Macroeconomic turbulence challenges insurance markets – Financial strength and expertise decisive

- Reinsurance capacity declines as demand grows – further hardening of the market apparent
- Inflation necessitates conservative assessments and must be considered in pricing
- Munich Re's expertise and capacity are at its clients' disposal
- Climate change the greatest challenge long term – Munich Re supporting transformation of businesses with innovative insurance solutions

"We are remaining disciplined, but seize opportunities as they arise. In doing so, we take great care to factor in inflation with due caution. Given appropriate conditions, we continue to support our clients with our financial strength and capacity. Where risks have heightened, such as in cyber or as a result of climate change, we need sufficient margins in our underwriting. 2022's renewal rounds so far have taken appropriate account of our prudent consideration of inflation changes, and rising interest rates will have a positive effect on our return on investment in the medium term. All in all, we remain firmly on track to meet our Ambition 2025 strategy targets".

Torsten Jeworrek, Member of the Board of Management

Extreme inflation, rising interest rates and asset slumps currently pose challenges for the entire insurance industry alongside burdens from the war in Ukraine. For the first time since 2018, lower reinsurance capital is projected for the current year – an important indicator for available reinsurance capacity. But unlike then, the decline anticipated this time is substantial: By over 8% to US$ 435bn, according to data released by AM Best and Guy Carpenter.

European reinsurers have been hit particularly hard because all these economic challenges are further topped by the sharp rise in the US dollar against the Euro. US-dollar liabilities thus increase appreciably when converted to Euros, also impacting capacity.

In some reinsurance segments, capacity shortages are emerging in the short term, for example for natural catastrophe covers in Florida. A number of reinsurers have reduced capacity in certain areas or have withdrawn entirely. And even the market for alternative risk transfer has not grown. The volume of capital invested remained roughly unchanged at around US$ 100bn.

Yet at the same time, demand is on the rise; the bottom line being that the global property-casualty reinsurance market will grow at least as strongly as the primary insurance market until 2024. Munich Re’s Economic Research Department estimates that the reinsurance sector will grow by 2–3% worldwide from 2022 to 2024, when adjusted for inflation. The strongest growth is likely to be in Latin America, at 4–5%.

Effects of climate change increasingly evident – Rigorous risk management essential

Weather-related natural catastrophes such as heatwaves, droughts, wildfires or floods in many parts of the world have recently made it apparent that climate change is humankind’s greatest challenge in the long term. Here are some examples for which the scientific community considers the contribution of climate change proven:

- Central and south-west Europe saw strong heatwaves with extreme droughts between June and August. Large wildfires raged in France, Spain and Portugal. In the generally cooler United Kingdom, temperatures soared to over 40°C for the first time ever. A current study by the World Weather Attribution Initiative on the record temperatures in the UK came to the conclusion that climate change had increased the likelihood of such an event tenfold. What is more, according to an analysis led by the Potsdam Institute for Climate Impact Research, since 1980 the trend in heatwaves across Europe has accelerated three to four times faster than in the US or Canada, for instance.
- Just over a year ago, heavy rainfall in western Germany and some regions of neighbouring countries triggered extreme flash floods. These caused losses of €46bn, only €11bn of which was insured. This was the world’s costliest flood disaster ever, and the costliest natural catastrophe in Europe to date. More than 200 people were killed. And the likelihood of such an event has also increased significantly due to climate change, another study by the World Weather Attribution Initiative on the subject states.

"The impact of climate change is evident and has been proven many times over. Insurers also have to gear their risk management to this reality. For example, we are cultivating new high-resolution risk models for regional events such as flash flooding. Given the losses incurred, it is necessary to develop a deeper understanding of these events now in order to be able to take better precautions. In addition, a combination of greater prevention and a higher level of coverage through insurance is important, with risk-commensurate prices being the prerequisite", said Thomas Blunck, whose responsibilities on Munich Re's Board of Management include the Europe/Latin America Division.

Munich Re predicts substantial business potential will arise from the insurance demand generated as businesses transition towards climate neutrality. According to the International Energy Agency (IEA), global investment in renewable energies for the generation of electrical power alone would need to triple from 2022 onwards to around US$ 1,300bn annually by 2030 for the objective of net-zero carbon neutrality to be met before 2050. Munich Re possesses leading engineering and risk assessment expertise and has innovative risk-transfer concepts ready for this investment surge.

"Green hydrogen", produced using electricity from renewable energy sources, is likely to play an important role. Green hydrogen can make many industrial processes climate-friendly, especially those that are energy intensive, and – when combined with battery and other storage technologies – enable renewable energies to provide baseload capacity. Goldman Sachs believes the green hydrogen market could reach a volume of roughly US$ 10,000bn by 2050 and satisfy a quarter of the world's energy needs. The production of hydrogen requires immense investments, and financiers have to be convinced of the reliability of the new technologies.

Munich Re's Green Tech Solutions unit has thus developed an innovative guarantee cover for hydrogen production plants, relieving manufacturers, operators or investors of such plants' availability or performance risks. Like with performance warranty covers for photovoltaic manufacturers, this considerably eases the financial burden on businesses as it enables them to plough capital no longer needed for guarantee reserves into business development, while at the same time evidencing the quality of their technology. A key risk is reduced for investors, lowering the bar for finance. Munich Re is already talking to potential pilot clients for this solution, which is called HySure.

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Munich Re

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