

Baden-Baden 2023

Virtual Media Breakfast

19 October 2023
Clarisse Kopff
Claudia Hasse

Munich RE 



Demand dynamics & underwriting response

- GDP and inflation prospects
- Natural catastrophes & Political unrest
- Increasing digitalisation

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Supply dynamics

Our proposition

Clarisse Kopff



Claudia Hasse

Cyber trends

Zoom on the German market

Claudia Hasse



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(Re)Insurance market geared towards greater uncertainty and complexity





Europe to stagnate in 2023, only weak recovery expected for 2024

Continued fragility in the global economy

Baseline scenario with only weak growth

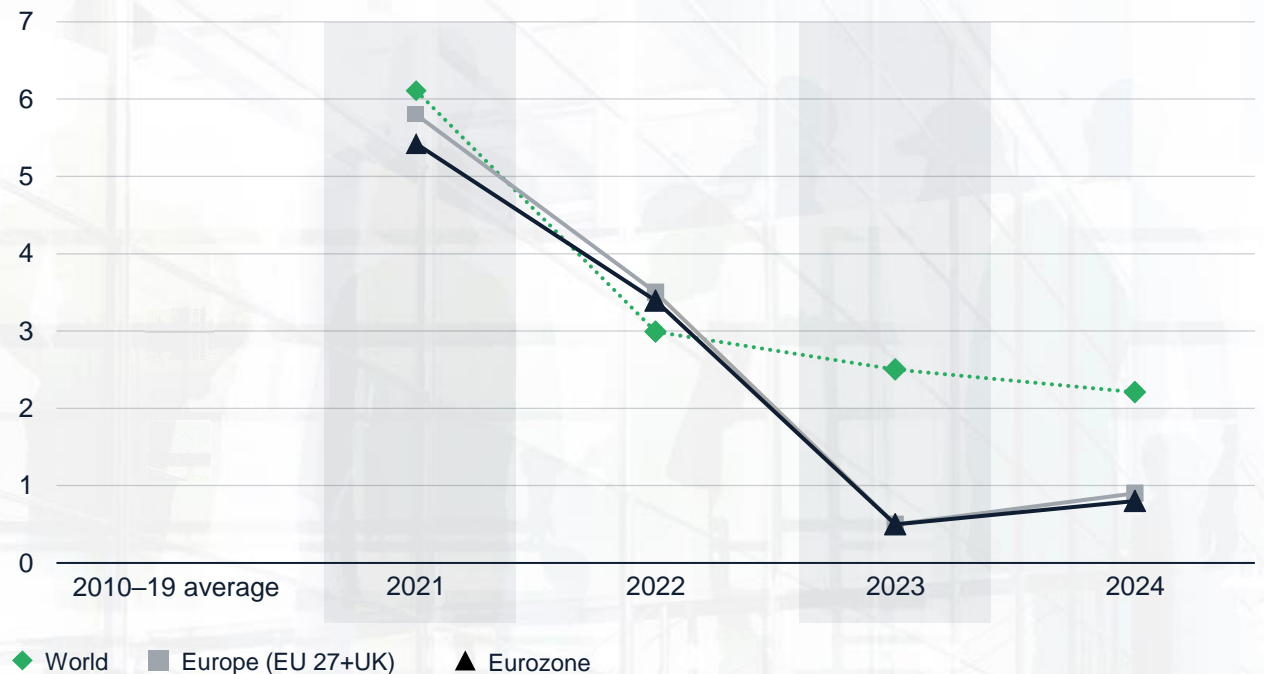
- No growth drivers in Europe: Largest economies Germany, France and Italy are either in a recession or experiencing very low growth rates
- Headwinds from tight monetary policy limit activity in interest-rate-sensitive sectors
- Robust labour markets prevent even weaker growth and imply substantial wage increases

Downside risks dominate

- Delayed effects of European Central Bank's tightening could lead to a broader recession
- Geopolitical risks as further drivers of uncertainty
- Risk of renewed energy crisis

Annual real GDP growth

in %





Inflation in the eurozone likely to stay above recent historical average

Wage growth currently at historic high – risk of prolonged elevated inflation

Structural drivers for higher inflation ...

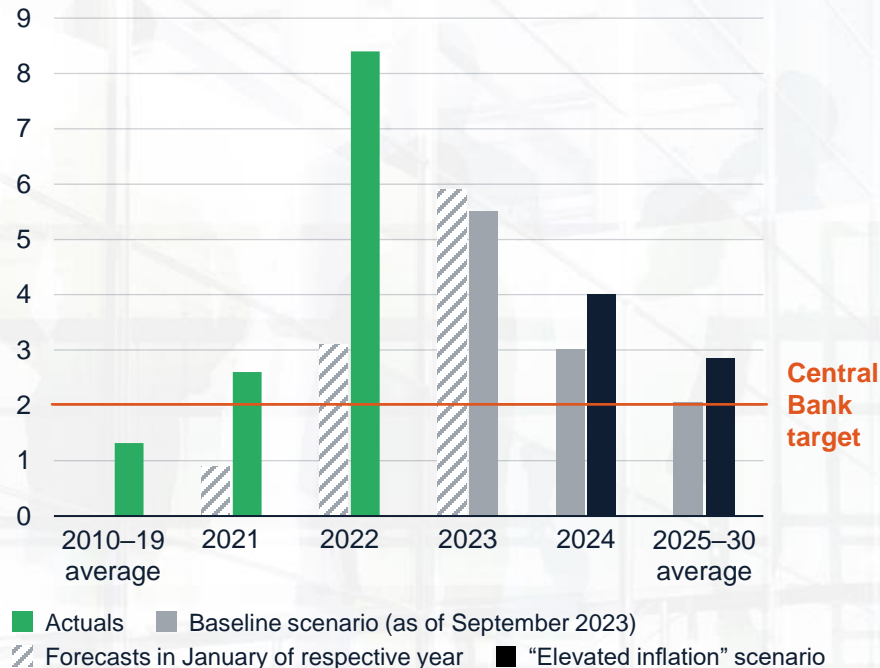
- Deglobalisation could limit the import of cheap goods
- Decarbonisation could increase energy costs
- Demographics imply tight labour markets/wage growth

... and for lower inflation

Digitalisation will have price-dampening productivity effects

CPI inflation, eurozone

in %



What we're doing about it ...

- Permanent client dialogue to support informed decisions
- Adjust our models by looking at the inflation-relevant KPI's depending on the sector
- Adjust prices and terms & conditions accordingly
- Conservative loss picks in reserving



Increasing nat cat activity across the continent

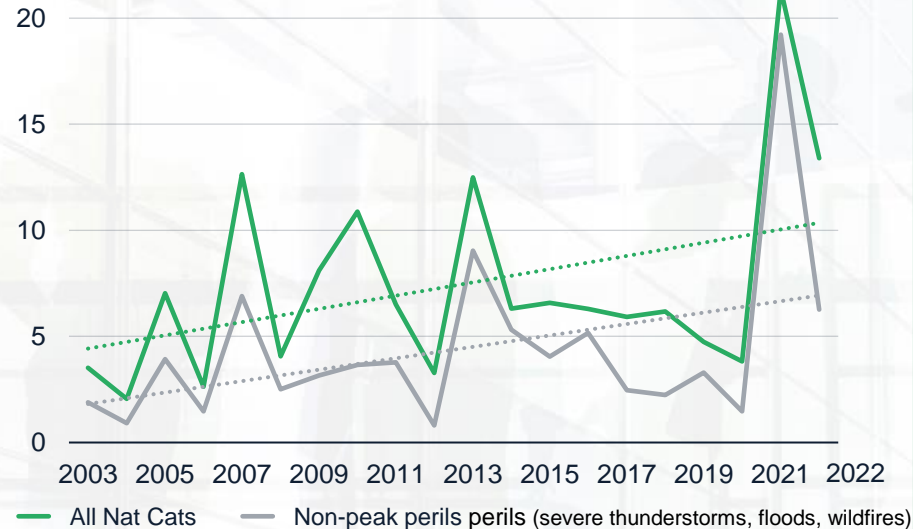
Non-peak perils drive nat cat losses in Europe

Observation of losses over time

- Increasing number and costs of nat cat for the industry ...
- ... with non-peak perils representing the majority of the load in Europe
- 2023 is confirming the upward trend
- Over the last two decades an average of 40% of economic losses were insured
- Growing risk of non-peak perils impacted by changing socioeconomic factors as well as climate change

Insured market losses in Europe

(in €bn, inflation adjusted)



What we're doing about it ...

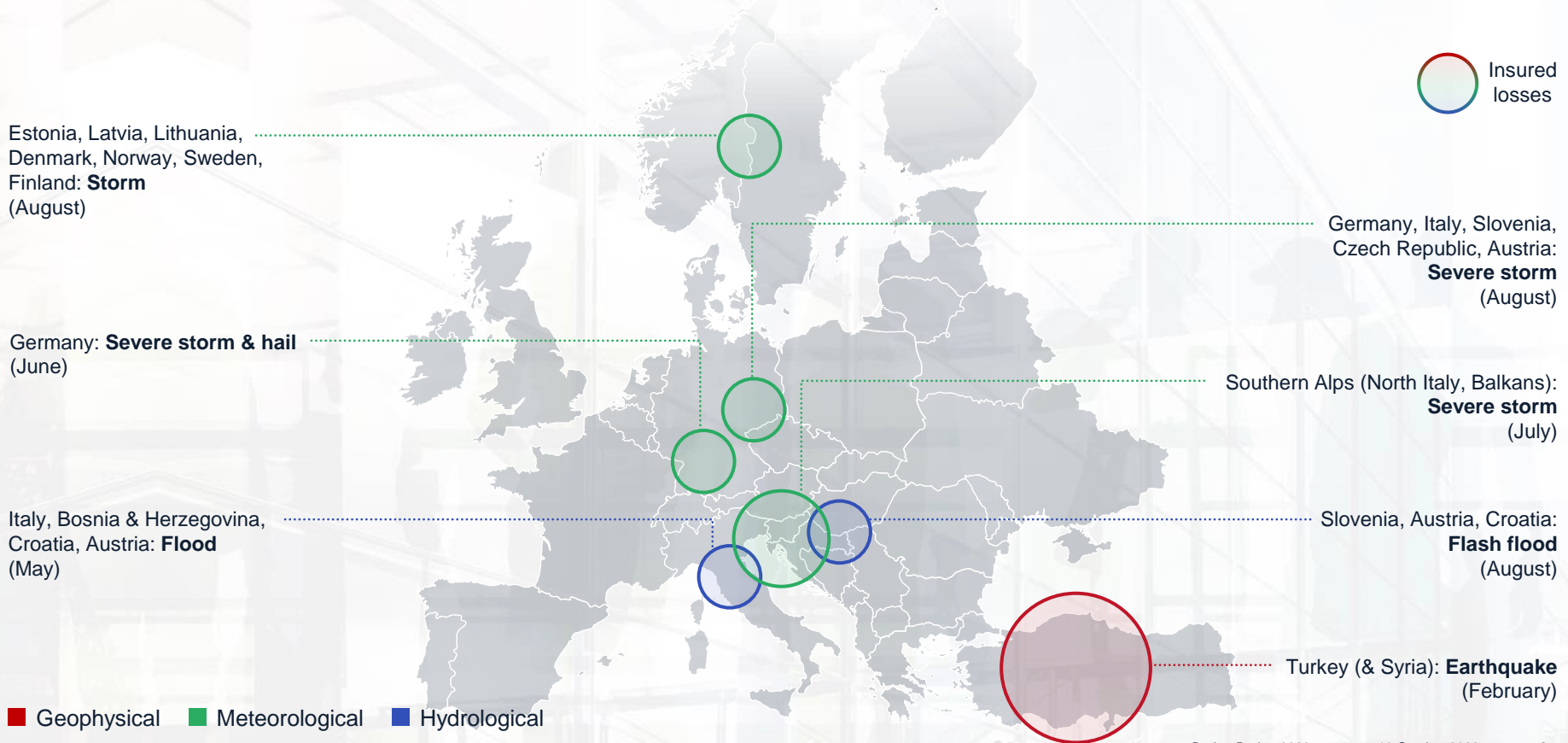
- Relevant reinsurance structures, pricing and wordings
- Expand our modelling capabilities, including for non-peak perils
- Use our scale, diversification and financial strength to be a substantial, sustainable and predictable player

Munich Re factors the upward trend in its technical underwriting approach



High nat cat activity on the continent in 2023

Individual nat cat loss events of over €1bn hit the continent in various places



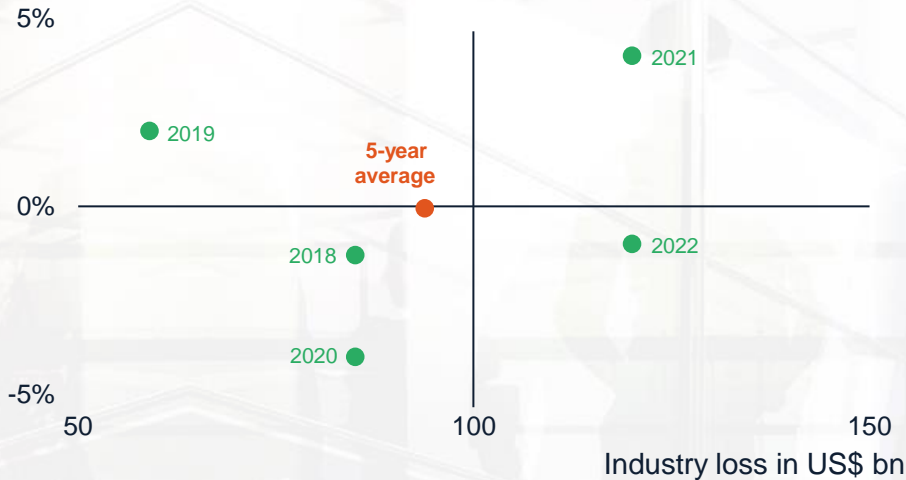


Munich Re's nat cat business shows profitable growth

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

Munich Re nat cat loss ratio vs budget¹

in % points

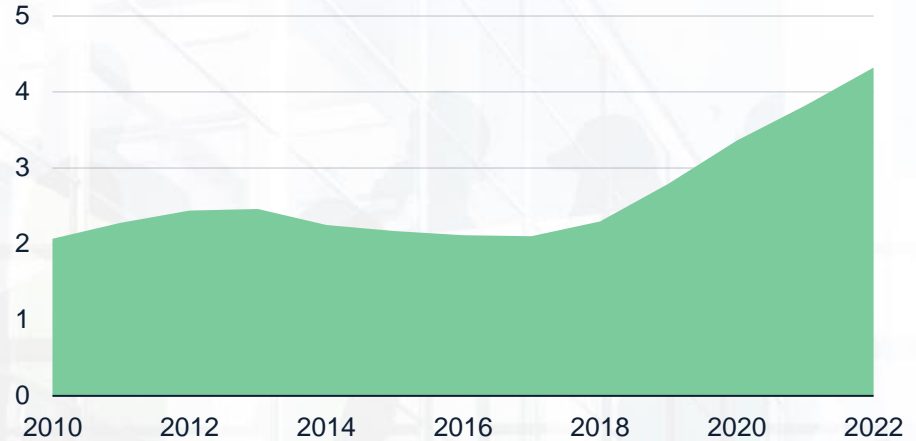


- Nat cat risks captured well in risk models
- Increasing industry loss trend manageable through disciplined underwriting strategy

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

Munich Re RI nat cat GWP 2010–2022² (global)

in €bn



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

² GSI not included

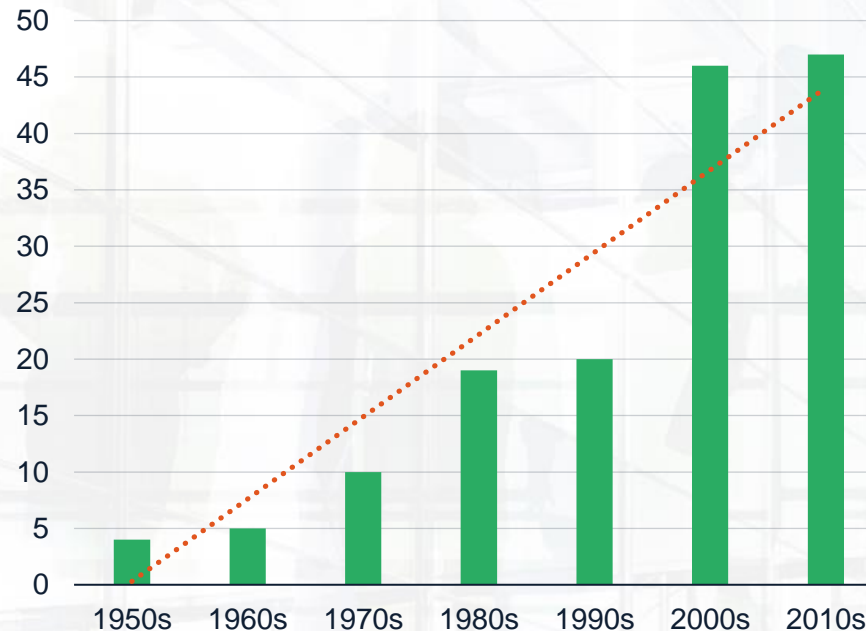


SRCC – Significant increase in frequency of civil unrest events

- Tendency towards populism, nationalism, separatism, erosion of core democratic values
- Inflation and increasing tax burden erode purchasing power fuelling events such as "Gilets Jaunes" in France
- Certain targets, like retailers and key infrastructure, are particularly vulnerable to riots
- Possible spill-over effect on Europe from external conflicts (Middle East)

Number of riots per decade in Europe

1950s to 2010s



What we're doing about it ...

- Stringent limit management
- Clarify wordings
- Cater for potential accumulation risk

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Supply dynamics: No large capital inflows expected

Neither in the traditional reinsurance market nor in alternative risk transfer solutions

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)

Dedicated reinsurance capital

Traditional RI 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

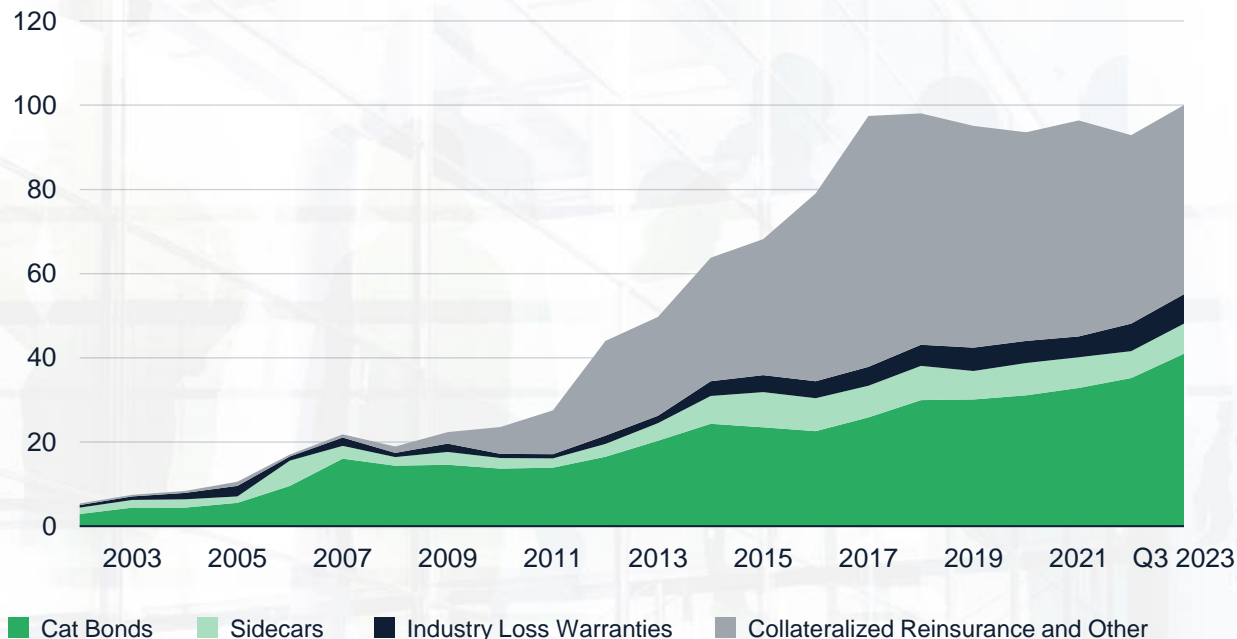
Alternative risk transfer remains complementary capacity

But no major ART-driven market movements expected

- 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)

Alternative capital deployment

Limit in US\$ bn



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Munich Re leverages its financial strength and risk expertise to add value to our clients' business



Reliable capacity and partnership



We invest in individual, long-term partnerships with clients.



We have ample capacity to grow our business together with our customers.



We support our clients with high-quality services and targeted solutions.



Investing in the future



High-resolution modelling for nat cat business expansion.



Data and technology (e.g., LLMs, generative AI)



Cyber reinsurance 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

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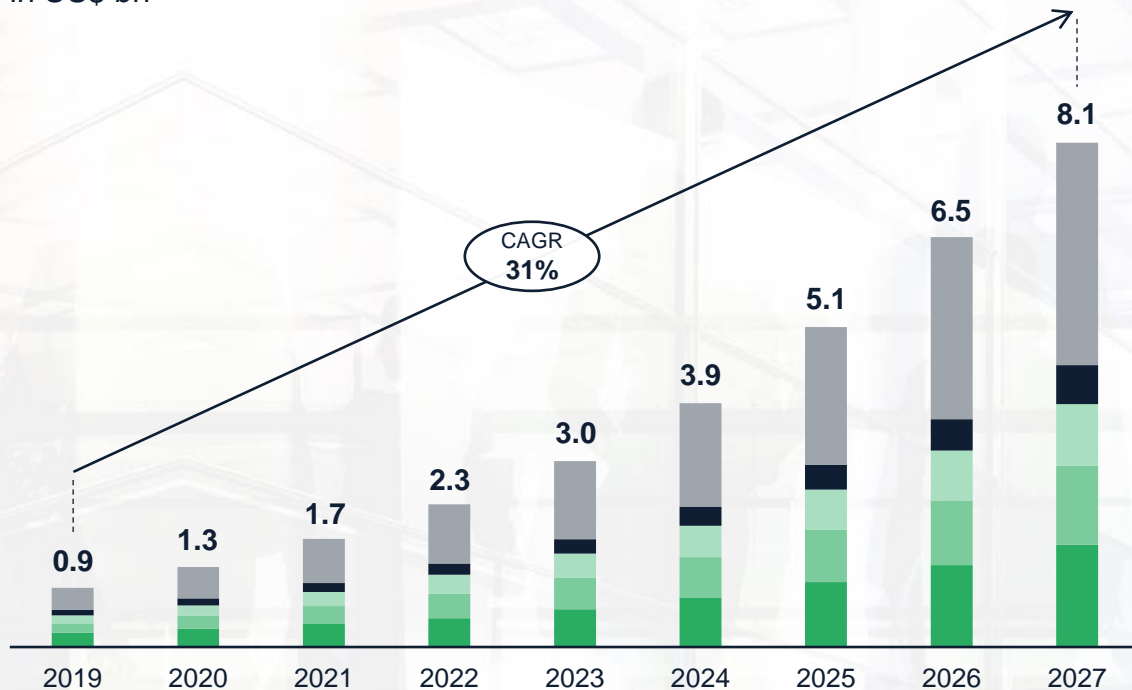




Cyber: Insurance market sees strong demand

Expected growth rate (CAGR) of 31% in Europe (2019–2027)

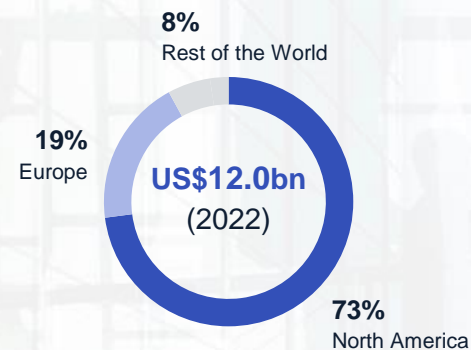
in US\$ bn



■ UK ■ Germany ■ France ■ Italy ■ Rest of Europe

Source: Estimates by Munich Re

Global markets





Cyber: Munich Re offers market-leading expertise

Shaping a sustainable and profitable cyber insurance market

2022 cyber market size in Europe: **~US\$2.3bn (~US\$8bn 2027e)**

Munich Re has a **strong market position** in Europe.
Active in all segments, with a focus on **SMEs** and **private lines business**.

Steady growth and **profitability** of Munich Re's Cyber book – **risk and claims trends** and **accumulation potential** are to be factored into pricing.

We strive for improved data **quality and quantity**.



Cyber Reinsurer of the Year 2017–2023

Insurance demand on the rise

Sustainable market: While **cyber coverage** protects against a broad range of risks, systemic risks must be clearly addressed. Munich Re also supports related **market efforts** (e.g., accumulation modelling).

Cyber war poses a **significant systemic accumulation risk**, hence tailored exclusion clauses must be implemented to **avoid uncontrollable exposure**.

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Strengthening our core business in Germany: Walking our strategy

Consistent commitment to clients focused on sustainable success

Trust and expertise
are the foundation



Providing **reliable capacity** even in times of **high uncertainty**, assuming **risk-adequate prices**

Providing **quotes** in a **timely manner** to give the **client planning certainty**

Providing our home market with Munich Re's **technical and digital expertise**

We continue to grow our **core business** of P&C reinsurance



Munich Re's added value in a changing insurance world

Digitalisation & AI empower our offer

Experience and expertise

Munich Re combines domain expertise with data analytics know-how to enhance our solutions



Continuous improvement

Munich Re strives to continuously develop both an understanding of client needs and technical capabilities to create targeted and effective solutions.

Example 1

ImRiSc

Evaluation of critical risks in buildings, e.g., water leakage, and detection of root causes

- Analysis of internal/external data allows insurers to take targeted action and ...
- reduce loss ratios

Example 2

REALTYTIX ZERO

Global technology platform with a low-code approach for **underwriting digitalization**, featuring seamless API integration.

REALTYTIX ZERO Copilot¹

GenAI-based Copilot that aids in questionnaire design, simplifies product launches/modifications, offers context-aware guidance, and improves time and cost efficiency.

Munich Re offers expertise and capacity at risk-adequate prices

German insurance market faces pressing challenges

Our clients' current challenges



Nat cat: Events are still rising in **frequency**; insurance industry needs to offer solutions to stay relevant.



Inflation: Currently easing, but still driving **insured values** and hence **losses**.



Motor: Overall profitability compromised by **claims inflation**.



Fire: In terms of commercial/industrial business, needs to be brought to **sustainable profitability** levels.








Volatility: Insurers carry **more risks** on their **own books**.



Munich Re remains the partner of choice, as we



-  Support the market-wide drive to address challenges via compulsory or individual solutions
-  Reflect exposure to inflation in our prices on a line of business and client-by-client basis
-  Support a turnaround via targeted digital solutions and consulting services
-  Cooperate with the market to understand the root causes and identify solutions
-  Explore strategic answers, develop tailored solutions to manage volatility and capital positions

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