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RVS Monte Carlo 2024

Munich Re media conference

8 September 2024

Thomas Blunck, Stefan Golling

Munich RE

Agenda

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Overall market environment

- Inflation and interest rates
- Capacity and Alternative Risk Transfer
- Sector profitability
- Our strategy

Thomas Blunck

01

Renewal topics – Underwriting discipline to continue

- Casualty claims inflation still widely underestimated
- Cyber insurance becoming sustainable
- Natural catastrophe loss trends

Stefan Golling

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Summary: Munich Re's proposition

Thomas Blunck

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Reinsurance markets are generally stable,
with slightly higher capacity

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De-globalisation, geo-political uncertainties

Relatively weak GDP outlook

Volatility in capital market

General market environment

Slight increase in RI market capacity

Nat cat loss trend

Uncertain inflation expectations + real growth of insured values

But market generally subject to significant uncertainties

Weak global growth, inflation above former averages

Upside risks for inflation and downside risks for growth

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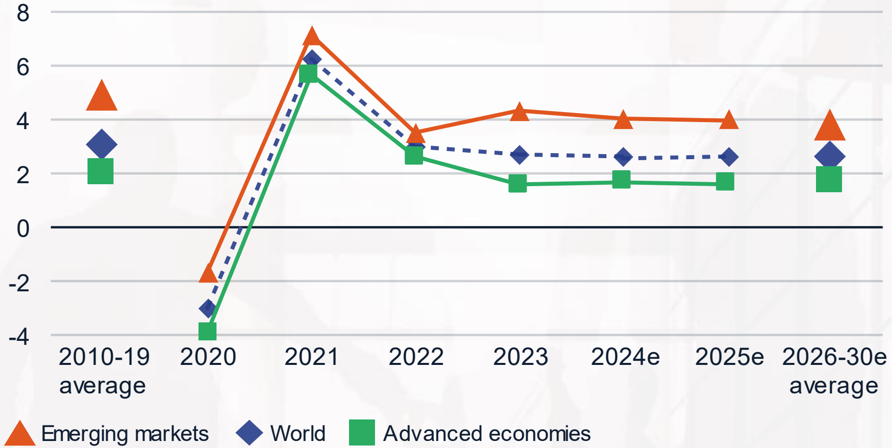
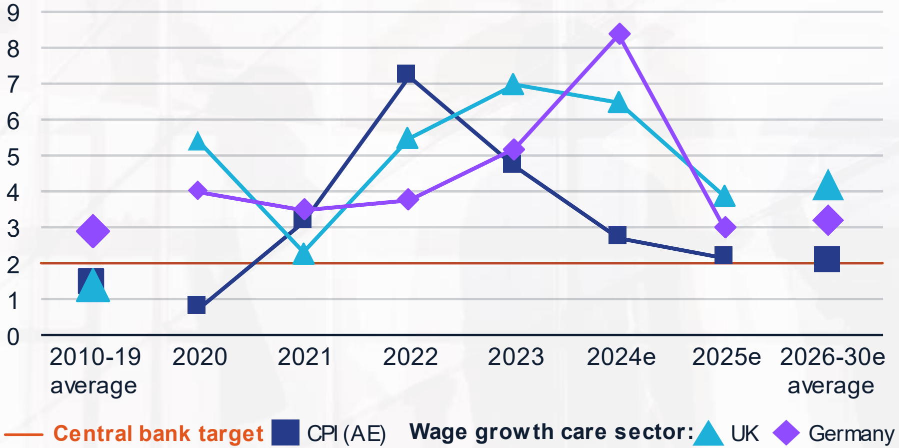
Annual real GDP growth

in %



CPI (advanced economies) and wage inflation care sector (UK, Germany)[1]

in %



- Relatively weak global growth in 2024 and 2025 does not provide a strong or resilient foundation
- Downside risks comparatively high

- CPI inflation in advanced economies to decline on a path toward target of 2% in 2025
- But many (re)insurance segments exposed to different inflationary environment

[1] Source: Munich Re Economic Research based on ONS, Destatis

Multiyear RoE in reinsurance sector still disappointing

Volatility in the capital market underscores need for risk-adequate UW margins

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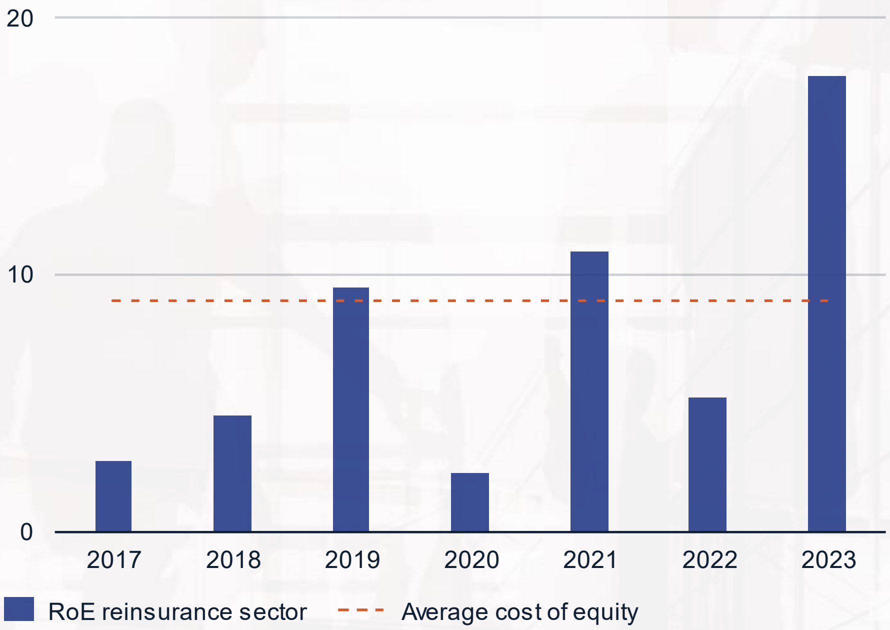
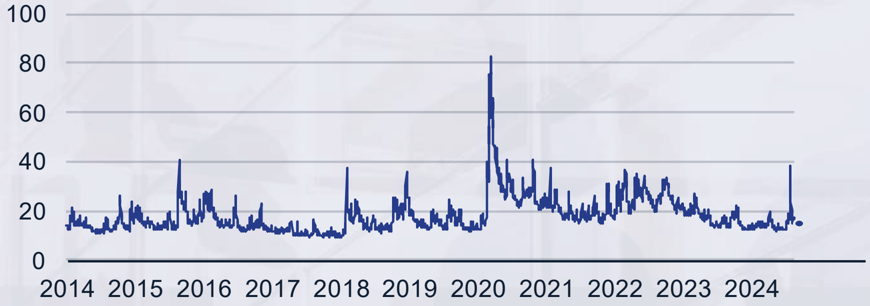
Sector RoE on average below cost of capital since 2017[1]

in %



Market volatility indices[2] for equities (VIX) …



… and fixed-income securities (MOVE)[2]

[1] Source: AON, S&P Capital IQ

[2] Source: Bloomberg as of 20 August 2024

Reinsurance market stability maintained

Traditional capital recovered as expected, no major new entrants observed

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Dedicated reinsurance capital

(US$ bn)

1 Includes fixed-income equity adjustment, capturing anticipated recovered capital as bonds mature over time
Source: AM Best, Guy Carpenter, Munich Re

Trends

Traditional RI market

- Dedicated **capital has recovered as expected**, with **no new material capital** or new class of reinsurance capital entering the market
- Equity levels are stabilising as, due to rising interest rates, unrealised losses will be absorbed over time
- **Increasing demand** driven by inflation, real values, and business growth

Alternative Risk Transfer

- Total ART market has grown slightly; net inflows marginal, market growth below accrual of interest and risk premiums
- Complementary capacity remains, but no major ART-driven market movements expected

Following strong years, growth dynamics are likely to normalise

Global premium development 2021–2023/2024e–2026e

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P-C RI: Ceded premiums 2023

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

			RI 21–23	RI 24–26	PI 21–23	PI 24–26
Europe	€109bn	29%	3%	1–2%	1%	2%
North America	€149bn	39%	7%	1–2%	4%	3%
Asia-Pacific	€79bn	21%	2%	3–4%	2%	4%
Latin America	€25bn	7%	6%	3–4%	5%	3%
Africa/Middle East	€16bn	4%	5%	2–3%	4%	3%
Total	~€378bn	100%	4%	2–3%	3%	3%

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

Munich Re: A strong and reliable partner

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Diversified business model

RI and PI in the group, reinsurance diversified into P&C, Specialty and L/H and geographically balanced worldwide

Consistent and reliable partner

Independence from the retro market allows Munich Re to provide capacity even under difficult market conditions

Strong capital position

Solid balance sheet, prudent reserving approach and Solvency II ratio well above 250%

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Aggregated January – July 2024 treaty renewals

Active portfolio management is key even in a good overall market environment

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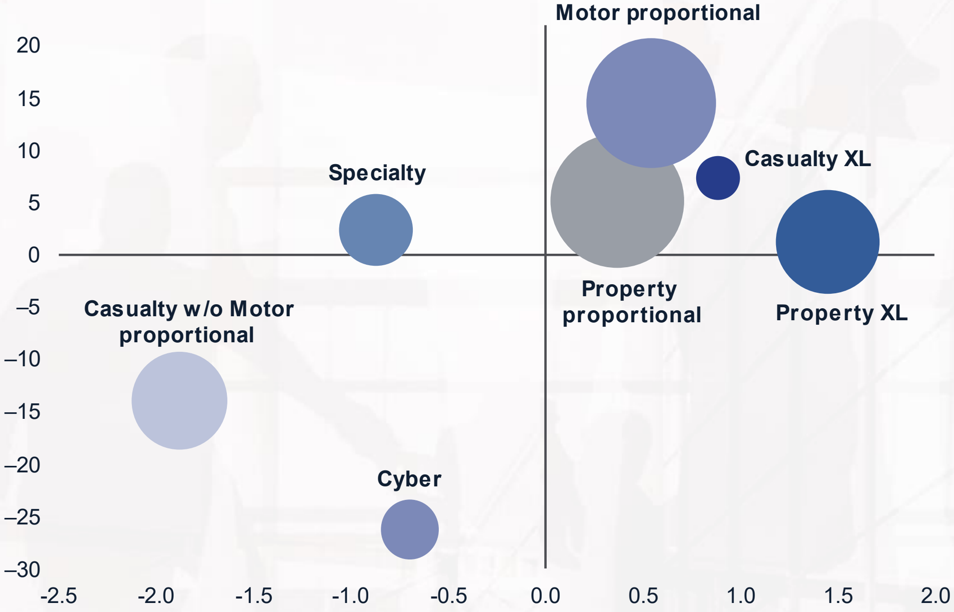
Volume change[1]

in %, ytd



Price change

in %

Property XL

When **terms & conditions are met** and **retentions are reasonable**, **we have no capacity restrictions** – Our robust UW capabilities, global diversification and independence from retro capacity ensure this

Motor proportional

Our expansion will be facilitated by **participating in original rate increases** and meeting the **demand for capital relief**

Cyber

After successful introduction of the **cyber war exclusion** over the last 12 months, we anticipate a **return to growth in line with the underlying market**

Casualty proportional

Volume is secondary to profitability – If rate hikes or commission cuts fail to cover claims inflation adequately, we won't hesitate to give up volume

[1] Bubble size reflects relative volume up for renewal

High reserve pressure remains a sector-wide concern in 2024

Current trend indicates worsening of reserve risk in the sector

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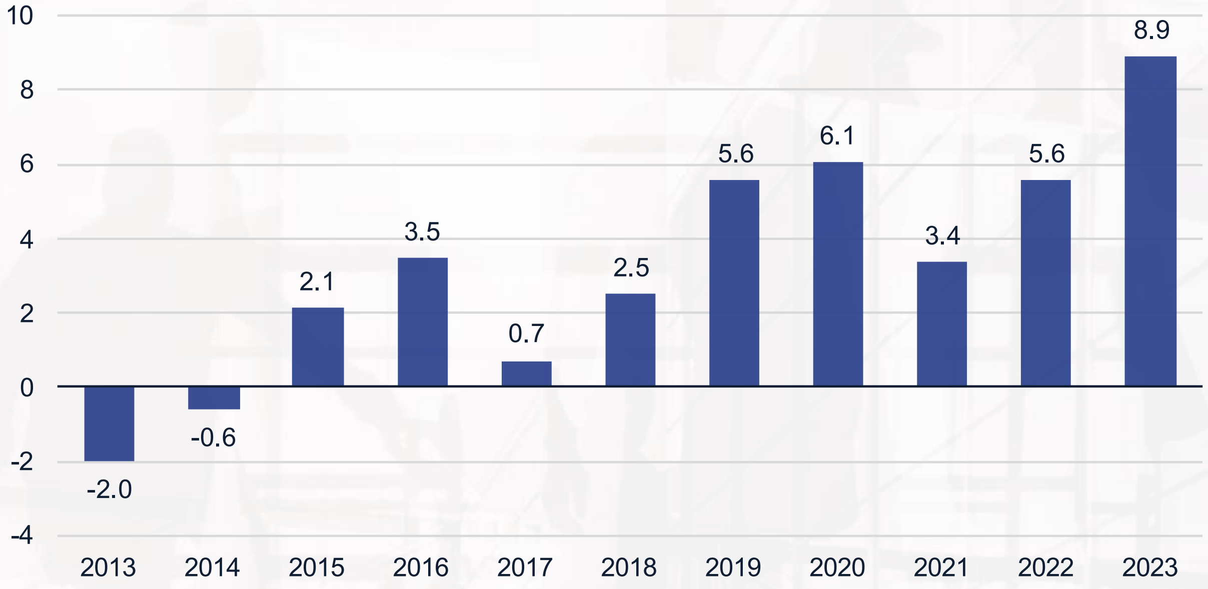
Selected US Liability Segments – market-wide reserve development[1]

in US$ bn, based on AM Best



- **H1 2024 earnings calls:** continued reserve strengthening reported
- **Social inflation/legal system abuse** remains a key driver
- **"Normal" claims inflation** appears to be also widely underestimated
- **Soft market period 2014–2019** exaggerates impact on overall profitability

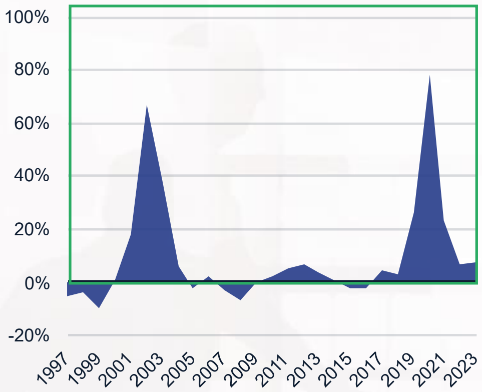
[1] Calendar years. Source: AM Best, reserve development Product Liability, Other Liability, Med Mal and Commercial Auto Liability

Image: hanohiki / stock.adobe.com

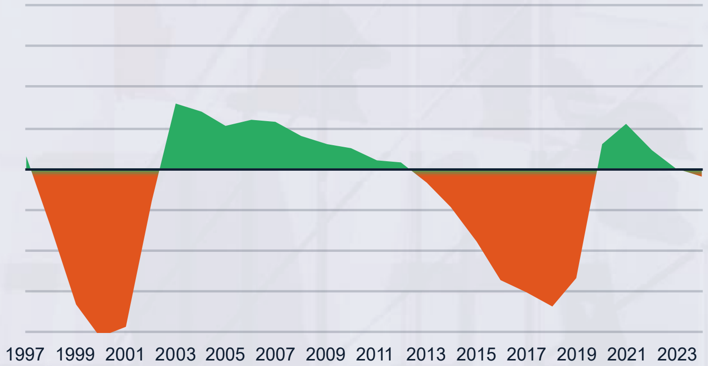
Claims inflation eating into results in most UW years

Deep dive into US Excess Casualty as an indicator[1]

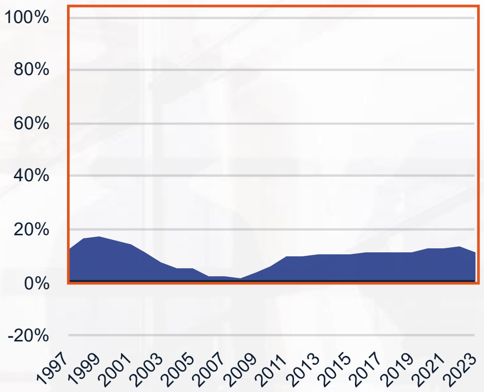
Reported rate change
per UW year in primary market



Net rate adequacy



Estimated claims inflation
per underwriting year



Overall casualty market characteristics

- **Substantial market corrections** after major sector crises with sharp rate increases and a focus on limit management
- Longer periods of **claims inflation unawareness**, which again quickly lead to insufficient rate adequacy
- Munich Re continues to back up **the best underwriting companies**, which actively **address legal system abuse**, adequately **estimate claims inflation** and **transparently report rate adequacy**

[1] Source: Munich Re extrapolation based on received submissions independent of participation, high Xs >US$ 100m

Cyber: Risk expertise and UW discipline

Cyber insurance becoming sustainable

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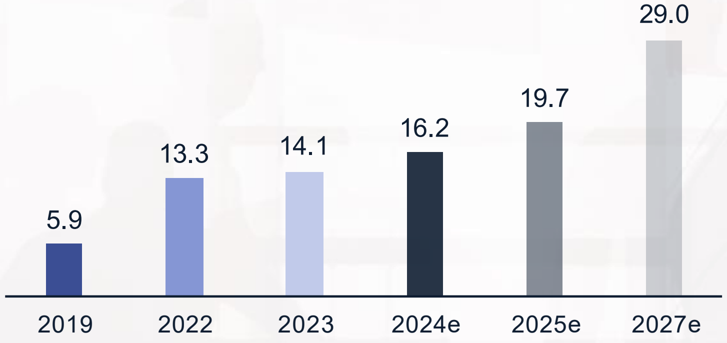
Worldwide cyber premium[1]

in US$ bn



2017–2024

Reinsurer of the year

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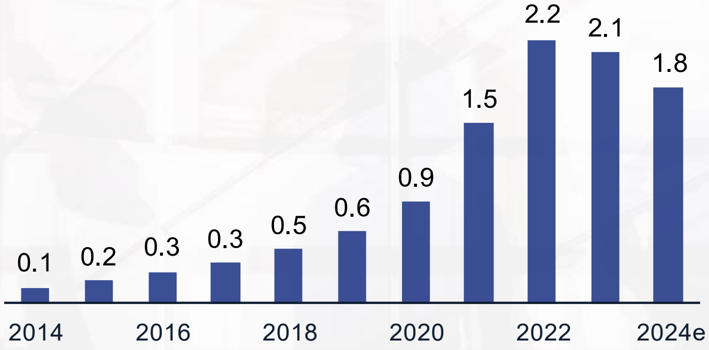
in US$ bn



Overall cyber market set to grow further

- Reinsurers consistently offer meaningful capacity
- Ongoing refinement of modelling in cyber
- Still concerningly low cyber insurance penetration
- Geopolitical stress and dynamic threat landscape (ransomware, business e-mail compromise)

Munich Re focuses on disciplined underwriting within clearly defined risk appetite

- Improves risk transparency
  - Cyber war consistently excluded, wordings clarified
- Fosters sustainability and resilience of the market
  - Invests in accumulation modelling and related collaborations
  - Advocates governmental Cyber Catastrophic Response Plan

[1] Source: Munich Re estimates

Fit-for-purpose cyber accumulation risk management is key

Clearly defined risks and limits of insurability

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Accumulation Risk

The core challenge with respect to (systemic) accumulation risk is the potential for a **cyber event to have severe effects on the entire cyber portfolio** affecting more than one insured

Objectives of Accumulation Control

- Identification of worst-case scenarios and cascading effects, PML quantification and accumulation management
- Modelling of accumulation loss distributions
- Recent events highlight the importance of clear and transparent coverage, effective contingency plans and cyber accumulation risk management

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 outage of services such as cloud causing widespread business impacts

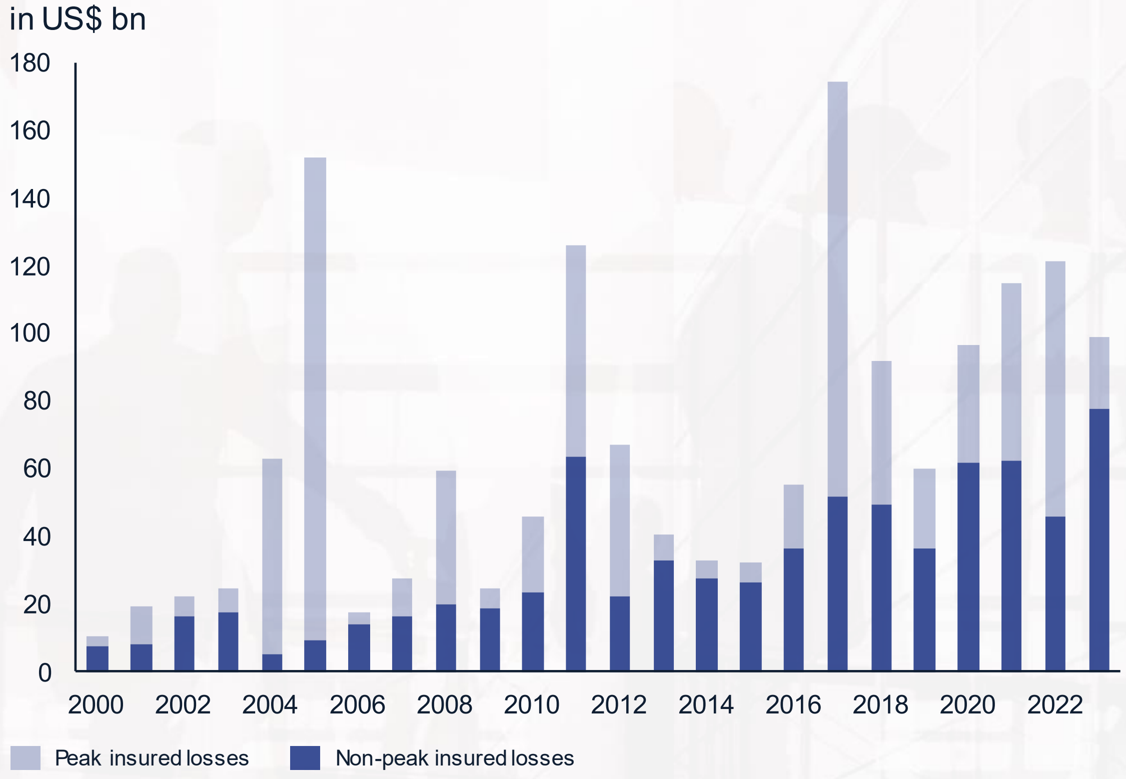
Unmanageable risk

⊗ Failure of (critical) infrastructure

⊗ War

Number of years with US$ 100bn insured losses on the rise

Peak perils cause the volatility, while non-peak perils fuel the trend



Development and loss trends

- "Peak" or "primary" perils like earthquakes, tropical cyclones and European winter storms that can impact the solvency of an insurer have traditionally been a focus area of modelling in the industry
- But rising insured losses for non-peak perils (thunderstorms, floods, wildfires) are observable over the past few decades and underline the importance of adequately capturing them in models
- Reinsurance has proved to be an effective tool for managing solvency capital requirements and earnings volatility driven by extreme (and unforeseen) events
- Obvious underlying trends like climate change, rising insured values and social inflation to be managed via original rate adequacy, exposure management and risk prevention measures

Source: Munich Re, NatCatSERVICE; inflation-adjusted

Natural catastrophes – growing exposures, but manageable

Munich Re nat cat loss ratio vs budget

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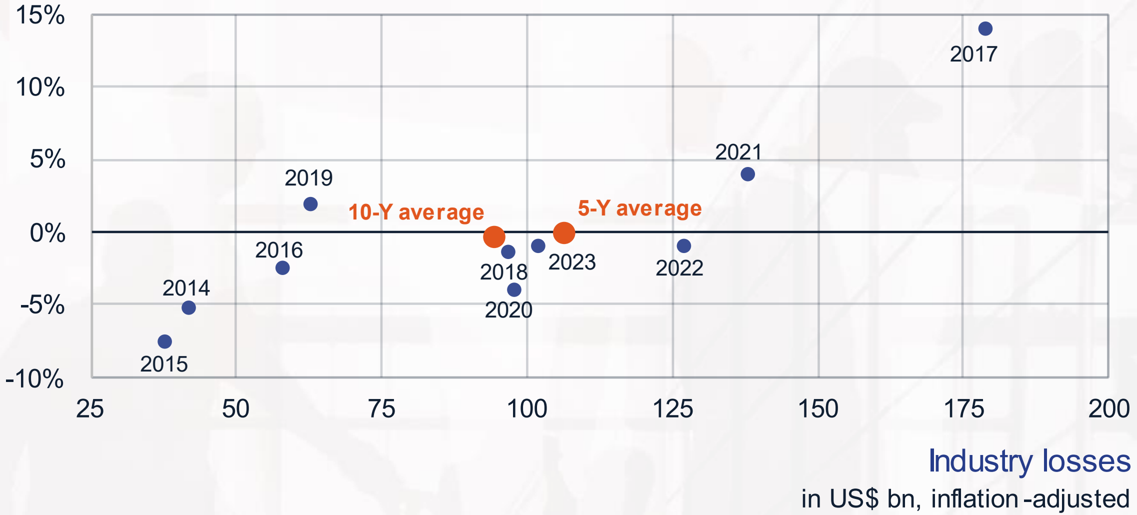
in % points



- Nat cat risks captured well in our risk models, which are continuously updated to reflect impact of climate change and other claims drivers
- Real-time accumulation management platform to steer portfolio composition and risk appetite

- Gross-net risk appetite, not depending on retrocession/third-party capital
- Well defined risk appetite ensuring alignment of interest with our clients
- Best geographical diversification in the industry

Our promise

Remain the strong, preferred partner for absorbing our clients’ volatility with predictable capacity and risk appetite in a sustainable manner

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Striving to be the quality leader and strategic partner

No major change in our strategy

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Very strong diversification and financial strength afford us high and reliable capacities

We provide long-term consistency and prefer strategic partnerships

Quality leader with superior client orientation

Our broad and in-depth risk expertise in most categories is our foundation

We offer client-centric and tailor-made solutions

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Q&A

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