



# Virtual Baden-Baden 2021 media breakfast

Reinsurance market dynamics –  
The insurance industry's role beyond risk transfer

18 October 2021  
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Insurance markets at a glance



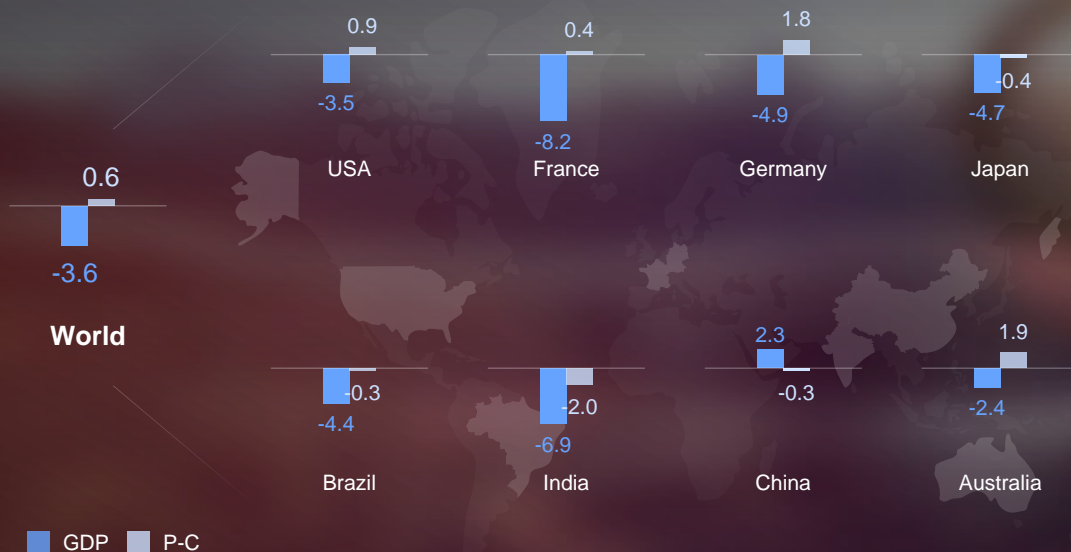
Challenges from high-impact/  
low-probability and changing risks

# P-C insurance relatively robust in 2020 despite recession

Likely to benefit from recovery

## GDP vs. P-C insurance market growth in 2020

in real terms, in %



- Despite sharp recessions, impact of crisis on premium income quite small
- 2021/22: Global insurance industry expected to benefit from economic recovery
- Emerging markets: Increased risk awareness and catch-up potential vs. advanced economies indicate mid-term premium growth above GDP

# Primary insurance and reinsurance development

Global premium development 2018–2020/2021e–2023e

## P-C RI: Ceded premiums 2020



<b>Europe</b>	<b>€94bn</b>	<b>32%</b>
North America	€98bn	33%
Asia Pacific	€74bn	25%
Latin America	€15bn	5%
Africa/Middle East	€13bn	5%
<b>Total</b>	<b>~€297bn</b>	<b>100%</b>

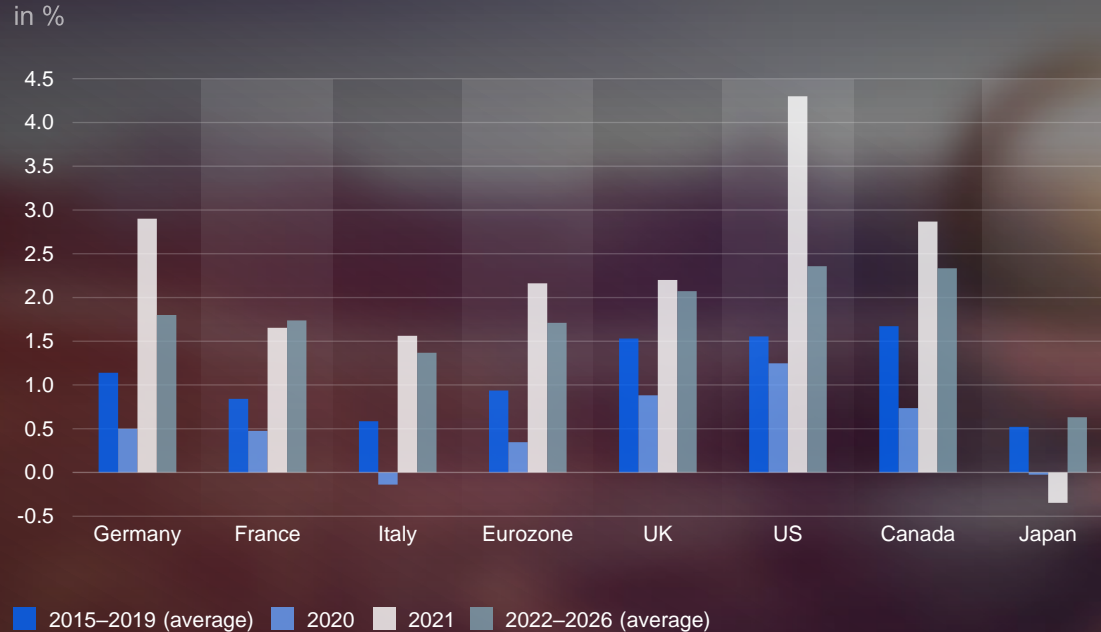
## P-C RI and PI real growth rates (CAGR)

RI		PI	
18–20	21–23	18–20	21–23
<b>3%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
8%	3%	3%	3%
9%	4%	3%	4%
2%	4%	0%	4%
1%	3%	-1%	2%
<b>6%</b>	<b>3%</b>	<b>2%</b>	<b>3%</b>



# Inflation in major advanced economies expected to fall from currently elevated numbers

## Annual CPI inflation



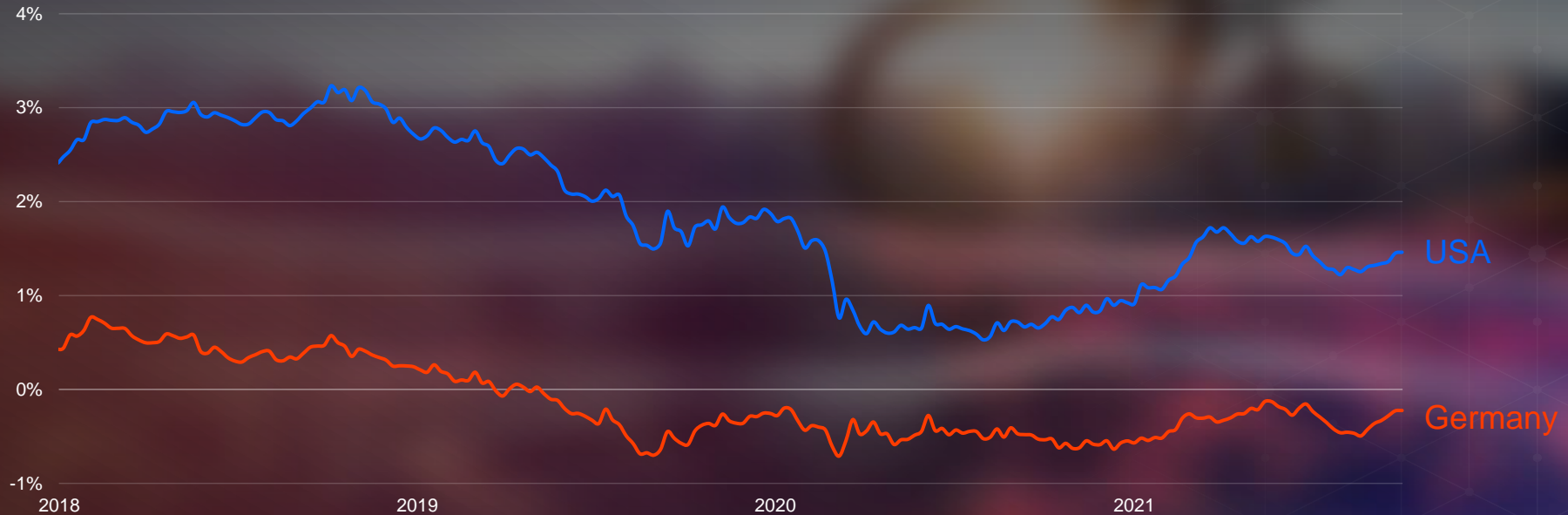
- Strong demand growth, supply limitations and “base effects” from last year’s low energy prices have brought a significant increase in CPI inflation
- We expect inflation rates to come down again in 2022 in line with the further normalisation of the post-recession macroeconomic environment
- CPI inflation to remain moderate and close to central bank targets of 2% over the next years, albeit clearly above the low inflation levels seen prior to the pandemic
- Inflation remains a risk that needs to be adequately addressed in pricing

# Government yield curve development

Significant profitability decline in recent years

## Low interest rates

10-year government bonds



# Current market environment

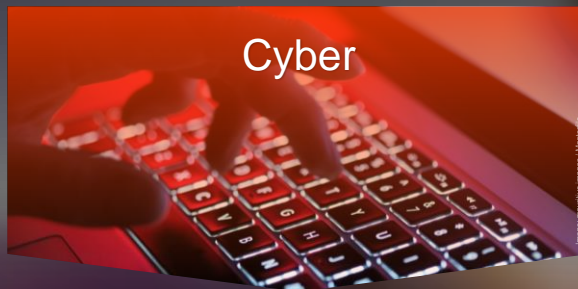


# Challenges from high-impact/low-probability and changing risks



Climate change

Floods in Central Europe  
**>€9bn** in insured losses  
Costliest natural catastrophe  
in Germany to date<sup>1</sup>



Cyber

The number one risk for the  
economy **81%** of C-level  
respondents think their company  
is **not adequately  
protected**  
against cyber threats<sup>2</sup>



Pandemics

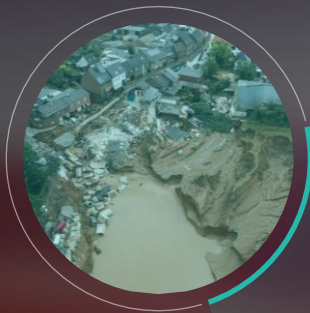
Global GDP lost in 2020  
**€3,800bn<sup>3</sup>** due to the  
coronavirus pandemic

<sup>1</sup> Source: Munich Re NatCatSERVICE, October 2021 <sup>2</sup> Munich Re Global Cyber Risk and Insurance Survey, 2021 <sup>3</sup> Munich Re Economic Research



# Climate change is increasingly impacting weather catastrophes

## Floods in Central Europe in July



Research indicates: The likelihood of such an event **has increased** due to climate change<sup>1</sup>

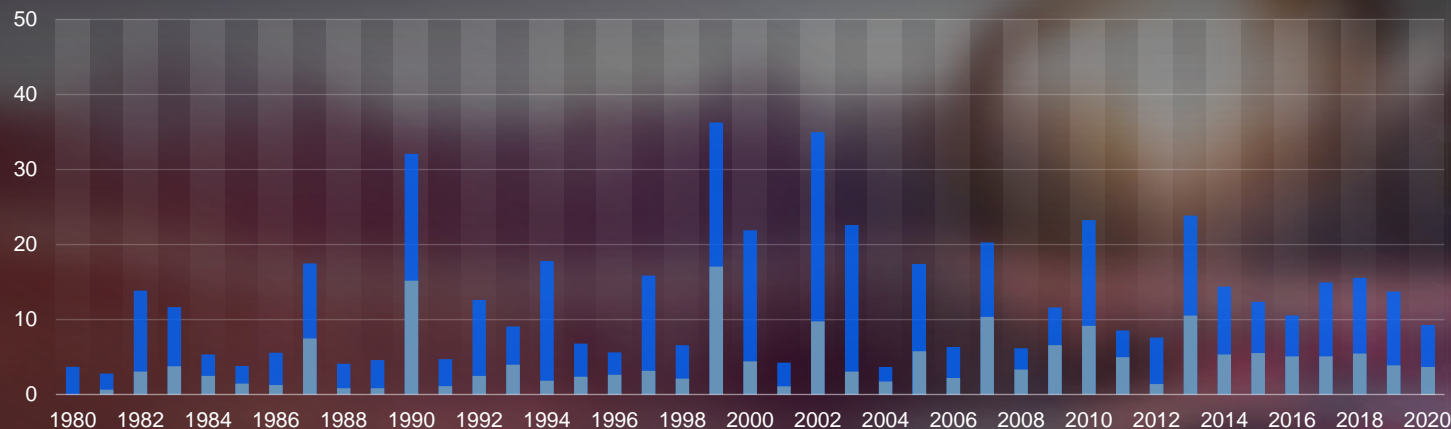
- Government action required to limit exposed values in flood plains
- Mandatory flood insurance or inclusion of flood risks in standard homeowner policies could be a means to reduce flood insurance gap
- Munich Re would be prepared to support such solutions with capacity or know-how (e.g. regarding structuring, risk modelling, underwriting, claims management)
- Risk-adequate prices or subsidisation of premiums in case of affordability issues would be needed

<sup>1</sup> Source: [worldweatherattribution.org](https://worldweatherattribution.org)  
Image: SEBASTIEN BOZON / AFP / Getty Images

# Insurance gap still very large in Europe

## Losses from weather-related natural disasters in Europe 1980–2020

€bn

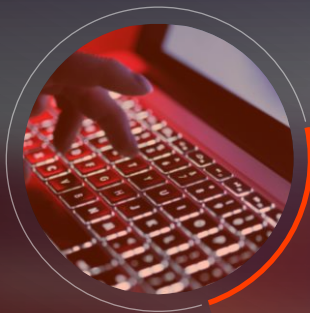


Insured losses  
€182bn

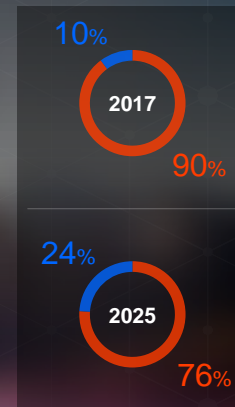
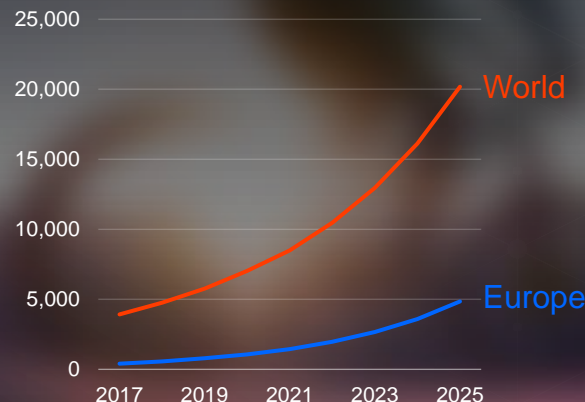
Overall losses  
€524bn

Europe: Only **35%** of losses since 1980 have been insured

# Cyber market in Europe is growing rapidly



The number one risk for the economy  
**81%** of C-level respondents think  
their company is **not adequately  
protected** against cyber threats<sup>1</sup>



- Ransomware losses have reached an unprecedented level
- Some insurers are reducing capacity – Munich Re still poised to grow based on dedicated cyber strategy
- Insurance can contribute to a reduction in losses by providing effective pre- and post-incident services
- Selective underwriting is key
- State involvement to cover systemic cyber risks is to be considered

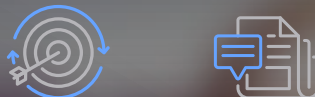
<sup>1</sup> Source: Munich Re Global Cyber Risk and Insurance Survey  
Image: mauritius images / Masterfile

# Mastering the rapidly changing cyber risk challenges

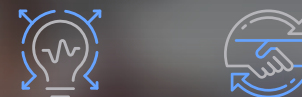
## Strengthen prevention



## Sharpen risk appetite



## Strong claims services to support recovery



### Get the basics right, set the obstacles for attackers high

- Next-generation firewalls, malware endpoint protection, backups, patch management, etc.
- Increased focus on human factor (phishing, social engineering and co.)
- Service provider network
- Collaboration of the cyber security community

### Execute on it

- Execute on risk assessment and underwriting standards
- Strict accumulation control
- Design coverage features (deductibles, sub-limits, coinsurance, etc.)

### Indispensable to cope with attacks

- Incident response services
- Partnerships with experts (e.g., IT forensics, crisis mgmt., legal experts, etc.)
- Professional claims handling



# Challenges from large and changing risks

## Pandemics



Global GDP lost in 2020  
**€3,800bn<sup>1</sup>** due to the  
coronavirus pandemic

- The coronavirus pandemic affected insurers in manifold segments causing billions in losses, i.e., event cancellation, life & health, property/business interruption
- After almost 2 years, many businesses are still burdened by lockdowns or severe restrictions
- Fostering risk awareness and strengthening of crisis response plans required
- Reliable mechanisms to insure pandemic risks are needed. State-backed risk pools in which insurers can participate with limited capacity is the only way to achieve this

<sup>1</sup> Source: Munich Re Economic Research  
Image: LaylaBird / Getty Images

# Evolving risk landscape highlights need for holistic risk management based on solid risk expertise



## Challenges to tackle complex risks

Risk awareness  
and risk assessment

Prevention measures  
to reduce loss potential

Risk transfer

Post-incident services

## Munich Re's role

- Research on best-in-class risk know-how incl. cooperation with academia
- Holistic approach to risk
  - Risk awareness
  - Risk prevention
  - Post-incident support
- Risk transfer on the basis of excellent know-how, innovative solutions and financial strength
- Support structured management of systemic risks in cooperation with partners (capital markets, governments)



Thank you for your attention!