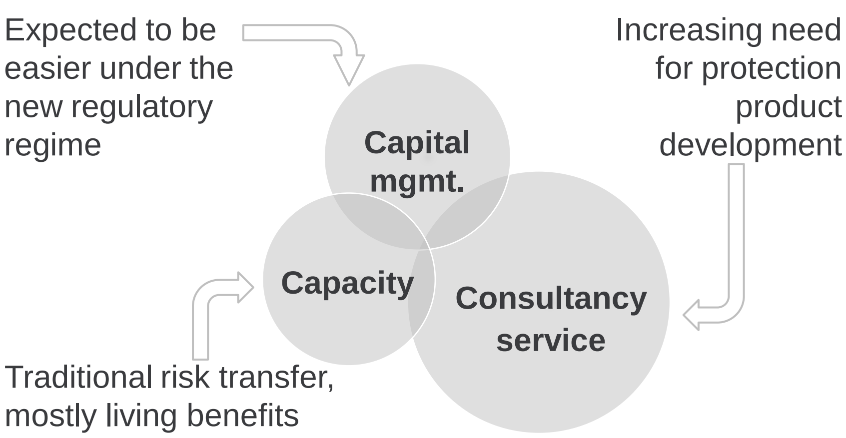
## Still relatively small… €bn




## Life market is recovering

- Long-awaited Insurance Bill (2008) enacted in December 2014
- Reinsurers can now open branches in India, increasing the scope of their activities
- Life sales are slowly recovering after several tough years of regulatory intervention
- Ongoing shift towards protection products

## Market needs




## Reinsurance outlook

- Market expected to recover in the short term
- Solid demand for reinsurer's service and training
- Reinsurance branch draft regulations look encouraging

Source: Munich Re Economic Research.

# Product development – New products developed and reinsured in partnership with clients using global expertise and proven model

Munich RE

Integrate with client's existing product development process

## Discovery workshop

**Understand client**

- Business strategy
- Marketing philosophy
- Distribution
- Technology
- Client base
- Underwriting and claims
- Product development process

Produce business model report

## Preliminary analysis

**Perform**

- Market research
- Competitor analysis
- Trend analysis
- Global benchmarking
- Business risks and gap analysis

Produce gap analysis and product opportunities report

## Idea sharing

**Present**

- Innovative and marketable product ideas based on Munich Re's experience in global markets
- Refinement designs for more competitive products

Agree one or two ideas that add sustainable value to client's business

## Development and implementation

**Develop**

- Business case
- Product designs and specifications
- Underwriting and claims guidelines
- Actuarial pricing and reinsurance rates
- Training materials
- Product management
- Experience analyses

Support product launch

**Most important life reinsurer service according to NMG client survey**

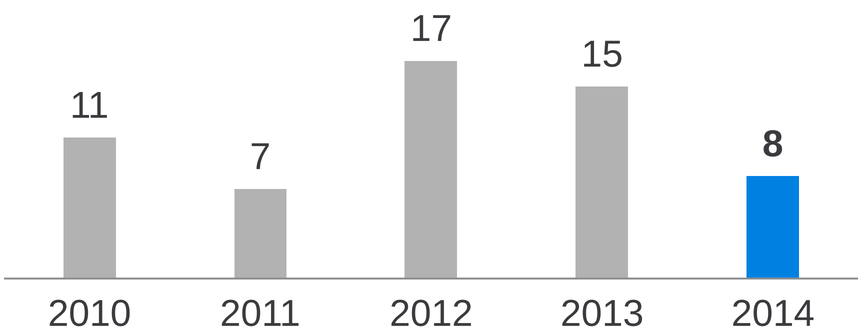
# Financially-motivated reinsurance – A key strategic pillar with regional hub in Singapore

Munich RE

## Market profile, needs

- Diverse regulatory markets and needs
- Client base both multinationals and local insurers
- Increasing local capital requirements, as well as parent desire for fungible capital

## Important value contribution – VNB €m




## Munich Re unique proposition

- Liquid balance sheet
- Financial strength
- Structuring expertise

## Outlook

- VNB in 2015 significantly higher than in 2014
- Regulatory changes drive opportunities for different structured solutions
- Low interest rates increase capital needs
- Continuing focus of multinationals on capital optimisation

**Reinsurance has become a key capital management tool for Asian insurers**

# Asset protection

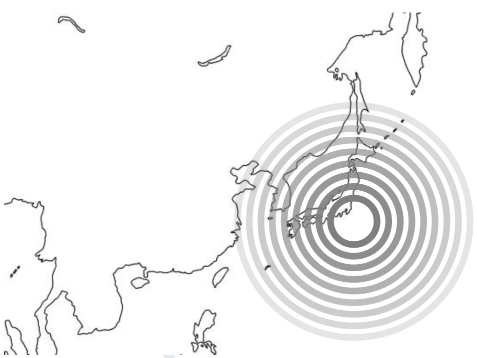
Munich RE

## Financial solutions regional hub in Tokyo

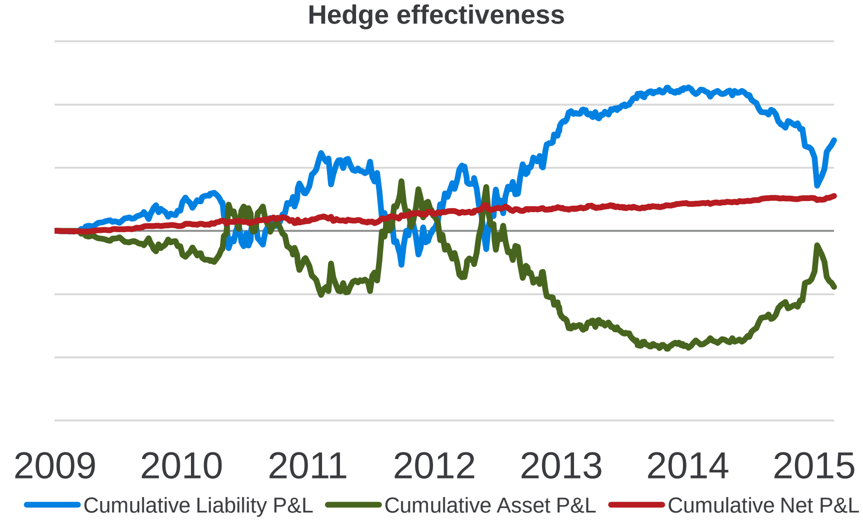
Providing client solutions where:

- Design and reinsurance of savings products require enhanced capabilities to manage market, policyholder-behaviour and biometric risk – one focus being variable annuities (VA), provided for new business and closed blocks
- Structuring and execution of capital management transactions responding to demanding finance and risk management objectives – in collaboration with regional business units

**Headquarters** located in **Munich**, with a regional hub in **Tokyo** to cover **Japanese** clients and opportunistically serve clients in **South Korea** and **Taiwan**



## Japan – Historical milestones and key figures




## Milestones

| | |
|---|---|
| 2007 | Strategic business initiative – Japan considered a key market in Asia |
| 2008 | First Japanese VA reinsurance closed, despite the financial crisis |
| 2009+ | Participated in the development and launch of various new VA products |
| 2015 | Launch of Tokyo hub |

# Munich Re Automation Solutions Ltd (MRAS) – World-leading provider of new business software solutions

Munich RE

## 74 clients in 24 countries worldwide

**Allfinanz** software suite → **MRAS** ← **Munich Re** underwriting rules

### Enable change
Help clients enter new business segments

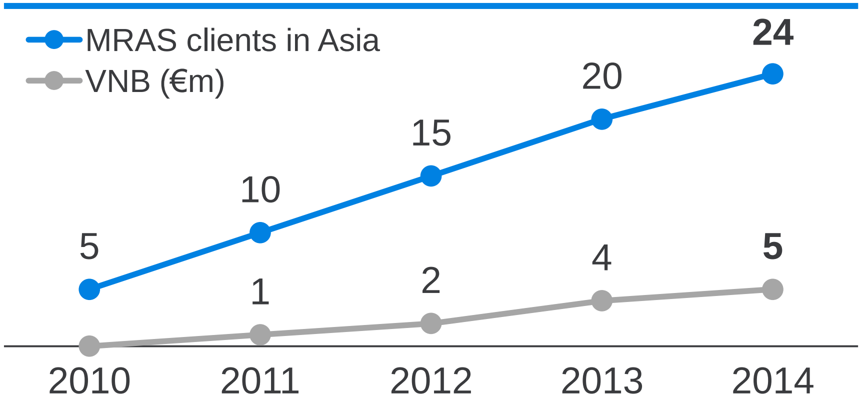
### Grow via service
Take new business process to next level

Propositions

### Enable efficiency
Improve underwriting results and efficiency

### Local solutions
Meet market-specific, local need

## MRAS value generation




## Outlook

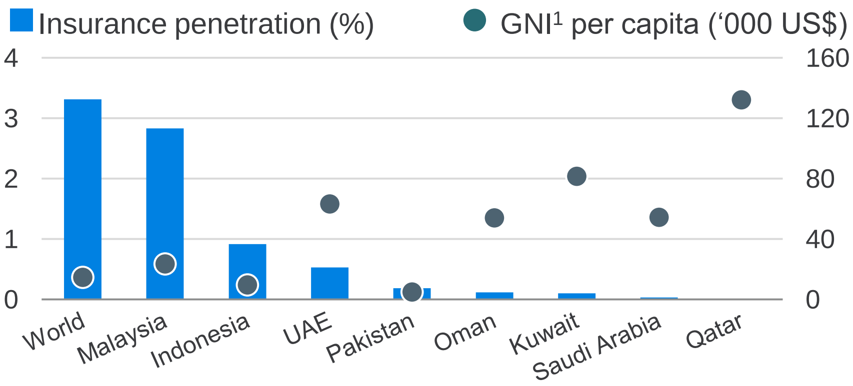
- Trend towards underwriting automation is clear in all markets
- Projected 10–20% p.a. VNB growth from MRAS clients
- Maintain market leader position

**Munich Re provides consultancy for software and underwriting rules in exchange for reinsurance**

# Family (life) Retakaful – Shari'a-compliant Islamic reinsurance hub in Kuala Lumpur

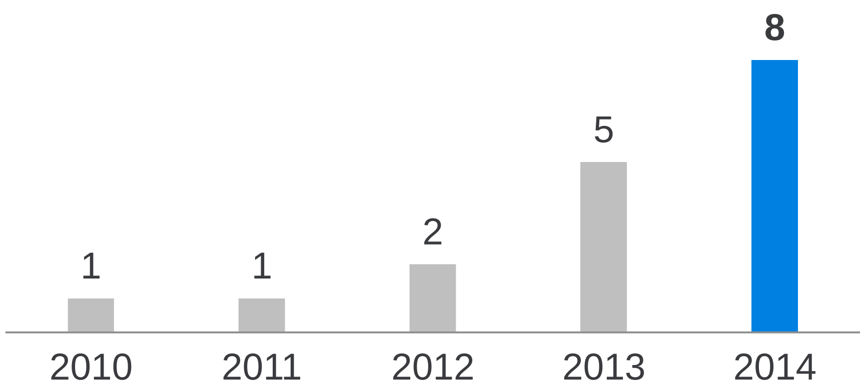
Munich RE

## Low insurance penetration in Islamic markets




## Strong VNB growth

€m




## Munich Re's unique value proposition

- Genuine Family Retakaful model
- High rating and full service capabilities
- Offices in the two key growth regions: SEA (Kuala Lumpur) and GCC[2] (Dubai)
- Clients in all major Takaful markets

## Outlook

- Trend from conventional to Retakaful in Islamic markets
- Higher reinsurance penetration rate under Takaful model
- Growth expected to continue

**Early mover in 2007, now the leading global Retakaful company**

[1] Gross national income. Constant 2013 USD based on purchasing power parities.
[2] Cooperation Council for the Arab States of the Gulf. Source: Munich Re Economic Research.

# Key takeaways and outlook

Munich RE

**Financial results**

- Track record of 10%-15% CAGR
- Disciplined underwriting philosophy

**Strategic positioning**

- A dominant life reinsurer
- Premium reinsurer with differentiated services
- Strong local presence

**Portfolio**

- Healthy back book
- Increasing share of prudently underwritten living benefits, mostly critical illness

**Outlook**

- Future growth driven by emerging Asia markets
- Profitable growth rate of 10%-15% p.a. expected to continue
- Intense but generally rational competition; non-cyclical

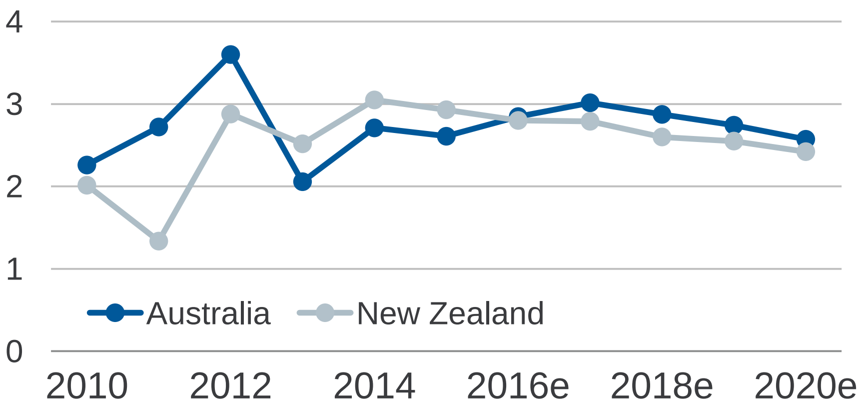
# Agenda

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life reinsurance in Asia | Cossette |
| **General introduction to Australia/New Zealand** | **Arnoldussen** |
| Life reinsurance in Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

# Australia/New Zealand – Macroeconomics at a glance

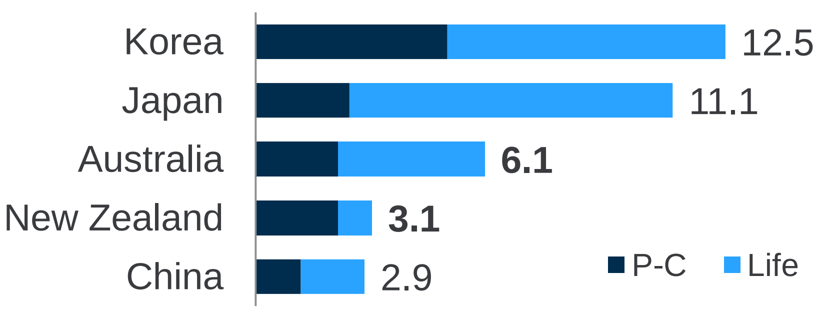
Munich RE

## Real GDP growth %




## 10-year government bond yields %


## Insurance penetration (2014) %




## Economic outlook

- GDP growth still above most advanced economies …
- … and largely driven by commodity exports
- Growth prospects remain heavily exposed to China's economic development

**Insurance markets expected to benefit from a solid economic environment**

Source: Munich Re Economic Research, Bloomberg.

# Australia and New Zealand to operate as highly professional and well-regulated primary insurance markets

Munich RE

## Market dynamics p-c

- Ongoing market concentration, top five players have ~85% of the primary market
- Good profitability largely dependent on nat cat events
- Increasing retention and shift from proportional to excess of loss

## Market dynamics life

- Concentrated market: top nine players have ~90% of the primary market
- Poor experience in individual and group disability income business – major efforts to rehabilitate these segments

## Competition

- Pricing under pressure due to the substantial amount of capacity
- No significant impact of alternative capital: current soft cycle driven by the incumbents
- Munich Re market-leading position with selective premium growth via capital relief deals

## Regulatory framework

- APRA[1]: definition of (re-)insurers' risk appetite and introduction of solid risk management
- Adaptation of an APRA-style regulatory frame-work for New Zealand
- General trend to reduce up-front commissions

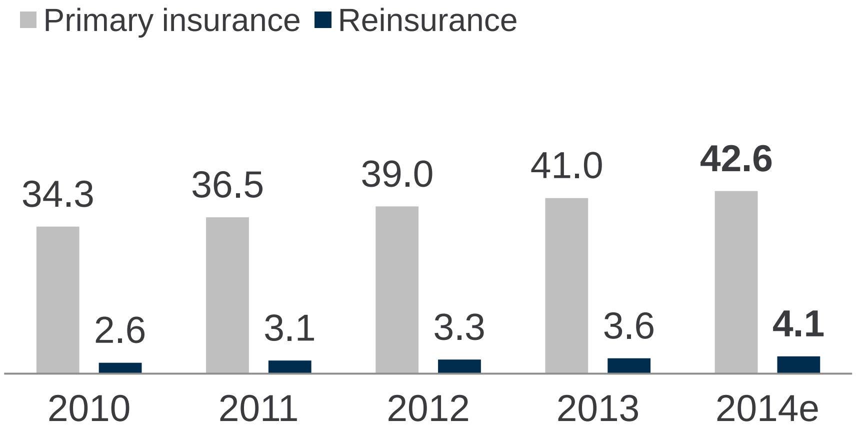
**Competitive market environment and further market consolidation will lead to continued pressure on profitability**

[1] Australian Prudential Regulation Authority.

# Absence of large nat cat losses putting p-c rates under pressure – Life market expected to harden

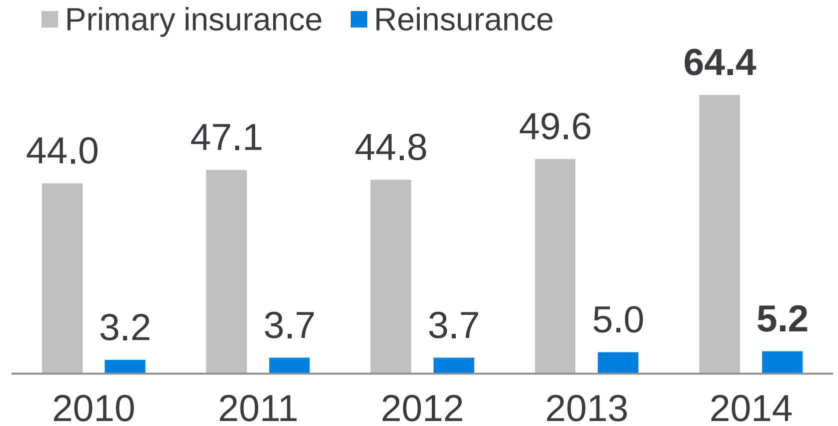
Munich RE

## P-C (re-)insurance market – GWP[1] A$ bn




- Development largely influenced by inflation and the occurrence of large nat cat events
- ~10% of total GWP freely available for reinsurers
- Munich Re strongly committed to the Australian market, providing substantial capacity
- Growth limitations due to leading market position in the nat cat segment, compensated for by …
- … further growth opportunities in customised solutions and new segments/products

## Life (re-)insurance market – GWP[1] A$ bn




- Increase in 2014 mainly driven by investment-linked products – of low significance for the reinsurance market …
- … insurers' responses to recent poor claims performance are also reflected
- Cession rates quite stable – price is important, but not always the primary driver for purchasing reinsurance
- Munich Re core clients show willingness to improve claims and underwriting management

[1] Primary insurance GWP include Australia and New Zealand.
Source: Munich Re Economic Research.

# Property-casualty – Focus on managing volatility and exploiting innovative solutions in Australia/NZ

Munich RE

## Result volatility of market vs. profitability

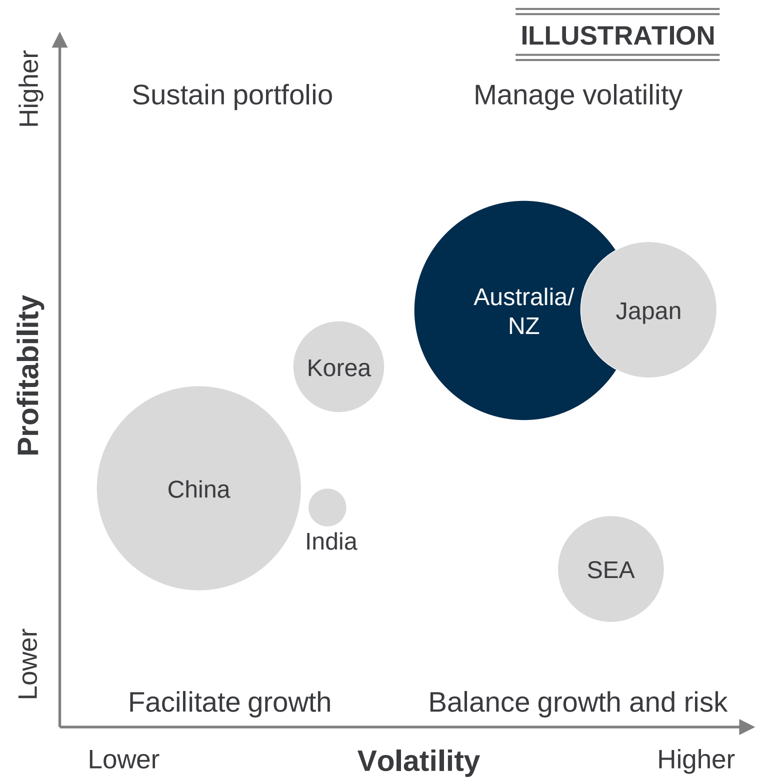
%

### Sustain portfolio

- Developed market with comparatively low nat cat exposure
- Profitable portfolio with limited growth potential given competitive environment

### Facilitate growth

- Participating in profitable growth of cedants via capacity and selective services
- China: While the introduction of C-ROSS will bring uncertainty, good opportunities remain




### Manage volatility

- Diversification is key
- Reducing dependence on nat cat by exploiting growth potential for innovative solutions and new distribution channels

### Balance growth and risk

- Many markets still offer good opportunities, but rates are tending to deteriorate
- Selective and cautious underwriting to safeguard profitability

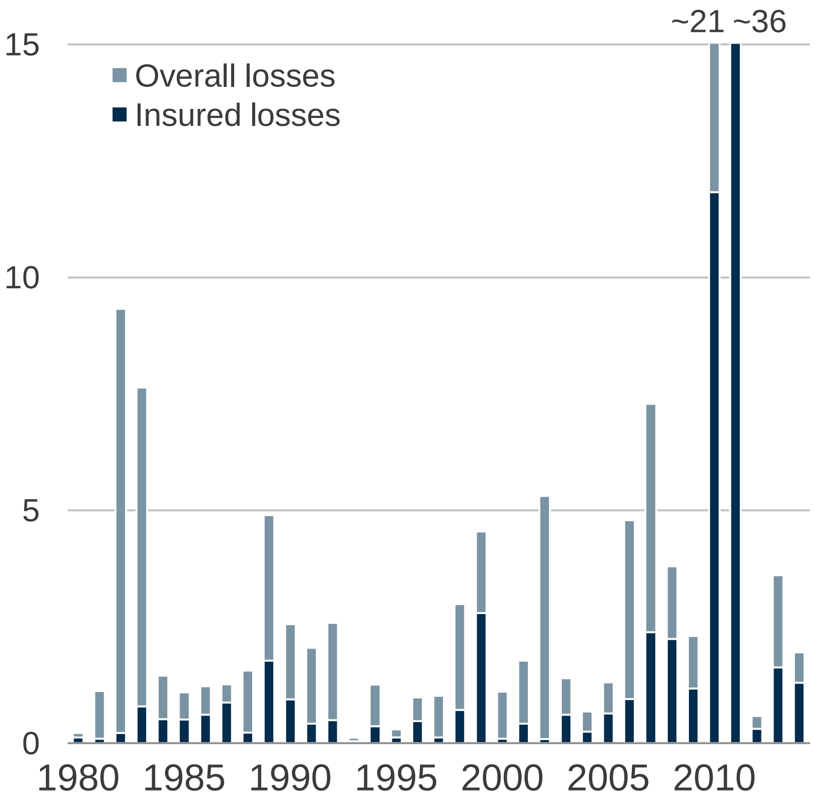
**Achieve sufficient long-term profitability to compensate for single large loss events**

Bubble size indicative of current Munich Re premium volume.

# P-C markets in Australia and New Zealand prone to nat cat volatility of various perils

Munich RE

## Nat cat losses in Australia and NZ US$bn




## Key characteristics

- Random large loss occurrence with most years showing benign claims experience
- Variety of different perils – bushfire, cyclone, hail, earthquake, flood and drought
- 2010/11: Accumulation of severe nat cat events
  - Cyclone Yasi
  - Floods in Queensland
  - Hailstorms in Perth and Melbourne
  - Earthquakes in Christchurch, New Zealand
- 1982/83 and 2002: High uninsured losses driven by severe drought events

**Capacity commitment of Munich Re balancing out in the long-term – Extreme catastrophes preceded by years with relatively low large loss burden**

Source: Munich Re, Geo Risks Research, NatCATSERVICE.

# Long-term business commitment and a well-established local market presence

Munich RE

## Munich Re offices in Australia and New Zealand


- Munich Re has been active in Australia since August 1955
- Markets served through three offices with more than 250 staff
- Sydney regional hub for both p-c and life markets …
- … safeguarding interlinked business operations and optimally leveraged synergies with Munich Re (Group)



**Sydney 1955**

Affiliated Reinsurances Pty Ltd., today Munich Holdings of Australasia Pty. Ltd., was founded

**Melbourne 1963**

Representative office opened to create access to the local single risk market

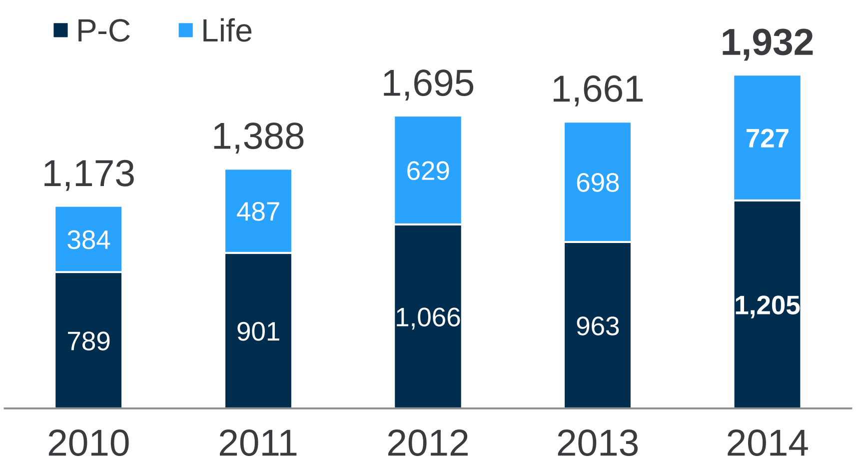
**Auckland 1977**

Branch opened to ensure New Zealand markets properly served

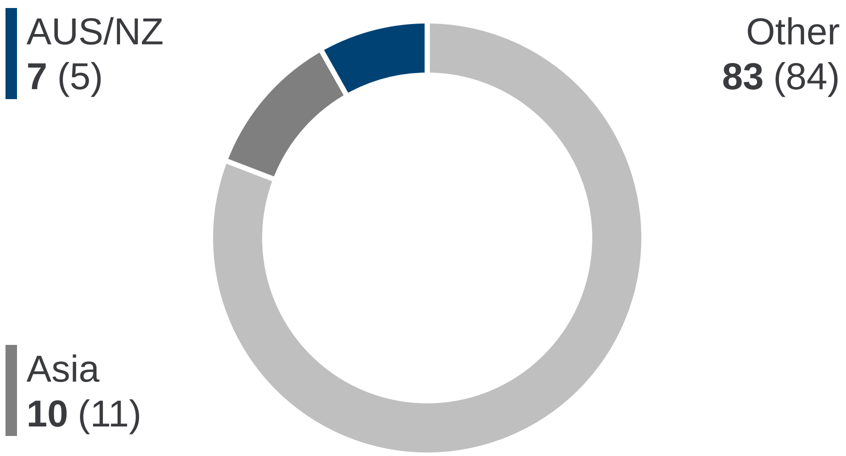
# Significant premium increase – Australia and New Zealand gaining in importance

Munich RE

## Australia/NZ operations – GWP €m




## Share of reinsurance GWP 2014 (2010) %




## P-C – Premium development

- Improving rate levels and increasing shares for nat cat business and capital relief deals
- Further development will be supported by growing share of Risk Solutions business

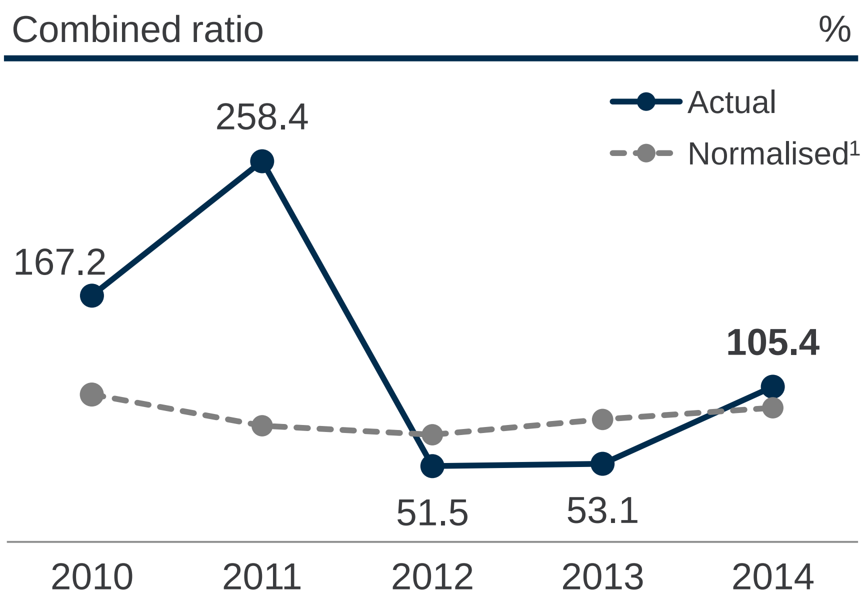
## Life – Premium development

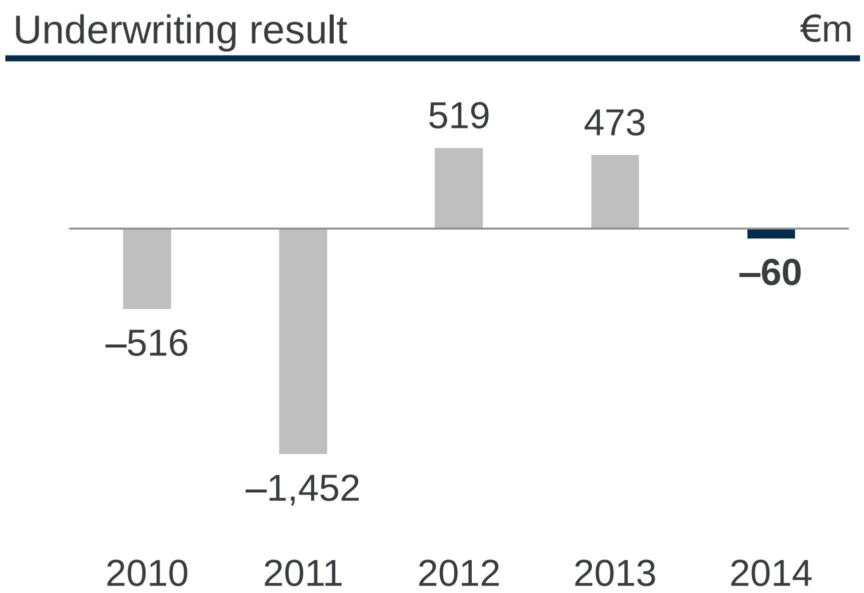
- GWP expected to plateau for the short to medium term – proportion of disability income business will decrease
- Group business expected to steadily increase over medium term

**P-C premiums expected to continue growth path while life premiums remain flattish**

# Natural catastrophes resulting in earnings volatility for the property-casualty business

Munich RE




- Actual performance dependent on frequency and severity of nat cat events
- 5-year average normalised combined ratio:[1] ~85% (2014: ~91%)
- Changes in portfolio mix (e.g. capital relief deals) and ultimate increase for earthquake New Zealand impacted actual (and normalised) combined ratio in 2014

**Despite extreme loss burden in recent years, long-term profit expectations are favourable**

[1] Adjusted for expected large losses.

# Australian operations run on the basis of a shared services model with powerful synergy opportunities

Munich RE

## Business model

### Traditional p-c reinsurance

- Mainly nat cat business
- Leading market share
- Expertise, reliability and strong financials

### Risk Solutions

- Great Lakes acting as insurance carrier for
  - corporate industrial business
  - agency business

### Life reinsurance

- Leading retail market reinsurer
- Falling relative share of disability income
- Portfolio improvements

## Ambition

### Optimising value for clients

- Opinion leader and preferred discussion partner
- Innovative and tailor-made solutions
- Reliable capacity provider

### Profitable business in highly specialised niches

- Complementing the more volatile traditional book
- Leveraging Group's underwriting expertise
- Selective acquisition of MGA business

### Focus on profitable business

- Disciplined bottom-line-oriented underwriting
- Expand on innovation and client solutions
- Promote synergies with partners

**Well-diversified organisational set-up helps to exploit synergies within the business units while focusing on overall profitability**

# What makes Munich Re different in Australia/New Zealand

| | |
|---|---|
| **Pacific markets** | Australia and New Zealand key markets for Munich Re |
| **Strong footprint** | Market-leading position driven by outstanding services, a high level of expertise and tailor-made solutions that go beyond traditional standard products |
| **Property-casualty** | Traditional reinsurance: Expertise and discipline in underwriting and claims management<br>Risk Solutions: Access to specialty niche business and innovative distribution channels |
| **Life** | Clear focus on profit rather than market share via improvements in portfolio management and discipline across all Munich Re key functions |
| **Outlook** | P-C: Safeguarding current level of profitability and continue growth path<br>Life: Restore profitability in short term to participate in an attractive market long-term |

# Agenda

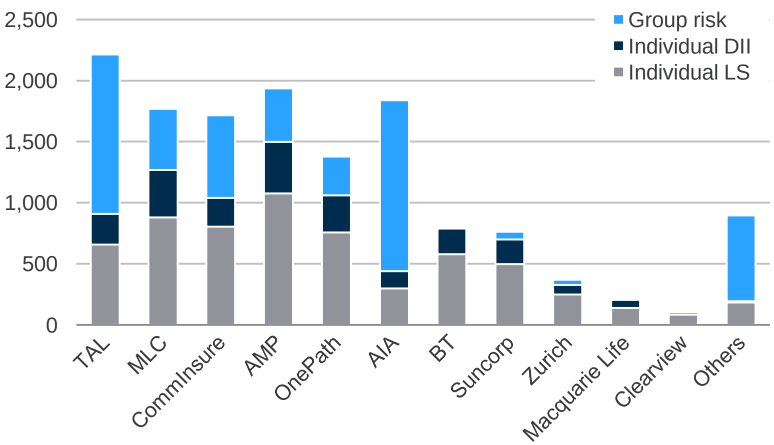
Munich RE

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life re in Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| **Life re in Australia/New Zealand** | **Linfoot** |
| P-C reinsurance in Australia/New Zealand | Eckl |
| Executive summary | Arnoldussen |

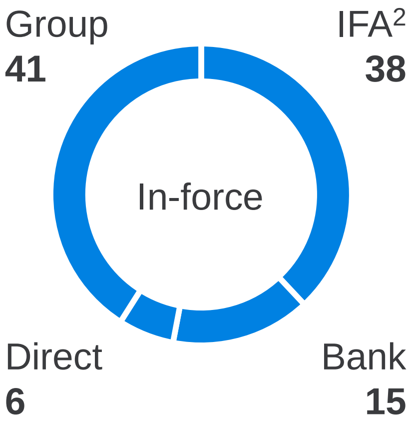
# Primary life insurance market – Players and market shares

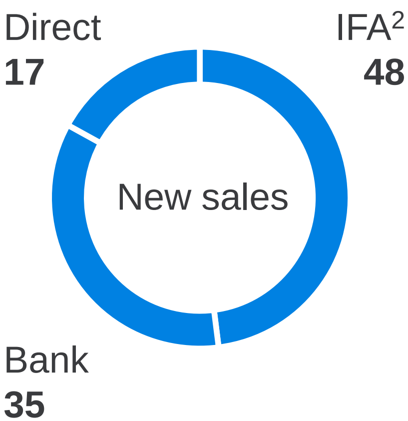
Munich RE

## Market share (2014 in-force premiums[1]) A$m




## Distribution channel breakdown (2014) %




## Comments

- Market dominated by local players
- Nine players account for 90% of Australian Life business
- Most with medium to strong new business growth
- Of top ten players, nine are Munich Re clients, of which six are open for new business

**Concentrated market dominated by banks and large conglomerates – Independent financial advisors dominate the distribution of life insurance**

[1] DII: Disability income insurance. LS: Lump sum. [2] Independent financial advisors.

# Significant changes for financial advisers – Restructuring of remuneration affecting primary life insurance market ...

Munich RE

## The ASIC Review[1]

- More than 37% of advice received by consumers failed to comply with the relevant legal standards
- Up-front commissions are a problem
  - Strong correlation with non-compliant advice – up-front commissions tempting advisers to put profits ahead of clients' interests
  - Correlation with high lapse rates – advisers switching their clients from one insurer to another to pocket higher commissions ("churning")

**Need for the industry to improve quality of advice and safeguard the interests of consumers**

## The Trowbridge[2] Report

- Max. 20% level commission on advice
- Additional initial advice payment of 60%, subject to limit of $1,200, once in 5 years
- Licensees are obliged to include at least half of retail insurance providers in the Approved Product List
- Must re-examine the advice process to improve client engagement
- Develop an industry code of practice and eliminate conflicting remuneration

**Restructure remuneration of advisers and licensees required to minimise conflicts of interest**

**Industry consensus likely to result in significant change to commissions, exit of some advisors, better quality sales, lower lapses and more level premiums**

1 ASIC – Australian Securities & Investments Commission.
2 John Trowbridge, a former APRA member, is the independent chair of a joint working party to respond to the ASIC review.

# ... as well as various other compounding factors contributing to a complex structure

Munich RE

## External factors – Examples

### Ageing demographics

- Increase in the number of lives reaching 50s and 60s
- Improvement in mortality and increase in chronic illness

### Workplace conditions

- Changes in statutory workers' compensation schemes
- Patterns in workplace stress and bullying

### Consumer behaviour

- Heightened awareness of health
- Selective lapsation
- Increased legal representation

### Mental health

- Increasing medicalisation
- Importance of other non-physical factors
- Conditions that are subjective in nature

## Internal factors – Examples

### Data and analytics

- Limited business intelligence reporting
- High reliance on people
- Limited data integrity and resultant analytical reliability

### Claims philosophy

- Lack of focus on return-to-work plans
- Reliance on doctors to determine ability to work
- Focus on condition rather than ability

### Product design

- High real replacement ratios
- Diluted and lenient definitions

### Lenient underwriting

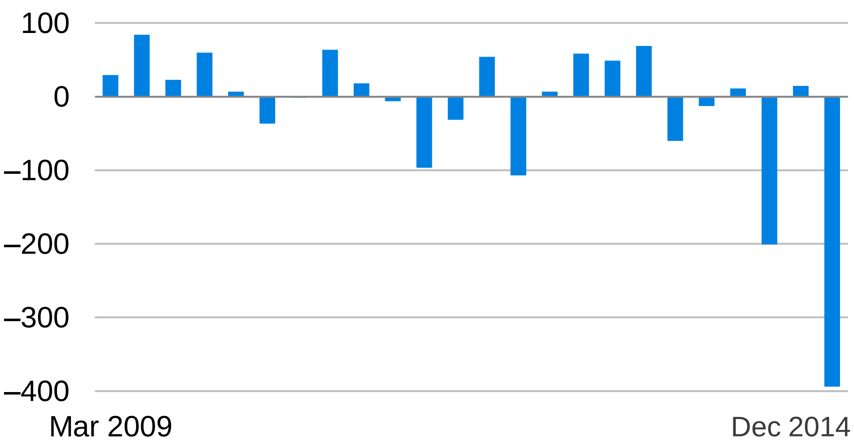
- Reduced underwriting criteria
- Simplified access

**The complex state of the market requires a comprehensive understanding to successfully manage a life book**

# Focus on Individual Disability Income Insurance (DI)



## Industry quarterly net results for individual disability income insurance A$m




- Numerous product features added with little or no change in price
- Complex products
- Simplified underwriting
- Insufficient claims management
- Inadequate analysis of exposure to risk
- Stepped premium rates and high initial commissions led to anti-selective lapses

## Industry response

- Policy conservation measures
- Review of commission structures
- Price increases
- Tightening of conditions

## Munich Re's response

- Detailed ten-year experience analysis covering more than half of industry exposure
- New prices, new limitations on certain benefits, reduced exposure to lapse by new treaty conditions, exited several accounts
- Focus on sustainable terms and conditions

**After developing a comprehensive understanding, now focusing on terms and conditions to participate only in quality business delivering sustainable results**

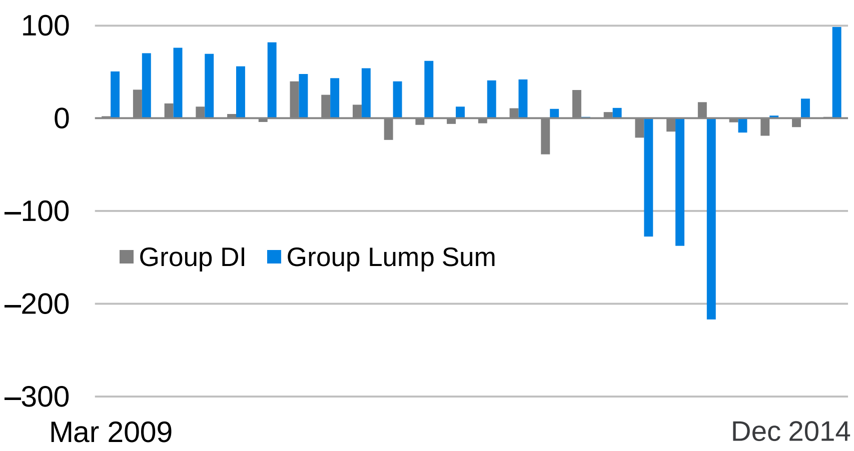
Source: APRA Quarterly Life Insurance Performance.

# Focus on Group insurance business

Munich RE

## Industry quarterly net results for Group business

A$m




- Short-term policies but guaranteed renewable
- No sunset clause, resulting in a long tail of TPD[1] claims
- Large industry superannuation funds dominate, competing for funds under management – generous underwriting conditions offered
- Aggressive (re)insurance pricing
- Poor data capture and management – inability to analyse experience at a granular level
- Generous TPD definitions and increasing awareness driven by lawyer advertising

## Industry response

- Substantial price increases and tightening of conditions
- Lobby government for sunset clause (requires legislative change)
- APRA requirements on improved data management

## Munich Re's response

- Cautious approach to renewal of existing business
- Continue analysis of recently observed experience
- Redefine group underwriting strategy before participating in new business quotations
- Improve data management to permit early insights

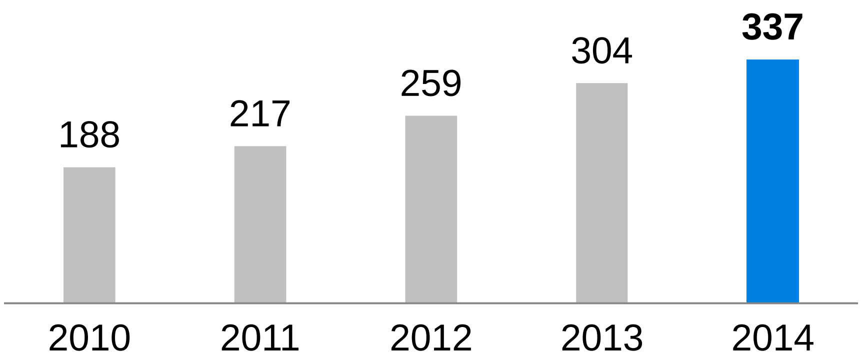
**Still cautiously acting in Group business – engaging in new opportunities once a prudent underwriting strategy has been defined**

[1] Total and permanent disability.
Source: APRA Quarterly Life Insurance Performance.

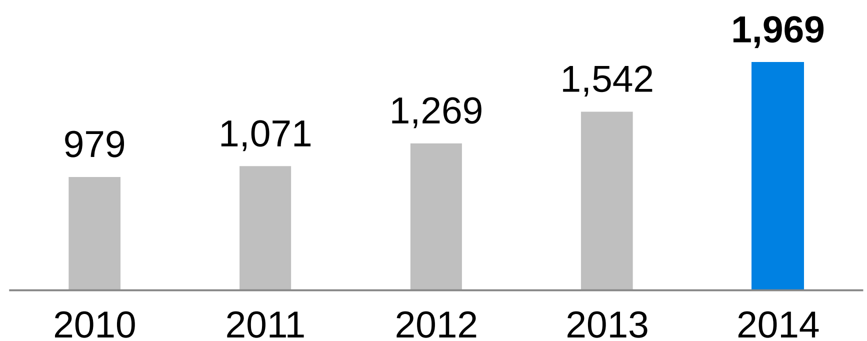
# Reinsurance market

Munich RE

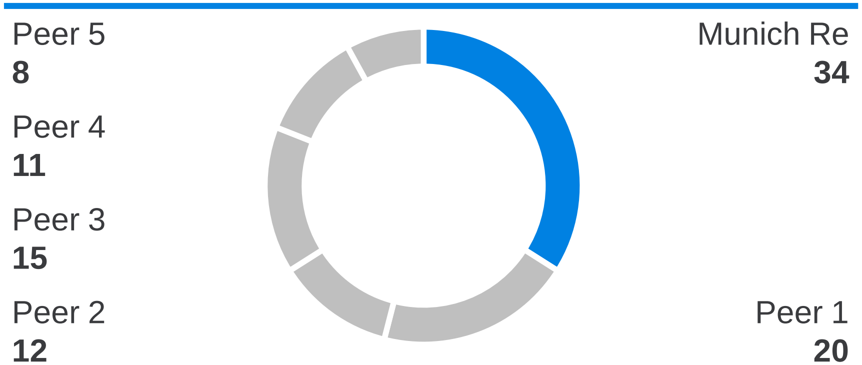
## Individual new cessions — A$m



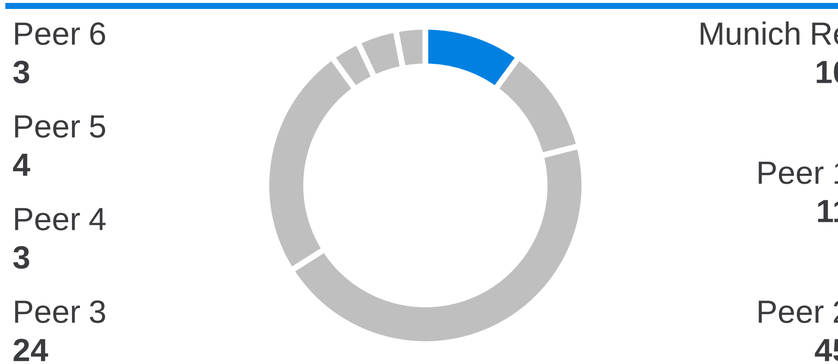

## Group total cessions — A$m




## Individual new cessions 2014 – Market shares — %




## Group total sessions 2014 – Market shares — %



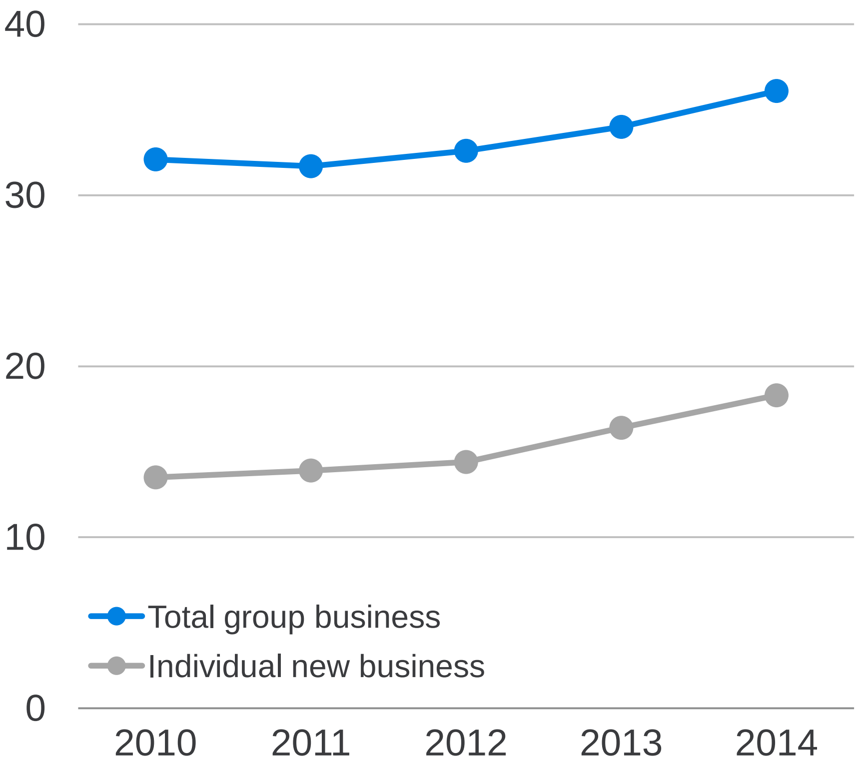

**Highly competitive market, dominated by large global players**

Source: NMG.

# Drivers for purchasing reinsurance

Munich RE

## Cession rates %




## Drivers for purchasing reinsurance

- Cession rates are relatively stable and high for group business
- Principal motivations for reinsurance according to NMG Consulting
  - Risk transfer
  - Solvency/capital motivation
  - Access to other reinsurance services
- Leading factors for reinsurance selection by cedants
  - Price competitiveness,
  - followed by an aligned partnership mindset

**Price is important, but not always the primary driver for purchasing reinsurance**

Source: Plan for Life and NMG Consulting.

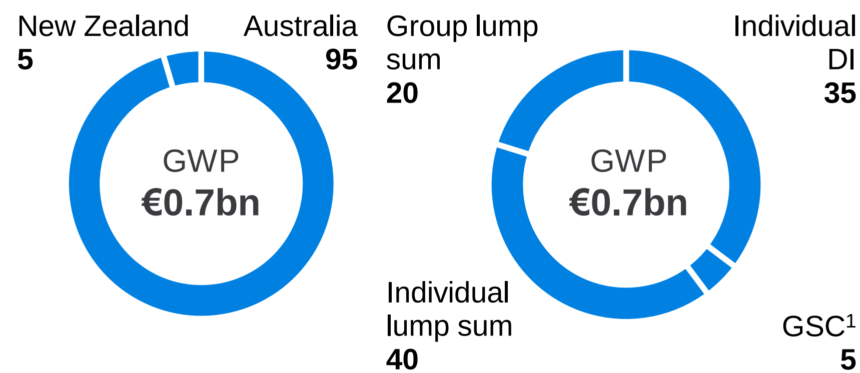
# Munich Re Australia – Company profile

Munich RE

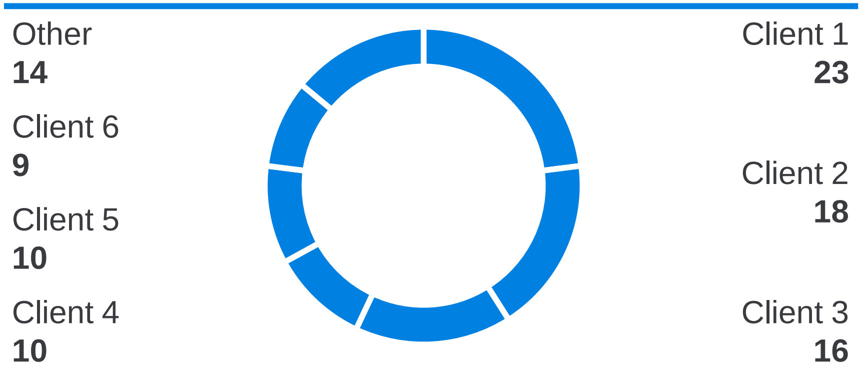
## Snapshot of Munich Re Australia


- Business relations with the Australian insurance market since 1955
- Market is served throughout 3 offices
- Total number of staff (Life): 77

## Geographic and product mix (2014) %




## Client structure (2014) %




## Comments

- Largest reinsurer of individual business – looking to consolidate position and improve profitability
- Well diversified portfolio of clients
- Modest position in group – opportunity to grow prudently by leveraging brand and balance sheet

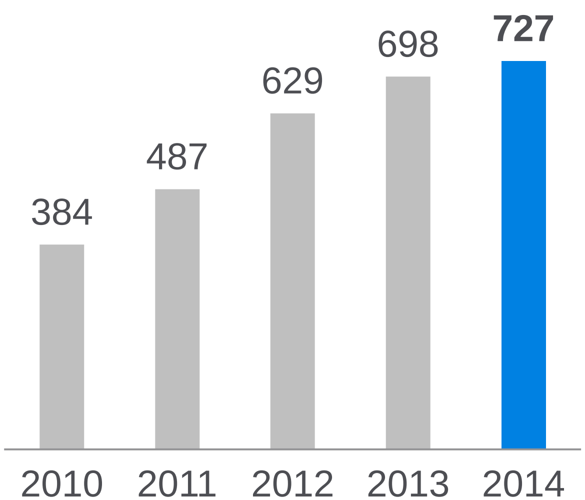
**Future growth from premium increases and prudent growth from group segment**

[1] Group salary continuance.

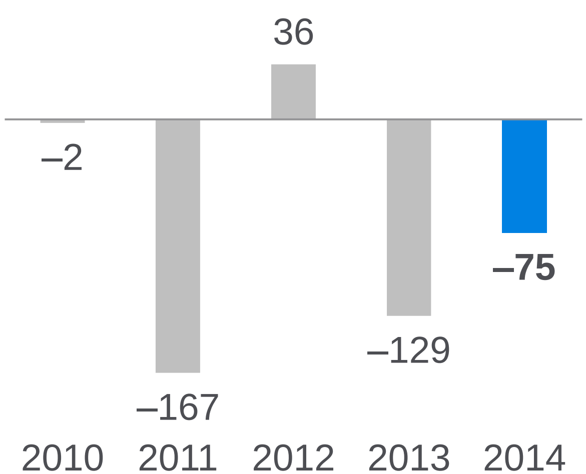
# Munich Re Australia – Key figures

Munich RE

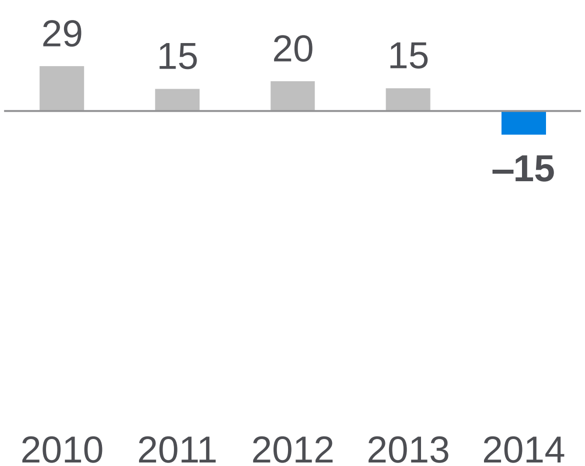
Gross written premiums €m




Technical result €m




VNB €m




- Growth slowing due to remediation work
- Stabilise at or about current level in short term

- Disability business leaving its mark in technical result …
- .. as well as economic financials: Negative impact on MCEV (assumption changes and other operating variances) and VNB
- Some volatility still possible as business stabilised

**Return to modest profit expected in short term – Clear focus is to stabilise bottom-line and then seek sustainable growth**

# Munich Re Australia – Short-term stabilisation and re-engineering of the business

Munich RE

## Business plan – Development phase

### What have we done?

**Re-engineered operations**

- Redesign of organisational structure
- New valuation system introduced
- Review of all key treaties – closing some, increasing prices for many and changing terms and conditions for all

### What are we doing?

**Refining capabilities**

- Defining risk appetite
- Getting a better understanding of market conditions
- Retaining clients only on acceptable new terms and conditions
- Methodical approach to rebuilding Group proposition
- Continued review of processes and infrastructure

### Where are we going?

**Realise competitive advantage**

- Rebound with risk management excellence
- Establish a business that delivers sustainable growth and profitability
- Promote synergies with our partners
- Expand on previous innovation and client solutions

**Setting the course for participating in an attractive market long-term**

# Key takeaways and outlook

| | |
|---|---|
| **Business strategy** | ▪ Adjust rates and conditions to safeguard profitably<br>▪ Retain clients on acceptable new and sustainable terms and conditions<br>▪ Rebuilding the Group proposition with an analytical approach |
| **Operational excellence** | ▪ Using the right tools to deliver outstanding services to our clients<br>▪ Design and implement a comprehensive control cycle<br>▪ Focus on reliable data to derive meaningful and actionable insights |
| **Portfolio** | ▪ Deliver strategic innovations: promote simple DI, claims automation, etc.<br>▪ Become more “outward looking” and play a leadership role around sustainable pricing and terms and conditions |
| **Outlook** | ▪ Develop high performance teams to …<br>▪ … return to modest profit in short term …<br>▪ … and set the course for participating in an attractive market long-term |

# Agenda

Munich RE

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life reinsurance in Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurance in Australia/New Zealand | Linfoot |
| **P-C reinsurance in Australia/New Zealand** | **Eckl** |
| Executive summary | Arnoldussen |

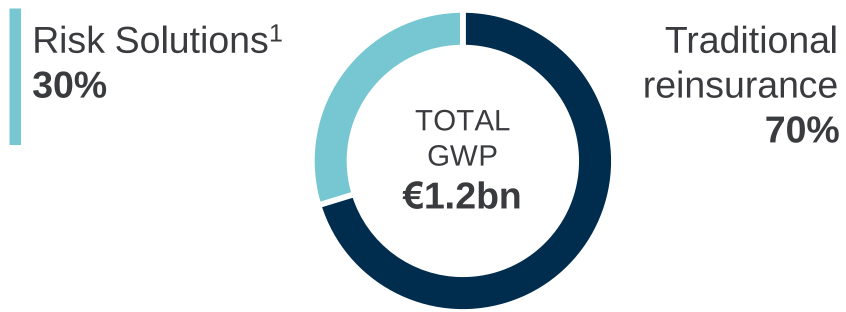
# Munich Re – Position in the Australian property-casualty market

Munich RE

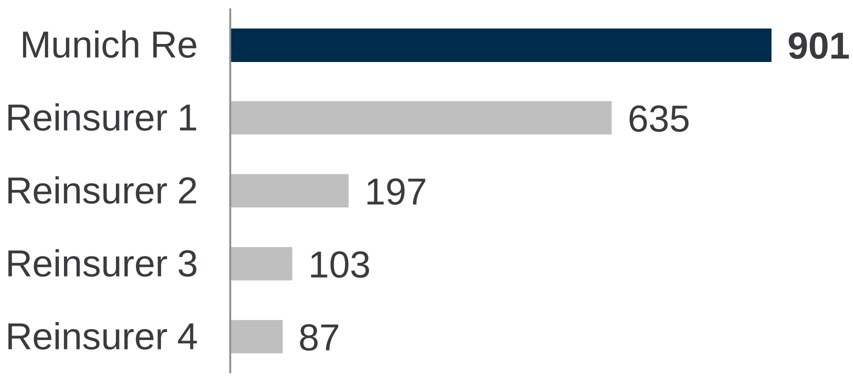
## Responsible region

- Australia
- New Zealand
- Pacific Islands

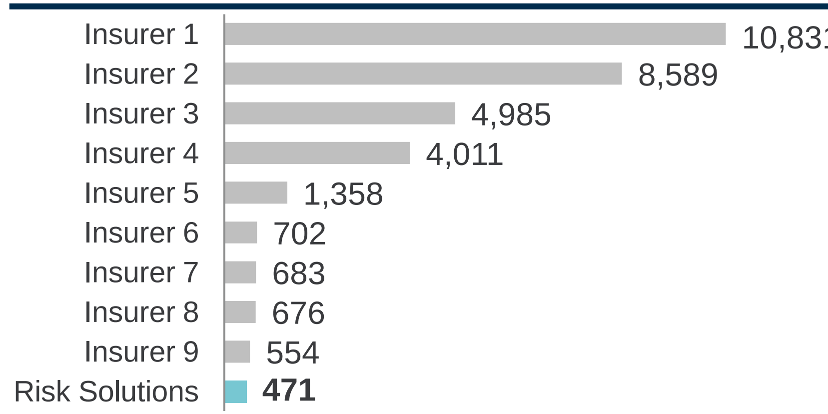
## Munich Re business model




## Reinsurance market – GWP[2] A$m




## Primary insurance market – GWP[2] A$m



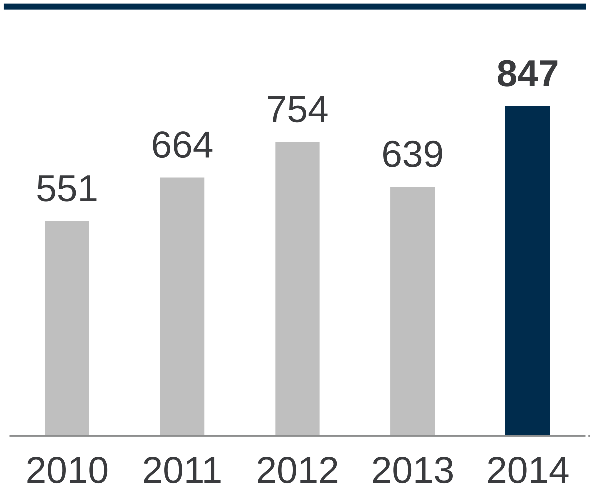

**Market leader in traditional reinsurance complemented by Risk Solutions**

[1] Risk Solutions via Great Lakes.
[2] Source: APRA 2014 (as at 2013). Exchange rate A$/€: 1.40.

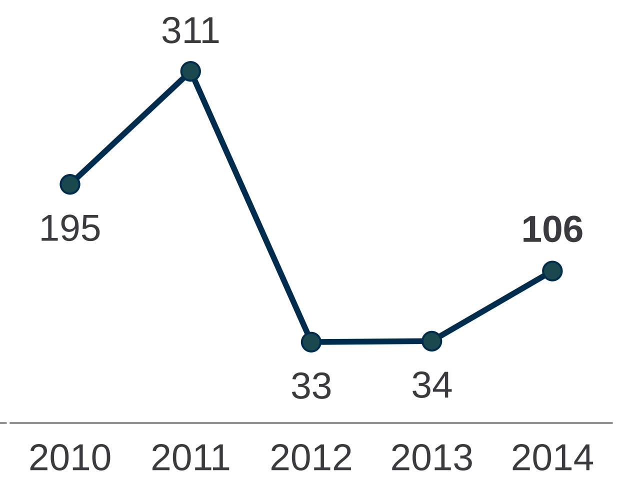
# Traditional reinsurance – Key financials[1]

Munich RE

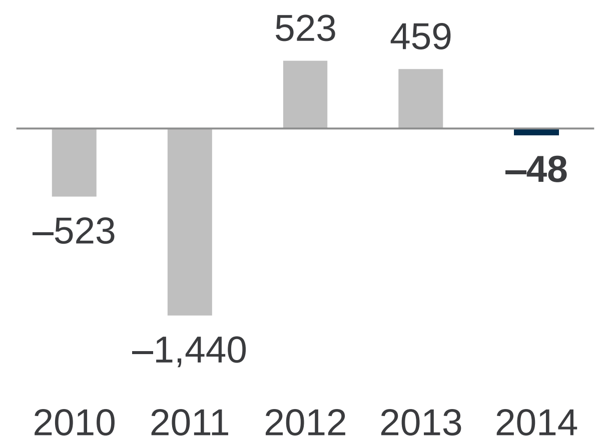
## Gross written premium €m




## Combined ratio %




## Underwriting result €m




- 2011/12: Taking advantage of hard market after large nat cat losses
- 2013/14: Cycle-management-driven reductions offset by capital relief deals
- Future growth limited given leading market position

- Volatile results reflecting cat-exposed portfolio profile
  - 2010/11: Severe nat cat losses
  - 2012/13: Benign claims experience
- 2014: Sound underlying economic profitability affected by reserve increase for New Zealand earthquakes
- Underwriting discipline prevails

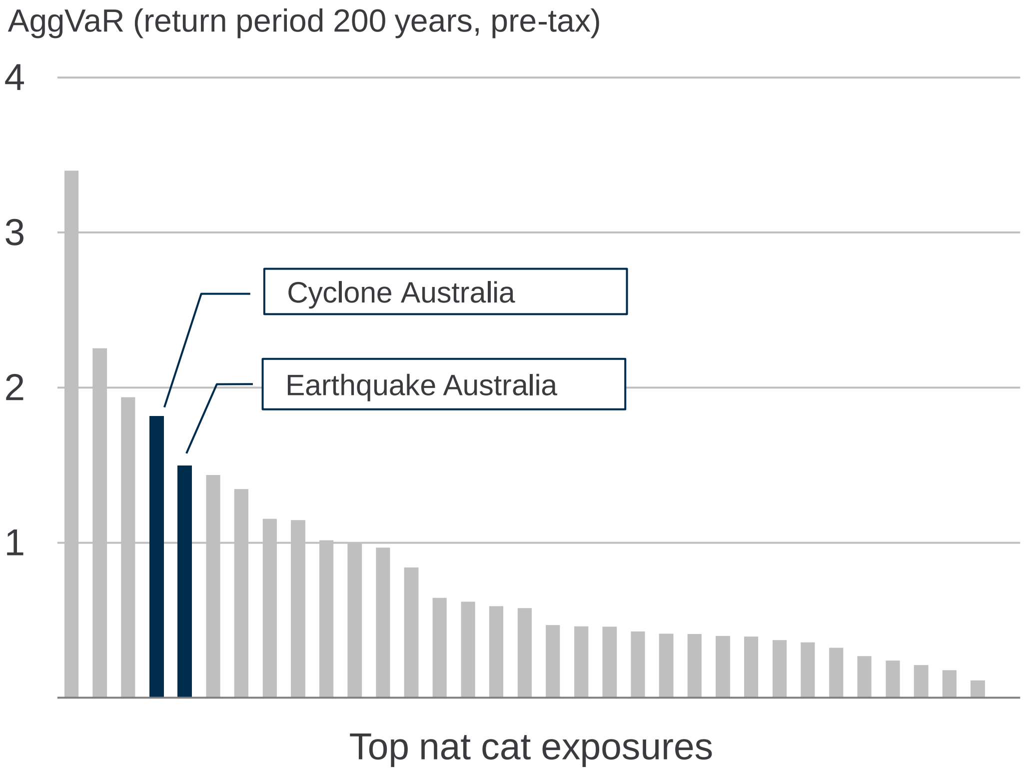
**Outlook remains positive – Continued top-line growth with good returns in "normal" years to recover from extreme catastrophe losses**

[1] Management view, not comparable with IFRS reporting, figures do not include internal cessions for Australia, New Zealand and Pacific Islands.

# Traditional reinsurance – Nat cat business a core element of the Group

Munich RE

## Munich Re (Group) – Nat cat exposure (net of retrocession)[1] €bn




### Australia within the top 5 nat cat exposures

- Australian regulatory requirements drive large nat cat purchases
- Exposure reduced due to cycle management and currency effects

### Risk appetite

- Unchanged high risk appetite and willingness to deploy large amount of capital, based on risk-adequate pricing
- Strict cycle management: Increased capacity in the hard market, reduced exposures when terms soften

**Benefitting from strong diversification between natural catastrophe risks**

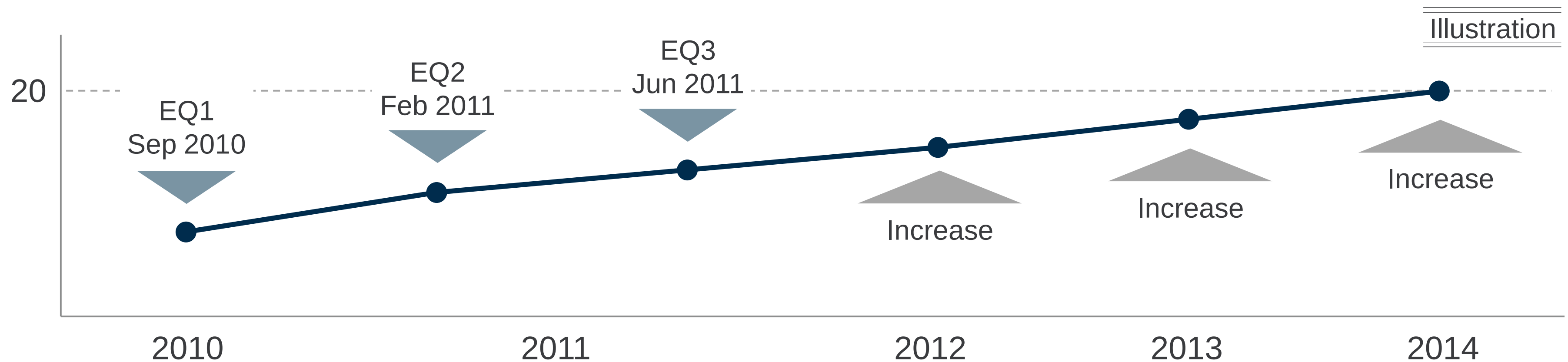
[1] Exposures relate to the full year, e.g. 2015 relates to the period from 1.1.2015 to 31.12.2015.

# Traditional reinsurance – Special feature: Christchurch earthquakes

Munich RE

## Development of total market loss

€bn




### Christchurch earthquakes

- Series of earthquakes with three severe events
- Current market loss ~€20bn – increased from original loss estimate of ~€13bn in 2011
- 90% of commercial losses and 60% of domestic losses closed

### Loss complexities

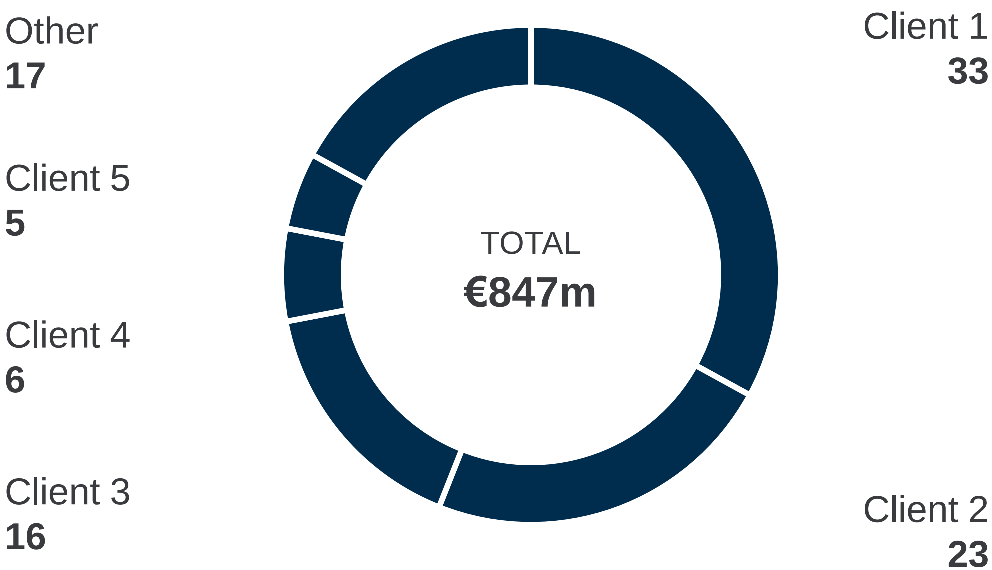
- Delayed adjustment process: Multiple events, land classification, earthquake commission (EQC)
- Cost increase and reapportionment of the events: complex repairs, land remediation issues
- Legal risk: litigation; change in legislation

### Lessons learnt

- Ceased writing new earthquake-exposed risks until seismic activity settled down
- Reduced exposure to NZ stand-alone programmes
- Introduction of capped sum insured and improvements in seismic strengthening conditions
- Review of the EQC scheme

# Traditional reinsurance – Client structure

Gross written premium by client[1] in 2014 %




- Highly concentrated market – several large insurers dominating personal and commercial lines
- Munich Re portfolio reflects market structure, i.e. dominated by a few large players
- Nat cat covers continue to be the dominant driver of reinsurance demand
- Munich Re portfolio well diversified – in terms of business lines and geographic areas …
- … complemented by recent growth in non-catastrophe lines

**Munich Re's portfolio follows the original market and is driven by several large clients**

[1] Management view, not comparable with IFRS reporting.

# Traditional reinsurance – Business model: Value optimiser and complex risk taker

A unique offering ...

**Premium discussion partner**

- Opinion leader – providing local/global know-ledge of key topics, e.g. nat cat, emerging risks
- Providing added value through a range of services

**Premium solution provider**

- Tailor-made solutions
- Concepts for complex and emerging risks
- Solutions beyond Australasia

**Premium capacity provider**

- Positioning reinsurance as a flexible and effective capital management tool
- Offering large capacities on sustainable terms and conditions

... exemplified by

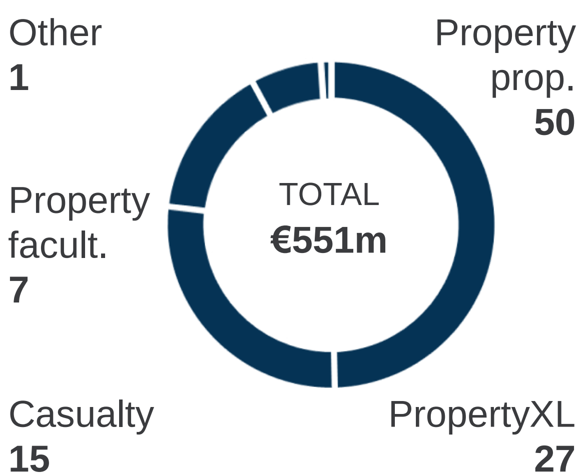
- **Strong local presence and expertise**
  Easy access to Munich Re's global expertise
- **Broad local mandate and authorities**
  Backed by efficient and fast referral processes
- **Motivation and ability to develop solutions**
  Leveraging and combining Munich Re's skills from various business units and countries
- **Superior modeling capability**
  e.g. nat cat, claims handling, financial analysis
- **Flexible staffing of necessary experts**
  e.g. market intelligence, risk assessment, legal, tax, underwriting, actuarial, financial
- **International development opportunities**
  for local talents

**Recognised value permits differential terms/private placements and larger shares**

# Traditional reinsurance – Portfolio mix

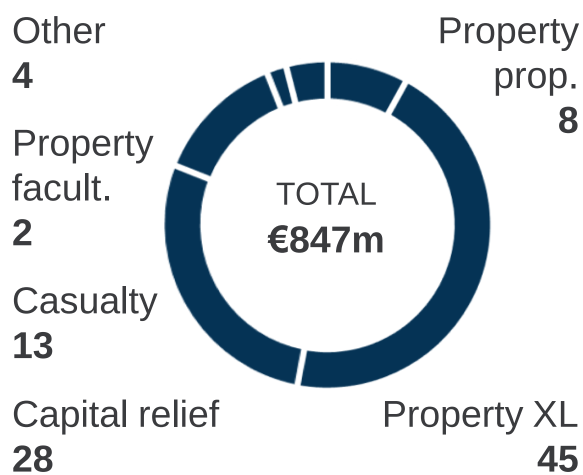
Munich RE

## 2010[1]




- 85% short-tail, 15% long-tail
- 55% proportional, 36% XL, 9% facultative
- Nat cat exposure: > 65%
- 77% broker, 23% direct

## 2014[1]




- 56% short-tail, 44% long-tail
- 12% proportional, 56% XL, 28% capital relief, 3% facultative
- Nat cat exposure: < 45%
- 60% broker, 40% direct

## Recent development

- Change in cedants' purchasing, e.g. switch from property proportional to non-proportional
- Active portfolio management to improve diversification, e.g. via capital relief or optimisation transactions

## Mid-term outlook

- Capitalise on new business opportunities
- Continue to develop non-catastrophe exposed business
- Selectively grow facultative book

**Active portfolio management safeguarding profitability while improving portfolio diversification**

[1] Excludes one-off effects, management view, not comparable with IFRS reporting.

# Traditional reinsurance – Portfolio management

Munich RE

## Property

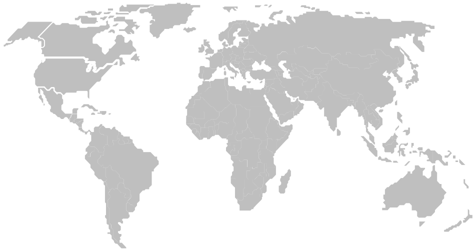
- Maintain leading shares in core nat cat and risk programmes
- Balanced participation across programmes and regions
- Focus on profitability and strict exposure accumulation
- Selective approach to frequency covers
- Ensure long-term price adequacy
  - Consistent nat cat pricing
  - Disciplined underwriting and cycle management

## Casualty

- Keep shares in preferred programmes
- Potential business opportunities through privatisation of government schemes
- Expand capital relief transactions
  - Capital-efficient customised solutions
  - Target sustainable business partnerships

## Example: Global client management approach

- Enabling tailored reinsurance arrangements
- Joint effort by staff located in Sydney, London, Princeton and Munich helped one of our top clients to move away from a decentralised to a consolidated purchase of reinsurance

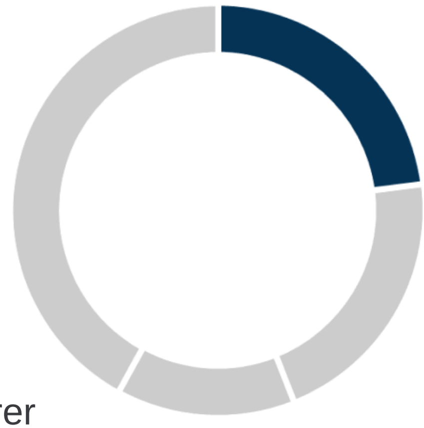


**Maintain profitability whilst continuing to develop new business opportunities**

# Traditional reinsurance – Competitor landscape

Munich RE

## Competitor landscape – Top-tier global reinsurers dominate the market[1]




- Challenging environment with gradually declining premiums
  - Shift from proportional to XL
  - Trend towards higher retentions
- Successfully maintaining leading market position by increasing shares in hard markets and generating new capital relief business
- Majority of business written on differential terms
- Exposures continue to be very attractive – all major reinsurers writing business in Australia/New Zealand

## Opportunities for Munich Re

- Continuation of differential rates/terms by leveraging our selling proposition
- Selectively increase shares and write new business
- Multi-year deals, complex covers and customised solutions

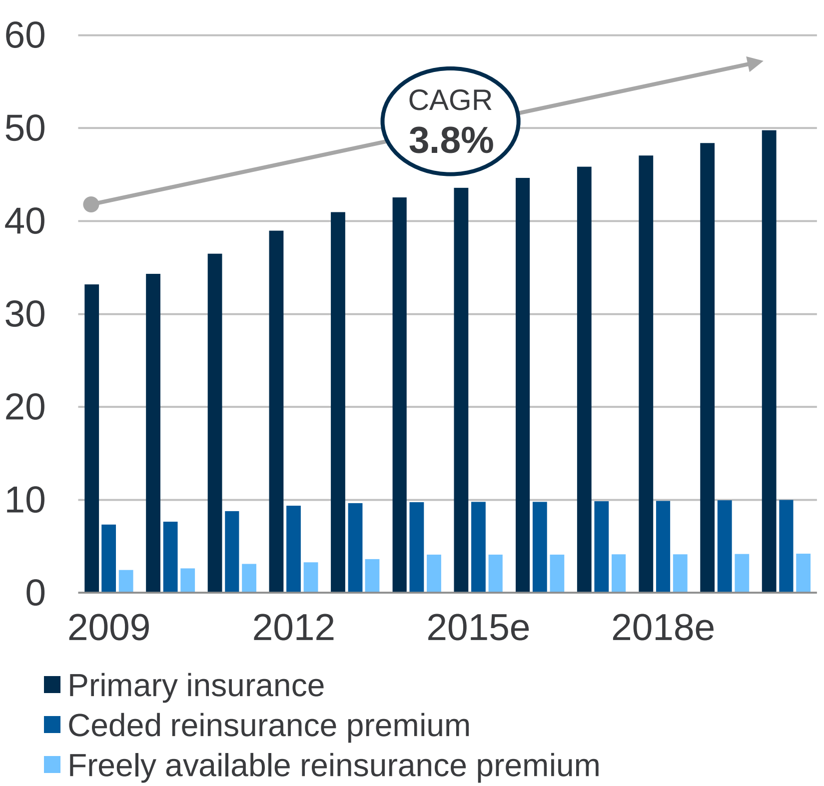
**Cedants continue to access traditional reinsurance capacity – Alternative capital playing only a minor role**

[1] Gross written premium, Australian Prudential Regulation Authority (APRA) and Munich Re analysis, 2014.

# Traditional reinsurance – Market outlook

Munich RE

## Australia/New Zealand market overview[1] A$bn




## Observations

- Primary insurance premium growth driven by inflation-linked increases in personal lines rather than underlying price increases or expansion of insurance market or products
- Major changes in market shares of larger insurers only likely as the result of M&A activities
- Retentions remain high

## Key implications for Munich Re

- Business growth in traditional reinsurance rather limited given already high market share and extensive nat cat budgets …
- … while non-traditional lines provide opportunities for profitable growth and gradually improve portfolio diversification

**Diversification remains key in managing our portfolio**

[1] Gross written premium (property-casualty), Australian Prudential Regulation Authority (APRA) and Munich Re estimates.

# Risk Solutions –
# Market characteristics and corporate strategy

Munich RE

## Market characteristics Australia

- Market consolidation in an advanced stage as top 3 insurers control more than 50% of the market
- Trend towards increasing retentions result in shrinking reinsurance market
- Risk Solutions enable business retained by clients in the primary specialty segment to be re-accessed
- Underwriting excellence and expertise remains our core USP, just as in traditional reinsurance

## Munich Re's strategic approach on Risk Solutions

| Personal | Commercial | Industrial |
|---|---|---|
| | **Focus on primary specialty** | |
| **Specialty/niche** e.g. manufactured housing | **Specialty/niche** e.g. equipment breakdown, cyber | **Specialty/niche** e.g. equipment breakdown, CBI, product liability, cyber |
| **Mass/commodity** e.g. personal motor | | |

- Focus on commercial and industrial primary specialty business
- Criteria are specialty/niche capabilities and know-how, leveraging our expertise in reinsurance
- Continuation of specialised distribution via strategic alliances and managing general agents (MGAs)
- Further investments to reap organic growth potential

**Increasingly valuable business segment with strong premium growth and bottom-line contribution**

# Risk Solutions – At a glance

Munich RE

## At a glance

- Established in Australia/New Zealand since 2008
- Underwriting > A$500m per year
- Equity interests in selected MGAs to share distribution profits and to direct and protect distribution capabilities
- High reinsurance cession to Munich Re and underwriting expertise
- Munich Re Group ensures low required capital and net volatility

## Value proposition

- 100% owned by Munich Re Group
- Munich Re (Group) financial strength rating
- Access to Munich Re (Group) expert knowledge, tools, product development

Munich RE

Risk Solutions

Great Lakes Australia

**Focus on growth in niche segments where price is not the sole differentiator and SME segment (i.e. non-commodity business)**

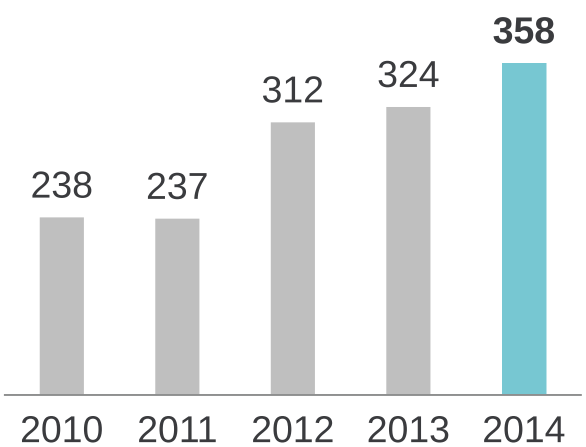
**MGA partners looking for insurance capacities that can offer global breadth, first class expertise and financial strength**

**Largely decoupling from traditional reinsurance cycle while meeting demand from MGA partners**

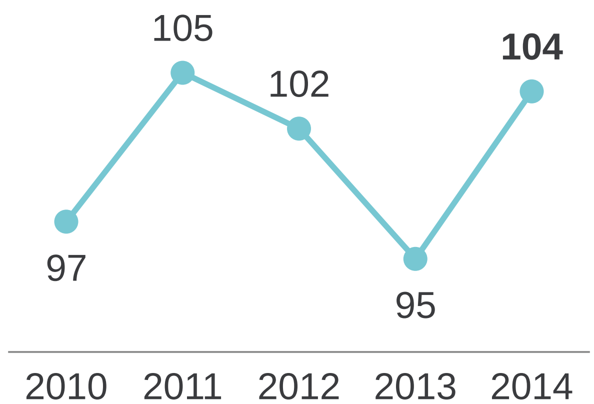
# Risk Solutions – Key Financials

Munich RE

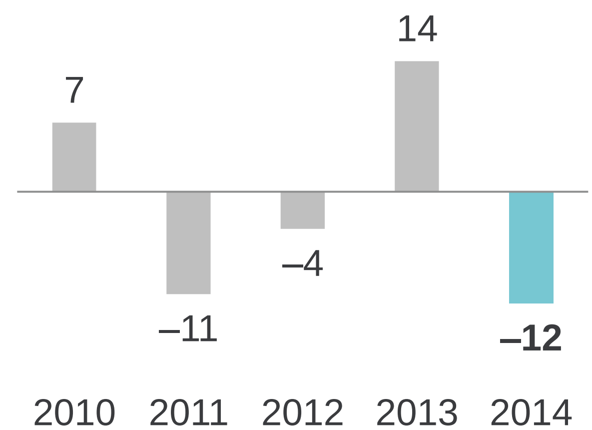
Gross written premium[1] €m




Combined ratio[1] %




Underwriting result[1] €m




- Underlying organic growth in existing agencies and selective addition of new partners
- 2014: Providing capacity to Australia‘s largest travel insurer

- 2010–2012: Combined ratio naturally higher as a green-field investment
- 2014: Medium-sized per risk losses resulting in increased volatility – portfolios that caused historic volatility have been cancelled
- Outlook: Results to improve and stabilise in the medium-term – 10% annual premium growth, following the recent Calliden acquisition

**Risk Solutions improving portfolio diversification in selective niche markets**

1 Management view, not comparable with IFRS reporting, figures do not include internal cessions for Australia, New Zealand and Pacific Islands.

# Key takeaways and outlook

Munich RE

| | |
|---|---|
| **Financial results** | ▪ Australia/New Zealand a core market with good underlying performance<br>▪ Benefitting from covering the full value chain – limited growth prospects in traditional reinsurance largely offset by primary insurance operations |
| **Strategic positioning** | ▪ Maintain leading market position in reinsurance …<br>▪ … while continuing to support niche and commercial insurance within Risk Solutions – largely decoupling from purely price-driven demand |
| **Portfolio** | ▪ Maintain balanced portfolio composition<br>▪ Access new markets and portfolios with innovative solutions (reinsurance) and distribution partners (primary insurance) |
| **Outlook** | ▪ Strict cycle-management safeguarding good underwriting profitability<br>▪ Diversification remains key – Managing nat cat volatility while further expanding capital relief transactions and Risk Solutions |

# Agenda

Munich RE

| | |
|---|---|
| Introduction | Becker-Hussong |
| General introduction to Asia | Wenning |
| P-C reinsurance in Greater China | Chang |
| P-C reinsurance in Southeast Asia and South Korea | Buholzer |
| P-C reinsurance in India | Kotak |
| P-C reinsurance in Japan | Eckl |
| Life reinsurance in Asia | Cossette |
| General introduction to Australia/New Zealand | Arnoldussen |
| Life reinsurance in Australia/New Zealand | Linfoot |
| P-C reinsurance in Australia/New Zealand | Eckl |
| **Executive summary** | **Arnoldussen** |

# Executive summary – Business in Asia-Pacific providing substantial earnings contribution

Munich RE

| | |
|---|---|
| **Emerging Asia** | Driver of global GDP and insurance premium growth – Accompanying clients as knowledge partner and service provider |
| **Mature Asia-Pacific** | Saturated markets with rather limited growth prospects – Reliable capacity provider while expanding the scope of insurance solutions |
| **Innovation** | Munich Re in an advanced position to profitably grow the business with innovative concepts, e.g. capital relief transactions and asset protection |
| **Risk Solutions** | Improving portfolio diversification by expanding the insurance value chain via less-cycle-exposed specialised niche business in Australia/New Zealand |
| **Mid-term outlook** | Life: Share expected to increase to 20–25% of Group's value generation and IFRS bottom-line, P-C: Normalised combined ratio expected to be better than Group average |

# Financial calendar

Munich RE

## 2015

| | |
|---|---|
| 6 August | Interim report as at 30 June 2015 |
| 5 November | Interim report as at 30 September 2015 |

## 2016

| | |
|---|---|
| 4 February | Preliminary key figures 2015 and renewals |
| 16 March | Balance sheet press conference for 2015 financial statements<br>Analysts' conference in Munich with videocast |
| 27 April | Annual General Meeting 2016, ICM – International Congress Centre Munich |
| 10 May | Interim report as at 31 March 2016 |
| 9 August | Interim report as at 30 June 2016 |
| 9 November | Interim report as at 30 September 2016 |

# For information, please contact

## Investor Relations Team


| | | |
|---|---|---|
| **Christian Becker-Hussong**<br>Head of Investor & Rating Agency Relations<br>Tel.: +49 (89) 3891-3910<br>E-mail: cbecker-hussong@munichre.com | **Thorsten Dzuba**<br>Tel.: +49 (89) 3891-8030<br>E-mail: tdzuba@munichre.com | **Christine Franziszi**<br>Tel.: +49 (89) 3891-3875<br>E-mail: cfranziszi@munichre.com |
| **Britta Hamberger**<br>Tel.: +49 (89) 3891-3504<br>E-mail: bhamberger@munichre.com | **Ralf Kleinschroth**<br>Tel.: +49 (89) 3891-4559<br>E-mail: rkleinschroth@munichre.com | **Andreas Silberhorn**<br>Tel.: +49 (89) 3891-3366<br>E-mail: asilberhorn@munichre.com |
| **Angelika Rings**<br>Tel.: +49 (211) 4937-7483<br>E-mail: angelika.rings@ergo.de | **Andreas Hoffmann**<br>Tel.: +49 (211) 4937-1573<br>E-mail: andreas.hoffmann@ergo.de | **Ingrid Grunwald**<br>Tel.: +49 (89) 3891-3517<br>E-mail: igrunwald@munichre.com |

Münchener Rückversicherungs-Gesellschaft | Investor & Rating Agency Relations | Königinstraße 107 | 80802 München, Germany
Fax: +49 (89) 3891-9888 | E-mail: IR@munichre.com | Internet: www.munichre.com

# Disclaimer

This presentation contains forward-looking statements that are based on current assumptions and forecasts of the management of Munich Re. Known and unknown risks, uncertainties and other factors could lead to material differences between the forward-looking statements given here and the actual development, in particular the results, financial situation and performance of our Company. The Company assumes no liability to update these forward-looking statements or to conform them to future events or developments.