

New era and future opportunities – Insurers partner with the digital world

- Identifying future trends and engaging in risk partnerships on new technologies are at the heart of Munich Re's strategy
- With cyber continuing to be a strategic growth market, the increase in ransomware attacks calls for greater prevention
- Data analytics and artificial intelligence are future trends – and Munich Re is leading the way with a network of partnerships and worldwide expertise
- Market conditions in primary insurance and reinsurance continue to develop favourably



“Insurers are addressing the digitalisation megatrend with its tremendous opportunities. They are automating their internal processes using algorithms and generating new types of cover with the help of artificial intelligence – for the benefit of their customers. Even more important are strategic liaisons with customers to identify major trends and future risk requirements. Munich Re has been investing in the requisite know-how for years, and developing solutions for the digital world: we insure the performance of AI algorithms, and are the market leader and pioneer for the top risk, cyber.”

Torsten Jeworrek, Member of the Board of Management

Promising market environment

The prospects in reinsurance are favourable thanks to the economic recovery that set in after the lockdowns, and to price increases following the long soft-market phase. The reinsurance market is set to grow by around 3% p.a. (inflation-adjusted) by 2023, as is the primary insurance market. Munich Re is a reliable partner for clients and can offer customised risk solutions and stable capacity. At the same time, Munich Re wants to be a leading risk carrier in a rapidly evolving digitalised world of ever-new emerging risks. Cyber, data analytics and artificial intelligence are the most important growth areas.

Cyber as both challenge and opportunity

Given the great economic significance of cyber risks, the demand for cyber insurance, which requires special expertise owing to the dynamic development of the risks, is increasing appreciably. The boost to digitalisation triggered by the coronavirus lockdowns has led to a dramatic rise in cyber attacks, which are also becoming increasingly sophisticated. Claims from so-called ransomware attacks have seen a particularly significant surge – a trend that is likely to continue. An analysis by AM Best determined that three quarters of all cyber losses in the USA in 2020 were attributable to ransomware attacks. The recent attack on the IT service provider Kaseya demonstrated the substantial and complex loss potential of cyber risks; its software was used to encrypt the IT systems of many companies in a snowball manner.

Given the rising number of losses, prices for cyber insurance have burgeoned, and risk carriers have limited their capacity. The demand for insurance and service solutions is huge, and many companies are concerned about the rise in cyber attacks. At the same time, four out of five top managers interviewed in the first Global Cyber Risk and Insurance study conducted by Munich Re admitted that their companies had insufficient protection.

To do justice to the dynamics of the risk and constantly changing trends, Munich Re is further expanding its network and partnerships. Munich Re's own expertise in modelling cyber risks is being honed further thanks to its access to data and technologies. In collaboration with clients, solutions are being drafted that go far beyond traditional approaches and comprise not only customised cyber coverage but also services to prevent and cope with attacks (also referred to as pre- and post-incident services). The inclusion in insurance covers of such consulting services geared to limiting losses is becoming increasingly important, particularly given the growing number of ransomware attacks. This will raise cyber security standards and make risks more insurable.

In addition, Munich Re is aiming to create a sustainable insurance market together with its clients on the basis of proportional participations. This strategy, which is founded in data, know-how and consistent risk management, has made Munich Re a leading cyber risk carrier.



“The increasing number of ransomware attacks is putting a serious strain on the economy. The insurance industry helps companies to become more resilient to cyber attacks and mitigates damage in the event of an attack. However, some systemic risks can only be managed by the state in conjunction with the insurance industry. These risks range from terrorist or politically motivated attacks to cyber warfare and are preferably covered by pools. Moreover, it is in everyone’s interest to provide clarity on the scope of cover through appropriate wordings,” says Stefan Golling, Munich Re Board member for Global Clients/North America.

Thanks to stringent risk selection and a balanced portfolio, Munich Re has kept the rising ransomware losses in its book of business readily manageable. In addition, price increases in a hardening market environment are producing a stabilising effect. Munich Re is adhering to its plan to grow profitably based on a current market share of roughly 10%.

Potential of data analytics and AI

Data analytics and the use of algorithms harbour great potential for insurers: data-based algorithms help to optimise many processes – for instance, in the area of sales, customer interaction, and claims settlement and underwriting. Many processes can be accelerated and improved for the benefit of clients. The increasing use of machine-learning technology and artificial intelligence in business has also given rise to a dynamic market environment with many new fields of risk – and the need for novel insurance solutions.

For years, Munich Re has been investing in the know-how of its staff through establishing a data analytics curriculum, and by hiring digital talent in order to be able to exploit market opportunities through a sophisticated combination of insurance and data expertise. “We now have a worldwide network with hundreds of specifically recruited data analytics experts and trained specialists dealing with this topic. In conjunction with the divisional units, we are working on well over 100 initiatives launched to provide our clients with innovative solutions,” says Fabian Winter, Head of Data and Analytics (DAA).

The following are two examples of solutions already being employed in the market:

- The Insurance Analytics Platform enables insurers to collate their own data with sector-specific external data provided by Munich Re. Using far greater and more relevant data volumes provides the basis for enhanced portfolio management and smarter decision-making – from distribution and pricing to claims handling.
- Backed by its expertise in AI, Munich Re offers a unique cover called aiSure that guarantees the performance of algorithms. Munich Re provides advice to AI providers in designing their performance guarantees, relieves them of significant balance-sheet risks and thus makes them more attractive to investors and clients relying on the performance of algorithms.

To develop our own perspectives with such complex topics as artificial intelligence and quantum computing, Munich Re is working together with leading research institutions such as the German Research Centre for Artificial Intelligence (Deutsches Forschungszentrum für Künstliche

Intelligenz; DFKI) and has recently set up the Quantum Technology & Application Consortium (QUTAC) together with nine leading German companies. Munich Re's goal is to tap the tremendous potential of quantum computing for the insurance industry.

"The digitalisation megatrend will radically change traditional insurance. It will give rise to new fields of risk in need of insurance solutions. With its numerous digital and innovation projects, Munich Re has laid the foundations for profitable growth going forward," says Board member Torsten Jeworrek.

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Munich Re

Munich Re is one of the world's leading providers of reinsurance, primary insurance and insurance-related risk solutions. The group consists of the reinsurance and ERGO business segments, as well as the asset management company MEAG. Munich Re is globally active and operates in all lines of the insurance business. Since it was founded in 1880, Munich Re has been known for its unrivalled risk-related expertise and its sound financial position. It offers customers financial protection when faced with exceptional levels of damage – from the 1906 San Francisco earthquake through to the 2019 Pacific typhoon season. Munich Re possesses outstanding innovative strength, which enables it to also provide coverage for extraordinary risks such as rocket launches, renewable energies or cyberattacks. The company is playing a key role in driving forward the digital transformation of the insurance industry, and in doing so has further expanded its ability to assess risks and the range of services that it offers. Its tailor-made solutions and close proximity to its customers make Munich Re one of the world's most sought-after risk partners for businesses, institutions, and private individuals.

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