Image: hanohiki / stock.adobe.com

RVS Monte Carlo 2023

Munich Re media conference

10 September 2023

Thomas Blunck, Stefan Golling

Munich RE

Agenda

Munich RE

Overall market environment

- Market drivers
- Non-peak perils
- Alternative risk transfer

Thomas Blunck

01

Focus on underwriting

- Natural catastrophes
- Political risks
- Casualty
- Cyber

Stefan Golling

02

Summary: Munich Re's proposition

Thomas Blunck

03

(Re)insurance markets are exposed more than ever to uncertain conditions and influencing factors

Munich RE

Image: hanohiki / stock.adobe.com

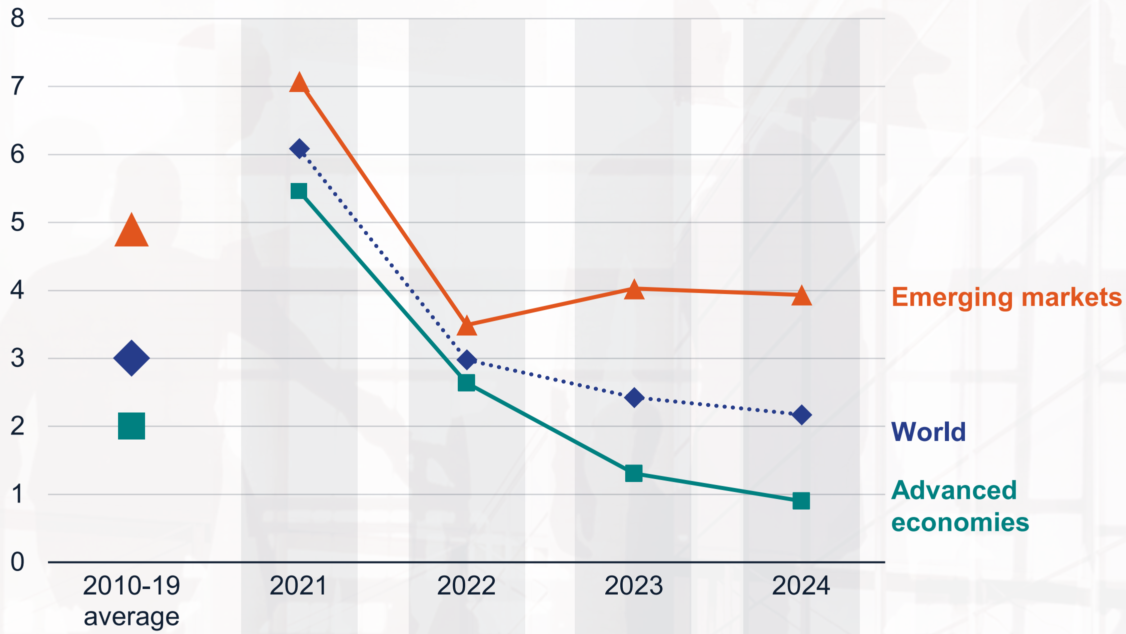
Continued fragility in the global economy

Elevated uncertainties – only weak growth, downside risks dominate

Munich RE

Annual real GDP growth

in %



Baseline scenario with only weak growth

- Headwinds from tight monetary policy limit activity in interest-rate-sensitive sectors
- Robust labour markets prevent even weaker growth and imply substantial wage increases

Downside risks dominate

- Delayed effects of central bank tightening could lead to a recession
- Geopolitical risks as further drivers of uncertainty

Source: Munich Re Economic Research (August 2023)

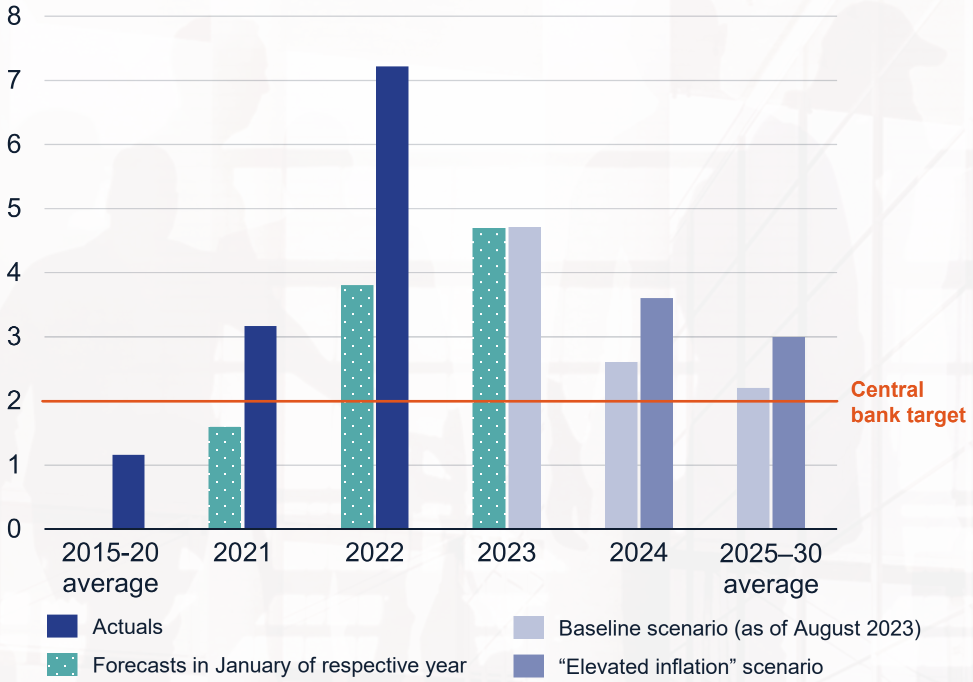
Inflation will ease, but remain above recent historical averages

Major global trends could worsen inflation in the medium term

Munich RE

CPI inflation, advanced economies

in %



Source: Munich Re Economic Research (August 2023)

Structural drivers for higher inflation

- De-globalisation could lead to lower productivity
- Decarbonisation could increase energy costs
- Demographics imply tight labour markets/wage growth

Structural drivers for lower inflation

- Digitalisation will have price-dampening productivity effects

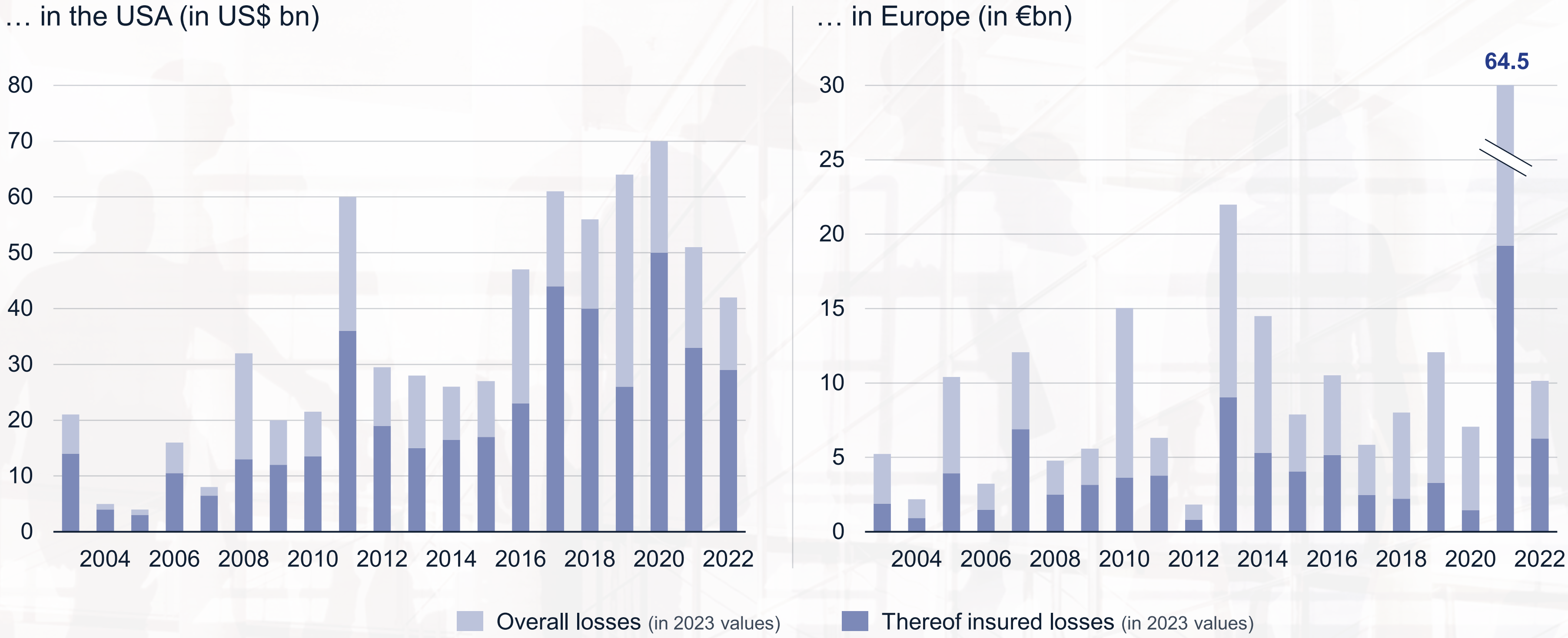
Image: hanohiki / stock.adobe.com

Losses from non-peak perils on the rise

Munich Re has recognised this upward trend and reflects it in cat modelling

Munich RE

Losses from non-peak perils (severe thunderstorms, floods, wildfires) …



Source: Munich Re, NatCatSERVICE

Image: hanohiki / stock.adobe.com

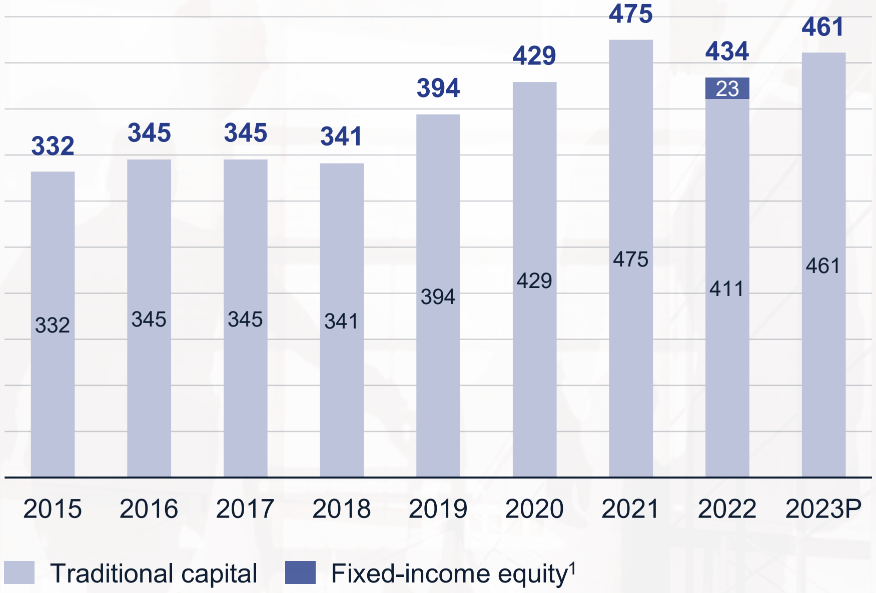
Available traditional RI capacity is expected to recover

Some players are allocating capital more selectively

Munich RE

Dedicated reinsurance capital

Traditional RI capital (US$ bn)



Trends

Traditional RI market

- Reduction of reinsurance capital in 2022 driven by mix of effects (real reduction, no deployment, interest rate increase)
- For 2023, some recovery is expected, but capital will remain below the levels seen in 2021
- Some players have become more selective in allocating their capital (e.g. decreasing nat cat risk appetite)

1 Includes fixed-income equity adjustment, capturing anticipated recovered capital as bonds mature over time

Source: AM Best, Guy Carpenter, Munich Re

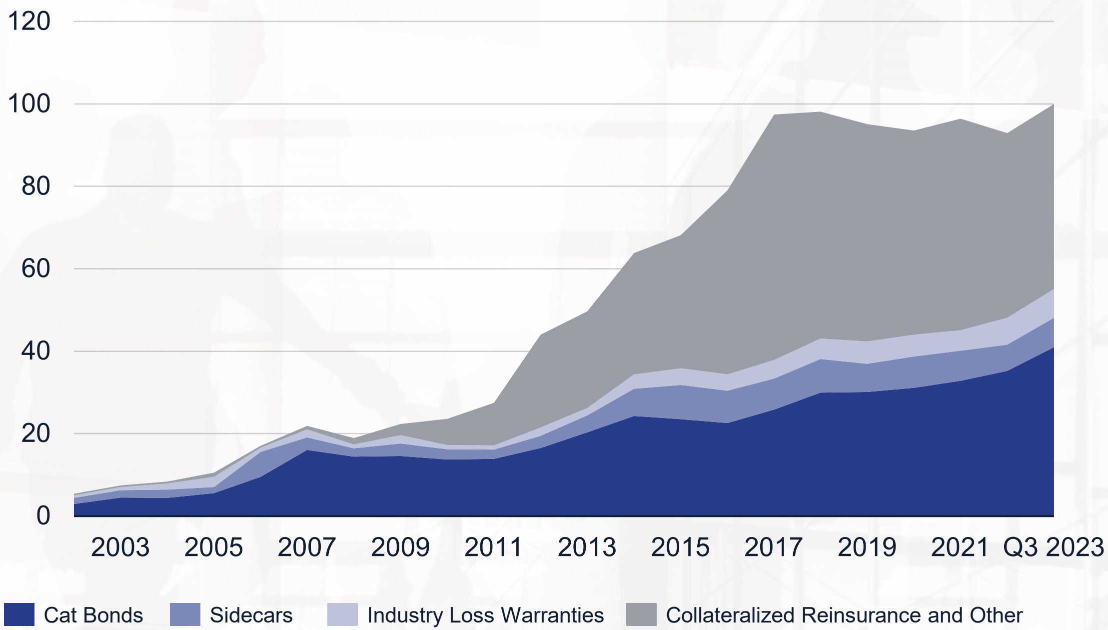
Alternative risk transfer remains complementary capacity

But no major ART-driven market movements expected

Munich RE

Alternative capital deployment

Limit in US$ bn



- Alternative risk transfer ("ART") capital has stagnated at around US$ 100bn since 2018
- Cat Bond market currently characterised by high growth rates
- Shift of investor interest within ART: from illiquid Collateralized Re formats to Cat Bonds (tends to imply higher layers)

Source: Aon Securities, LLC

Image: hanohiki / stock.adobe.com

Agenda

Munich RE

Overall market environment

- Market drivers
- Non-peak perils
- Alternative risk transfer

Thomas Blunck

01

Focus on underwriting

- Natural catastrophes
- Political risks
- Casualty
- Cyber

Stefan Golling

02

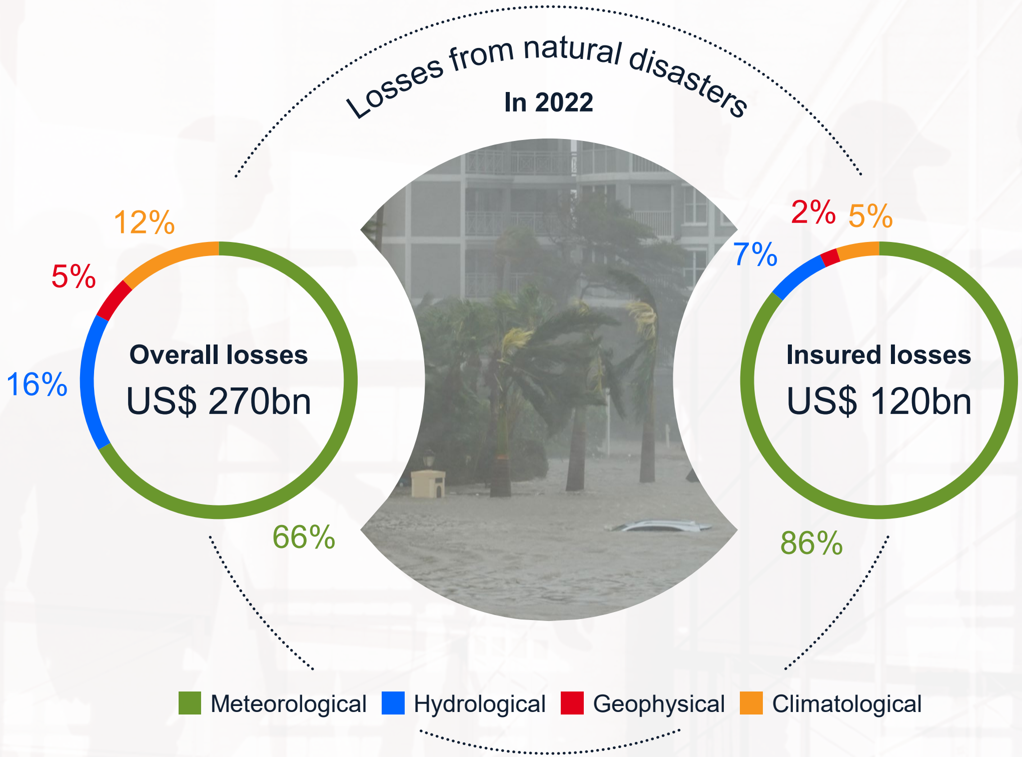
Summary: Munich Re's proposition

Thomas Blunck

03

2022 continued a string of years with high nat cat losses

Surpassing the US$ 100bn insured threshold seems to be the "new normal"



Natural disasters caused high losses of US$ 270bn – close to the average for the last five years

At approximately US$ 120bn, insured losses were significantly above average (2017–2021: US$ 97bn)

1st half of 2023: Natural disasters caused losses of US$ 110bn (thereof US$ 43bn insured)

Source: Munich Re, NatCatSERVICE, 2023
Image: Warren Faidley / Getty Images

Image: hanohiki / stock.adobe.com

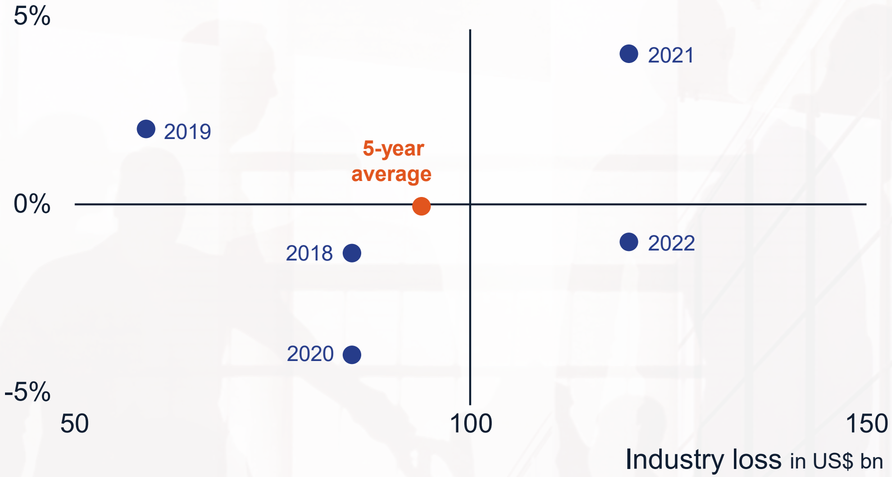
Munich Re's nat cat business shows profitable growth

Ready to offer high capacity – but we need to know what we're covering

Munich RE

Munich Re nat cat loss ratio vs budget[1]

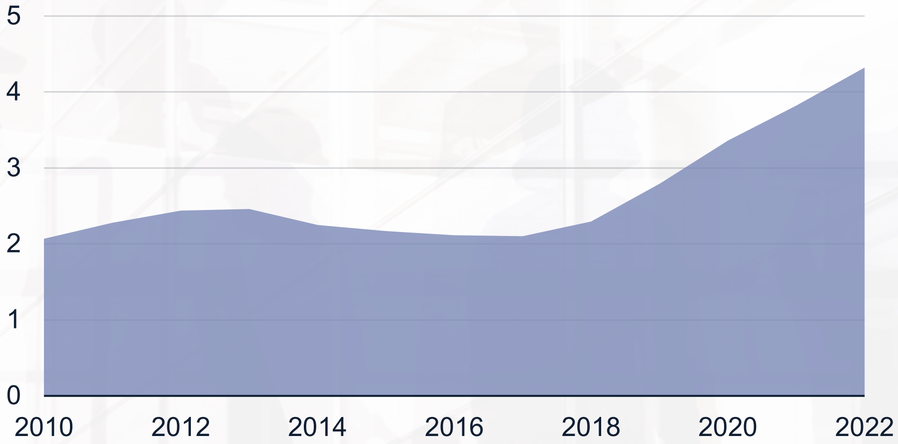
in % points



- Nat cat risks captured well in risk models
- Increasing industry loss trend manageable through disciplined underwriting strategy

Munich Re RI nat cat GWP 2010–2022[2]

in €bn



- Gross-net risk appetite, not relying on retrocession
- Seizing opportunity of attractive nat cat peak risks while keeping well-diversified portfolio

1 Expected major nat cat losses in % of net earned premiums: 2018 – 2021: 8.0%, 2022: 8.5%

2 GSI not included

Image: hanohiki / stock.adobe.com

Political risks – Changing risk landscape

Increase in frequency of civil unrest (SRCC) events

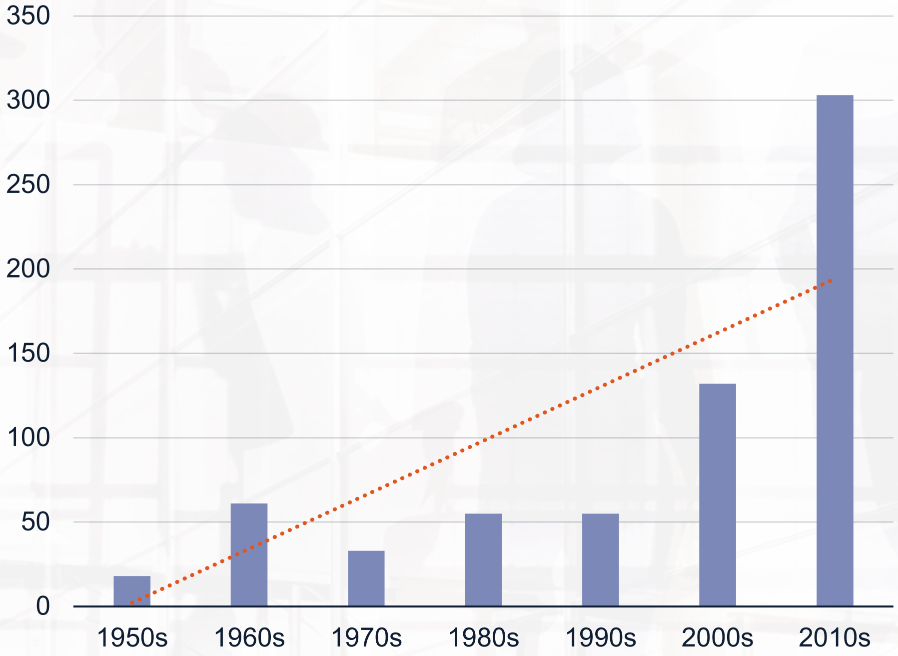
Munich RE

Observations on increasing frequency

- Growing inequalities between rich and poor – and between nations
- Tendency towards populism, nationalism, separatism, erosion of core democratic values
- Economic disruptions caused by COVID-19, which will further aggravate conflicts and civil unrest
- Data from the 2021 Global Peace Index shows that civil unrest has increased by more than 200% over the last decade
- Retailers/key infrastructure particularly vulnerable to riots

Number of riots per decade worldwide

1950s to 2010s



Sources: Global Peace Index 2021, List of Riots – Wikipedia

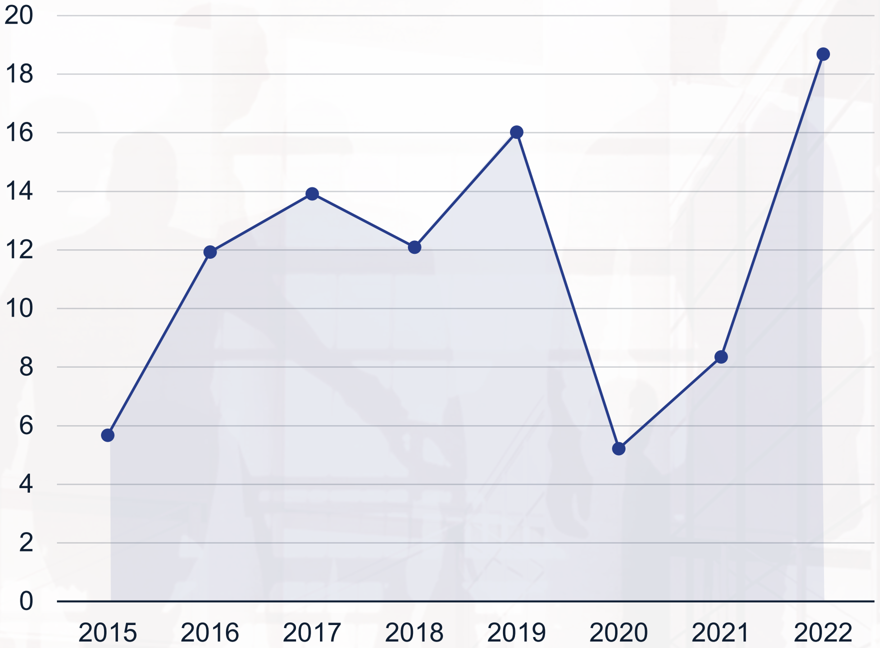
Social inflation/Legal system abuse – A growing phenomenon

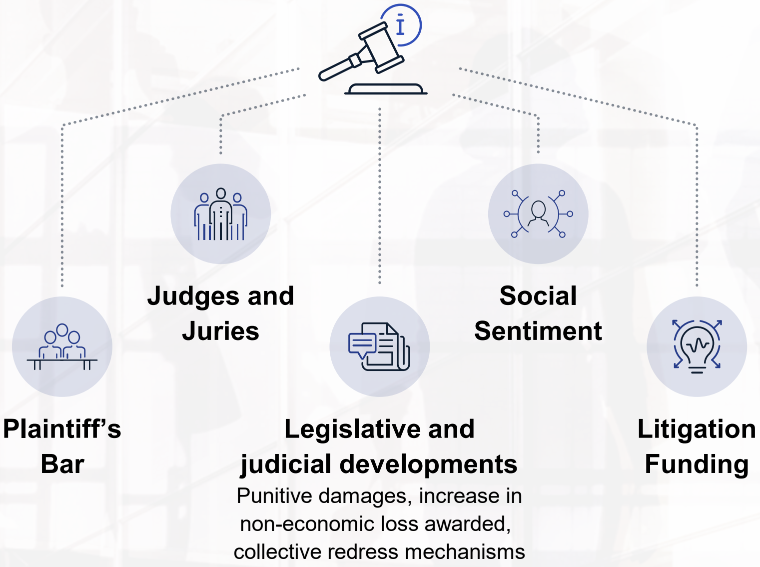
Munich RE

Recent premium increases not sufficient to make up for higher loss costs

“Nuclear Verdicts” (>US$ 10m) in the USA

Sum of corporate nuclear verdicts: 2015–2022 (US$ bn)





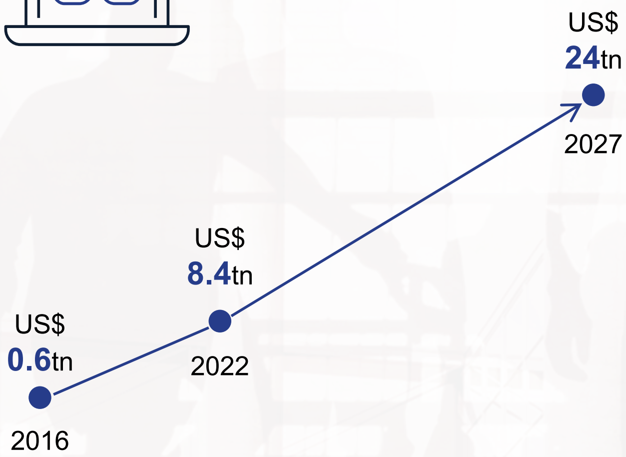
Source: Marathon Strategies

Digitalisation – Cyber insurance becoming increasingly relevant

Munich Re is committed to supporting and shaping the market

Munich RE

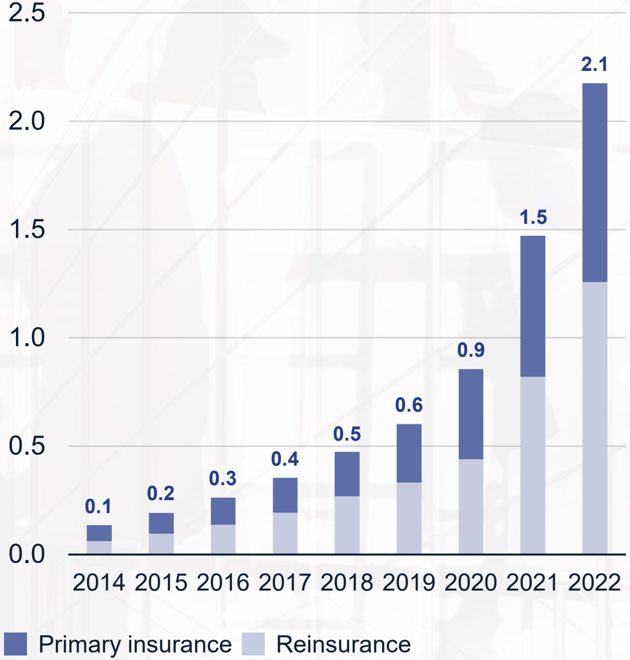
Economic costs of cyber crime expected to grow further



Source: Statista

GWP of Munich Re's cyber book

in US$ bn



Cyber reinsurer of the year

2017–2023

2017 2018

2019 2020

2021 2022

2023

Cyber remains a growth market – Keeping an eye on increasing ransomware attacks is key.

We are working to promote a sustainable and profitable cyber insurance market.

Image: hanohiki / stock.adobe.com

Transparency, standardisation, accumulation control

Indispensable aspects of a sustainable cyber insurance market

Accumulation risk

The potential for a **cyber event to have severe effects on the entire cyber portfolio** and affect more than one insured.

Objectives

- Identifying worst-case scenarios
- PML quantification and accumulation control
- Modelling accumulation loss distributions

Overarching premises

- Assessment of generic PML scenarios with maximum loss potential
- Development of bottom-up and/ or top-down approaches

Virus/Malware

Global outbreak of widespread, untargeted and self-reproducing malware.

Data breach

Multiple insureds are affected by a large-scale data breach attack.

IT service provider outage

Large-scale interruption of services such as cloud with widespread business impacts.

To be excluded/not insurable

Failure of (critical) infrastructure

Cyber war

Agenda

Munich RE

Overall market environment

- Market drivers
- Non-peak perils
- Alternative risk transfer

Thomas Blunck 01

Focus on underwriting

- Natural catastrophes
- Political risks
- Casualty
- Cyber

Stefan Golling 02

Summary: Munich Re's proposition

Thomas Blunck 03

Image: hanohiki/stock.adobe.com

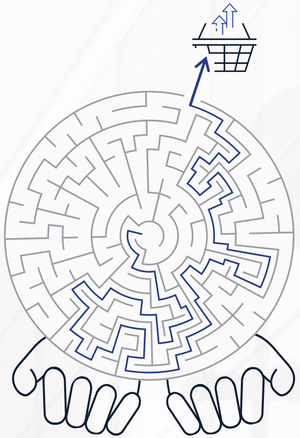
A reliable partner in a fragile market environment

Leveraging Munich Re's core capabilities and client focus

Munich RE

Reliable capacity and partnership

- We invest in individual and long-term partnerships with our clients
- We have ample capacity to grow our business together with our clients
- We support our clients with innovation and high-quality services



Investing for a sustainable future, e.g.

- High definition modelling to expand the nat cat business
- Data and technology (e.g. LLMs, generative AI)
- Innovative insurance products and services

Our foundation

- High resilience through global scale, strong diversification, high solvency and no dependence on retrocession
- Fundamentally client-centric structure and mindset
- Deep underwriting and claims expertise: risk-adequate pricing and coverage, no systemic exposure

Image: hanohiki / stock.adobe.com

Image: hanohiki / stock.adobe.com

Q&A

10 September 2023

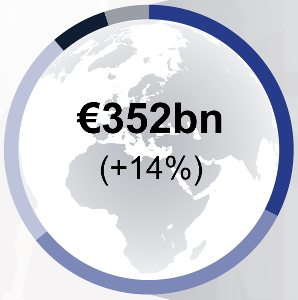
Thomas Blunck, Stefan Golling

Munich RE

Following years of strong reinsurance growth and hardening markets, growth dynamics are likely to normalise

Munich RE

P-C RI ceded premiums 2022:



P-C RI and PI real[1] growth rates (CAGR)

	RI		PI	
	20–22	23–25e	20–22	23–25e
Europe	1%	1-2%	0%	1%
North America	7%	2-3%	3%	4%
Asia Pacific	3%	3-4%	2%	5%
Latin America	7%	3-4%	5%	4%
Africa/Middle East	9%	2-3%	7%	3%
Total	4%	2-3%	2%	3%

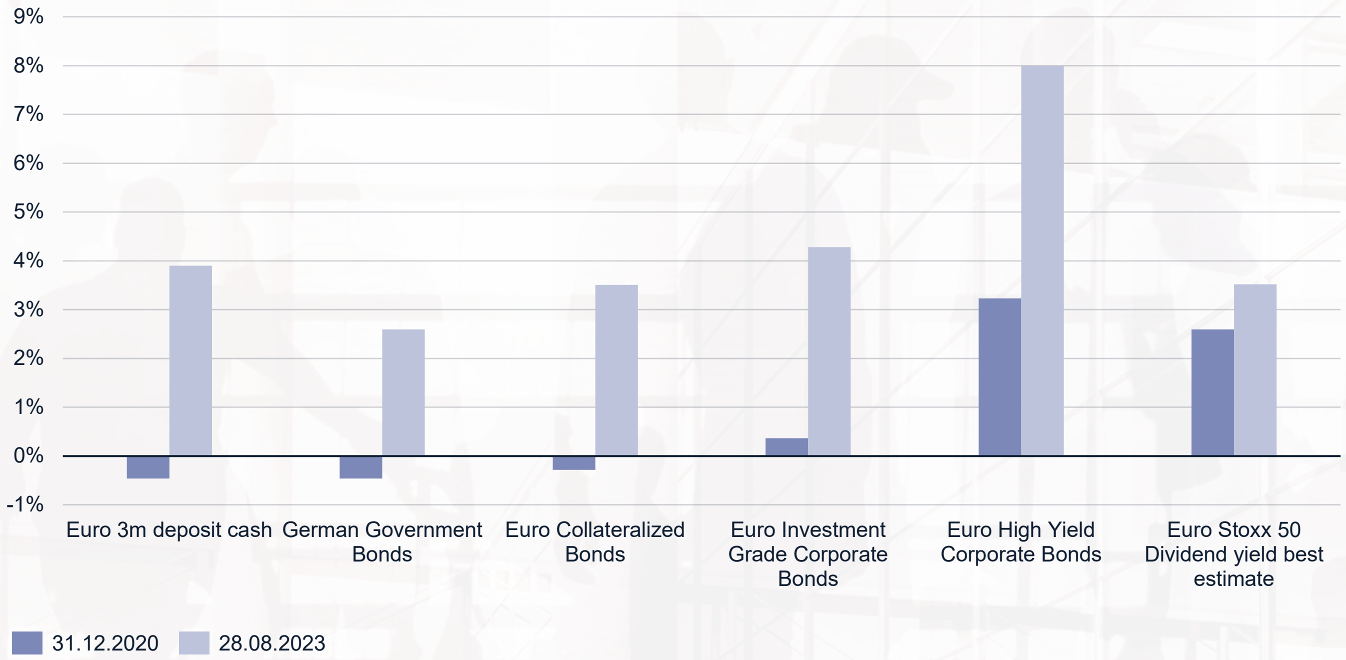
1 Growth rates are shown in real, i.e., inflation-adjusted terms
Munich Re Economic Research

Higher interest rate level will influence alternative capital markets

Creates good investment opportunities in traditional capital markets (bonds)

Munich RE

Yield developments in liquid asset classes



- Relative attractiveness of bond yields has increased materially
- Higher yields also support price discipline in alternative markets
- Investors in alternative markets are seeking significantly higher returns compared to risk-free assets
- ILS continue to offer diversification benefit

Sources: Bloomberg, Markit, BofA, Assekurata

Image: hanohiki / stock.adobe.com