Media Release

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Volatile loss trends, complex risks: Munich Re to focus on risk-adequate conditions

- Munich Re at the “Rendez-Vous de Septembre” industry event in Monte Carlo: the reinsurance market has achieved a sensible balance in an environment characterised by high demand
- Claims inflation in key segments remains a focal point despite lower headline inflation; both geopolitical and macroeconomic risks remain high
- Focus on solid operating earnings: disciplined underwriting is the basis for selective growth at Munich Re
- Investments in risk expertise pay off

“The reinsurance market has currently achieved a sensible balance. Nevertheless, considerable uncertainty remains: claims inflation is still high in a number of segments and there are significant downside risks hanging over the overall economic environment. Munich Re will consistently work to ensure risk-adequate rates and conditions. Our financial strength and expertise will then also put us in a position to selectively expand our capacities further, to the benefit of our clients.”

Thomas Blunck, Member of the Board of Management

The market environment for reinsurers remains promising and challenging at the same time. Following pronounced growth in recent years, the global reinsurance market is set to grow by 2–3% (adjusted for inflation) over the next three years, a rate that puts it virtually neck-and-neck with the primary insurance sector. Growth could prove to be slightly stronger in Asia-Pacific and Latin America, and slightly weaker in Europe and North America.

The macroeconomic environment has stabilised somewhat in spite of what remain considerable geopolitical risks. Global economic growth over the next several years, at slightly over 2.5%, will likely be lower than in the pre-pandemic years. Inflation is on the decline in advanced economies, but looks set to remain at a higher level in the next several years than in the past decade.

In many reinsurance segments, claims inflation is substantially higher, due to factors that are independent of the macroeconomic conditions. Examples include rising damages awards, particularly in the US ("social inflation"), rising costs in connection with medical advances, higher care costs, and shortages in construction materials and professional staff, resulting in significantly higher claims costs.

According to data from AM Best/Guy Carpenter, global reinsurance capital, one indicator of reinsurance capacity, has risen to US$ 515bn in 2024 as expected. The market for alternative risk capital has grown slightly, without any major impact on the reinsurance market. Demand for reinsurance capacity has remained very high, allowing the market as a whole to stabilise at a higher level.

"Adequate earnings are crucial for the reinsurance sector, which was unable to earn the cost of capital in four out of the last seven years. But one good year alone isn't enough. We have to consistently achieve risk-adequate rates, given that rising volatility and risk exposure translate into a need for more risk capital," Blunck added.

Current developments in a number of areas that call for specialist risk expertise and a disciplined approach:

- **Natural catastrophes and climate change:** Munich Re data points to an upward trend in insured losses that is closely linked to increasingly exposed assets. Total global insured annual losses triggered by natural catastrophes now often surpass the US$ 100bn threshold.

  Major catastrophes, such as extreme hurricanes and earthquakes, are clearly responsible for the significant volatility in the scale of losses. The trend toward increasing insured losses, on the other hand, is being driven particularly by non-peak perils such as severe thunderstorms with hail, tornadoes, flooding and forest fires. The scientific community believes that climate change has an impact – and in some cases, a significant one – on the number and severity of these natural hazards.

  Specialist risk expertise – bolstered by investments in new and revamped risk models, together with excellent global diversification – makes nat cat business profitable for Munich Re in the long term, while also allowing the company to further increase its risk transfer capacity in selected regions.
- **Casualty business and claims inflation:** Due to the long-tail nature of the business, insufficient rates can impact profitability for several years. In addition,

in the key US market, the trend toward verdicts awarding higher and higher damages continues, a development that is also benefiting specialised lawyers and the investors financing these proceedings (“litigation funders“). All in all, this equates to a “tort tax” of around US$ 3,600 a year for every household in the US.*

An analysis conducted by Munich Re has revealed many years in which rate development has not kept pace with claims inflation in the US. Munich Re will continue to make its expertise and capacity available to provide close support to clients who clearly acknowledge the implications of legal system abuse and claims inflation.

- **Cyber:** The global cyber insurance market continues to gain importance and will experience substantial growth. As a leading cyber (re)insurer, Munich Re plans to continue providing significant capacity to match that growth over the coming years with commensurate prices, terms and conditions. In this regard, we will be sticking firmly to our strategy of not covering uninsurable systemic risks like cyber war. Munich Re continues to support a sustainably profitable cyber insurance market and is especially investing in expertise and the advancement of risk and accumulation modelling.

Board member Stefan Golling commented: “The areas of natural catastrophes, casualty and cyber are symbolic of Munich Re’s role. We are a risk carrier with considerable financial resources and unique expertise, particularly when it comes to the largest and most complex risks. Our clients can rely on our ability to leverage our knowledge and strength to mitigate their claims volatility. In turn, we will not hesitate to discontinue business that does not meet our technical criteria for sustainable profitability.“

* Source: *APCIA/Munich Re 2023 Legal System Abuse Survey*

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Munich Re

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