

A reinsurers view on the market

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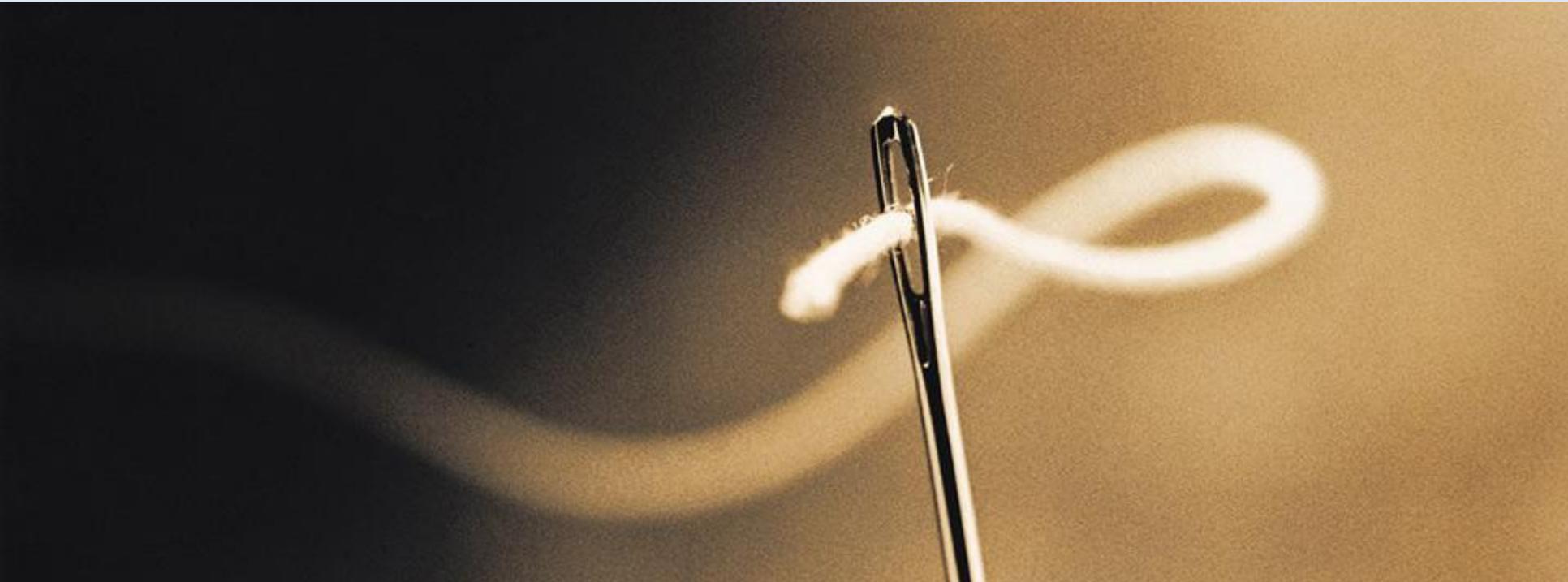
PI Conference Cambridge, 8th July 2009



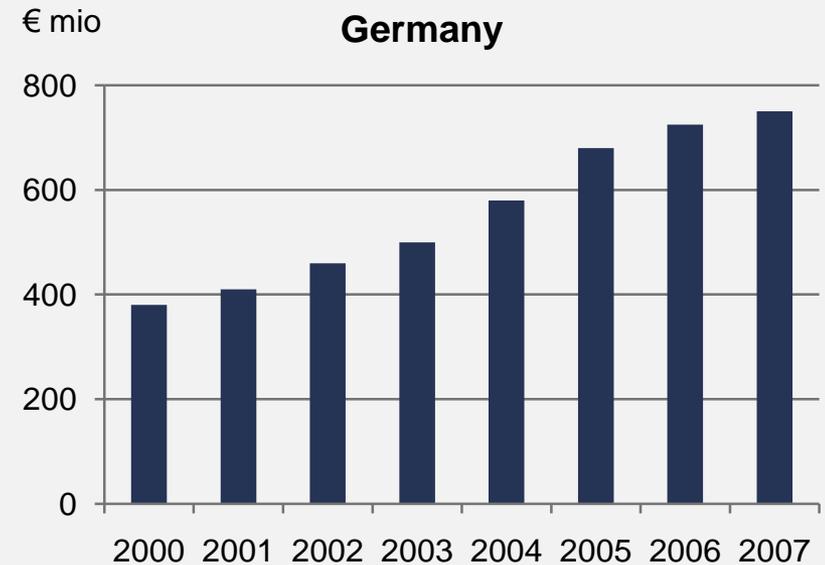
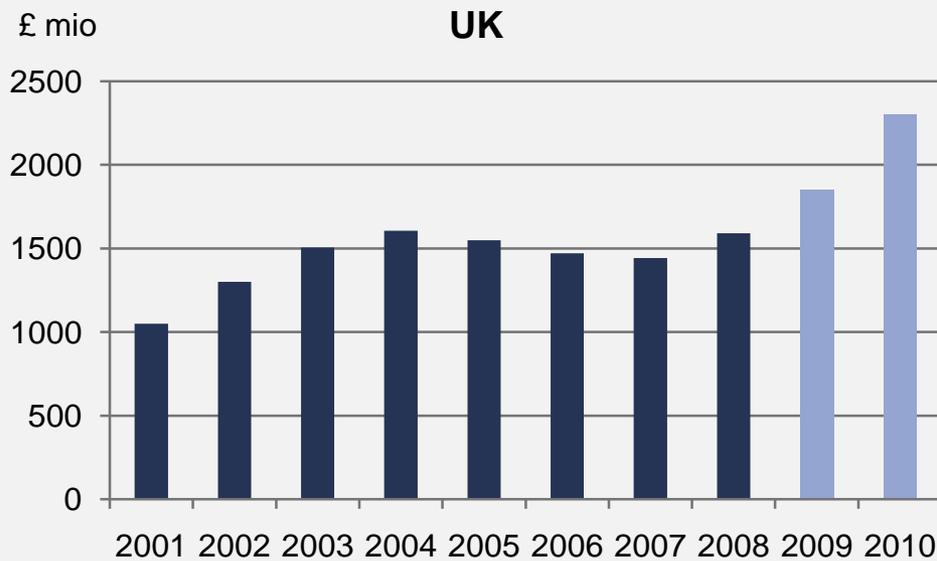
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Overview on the markets

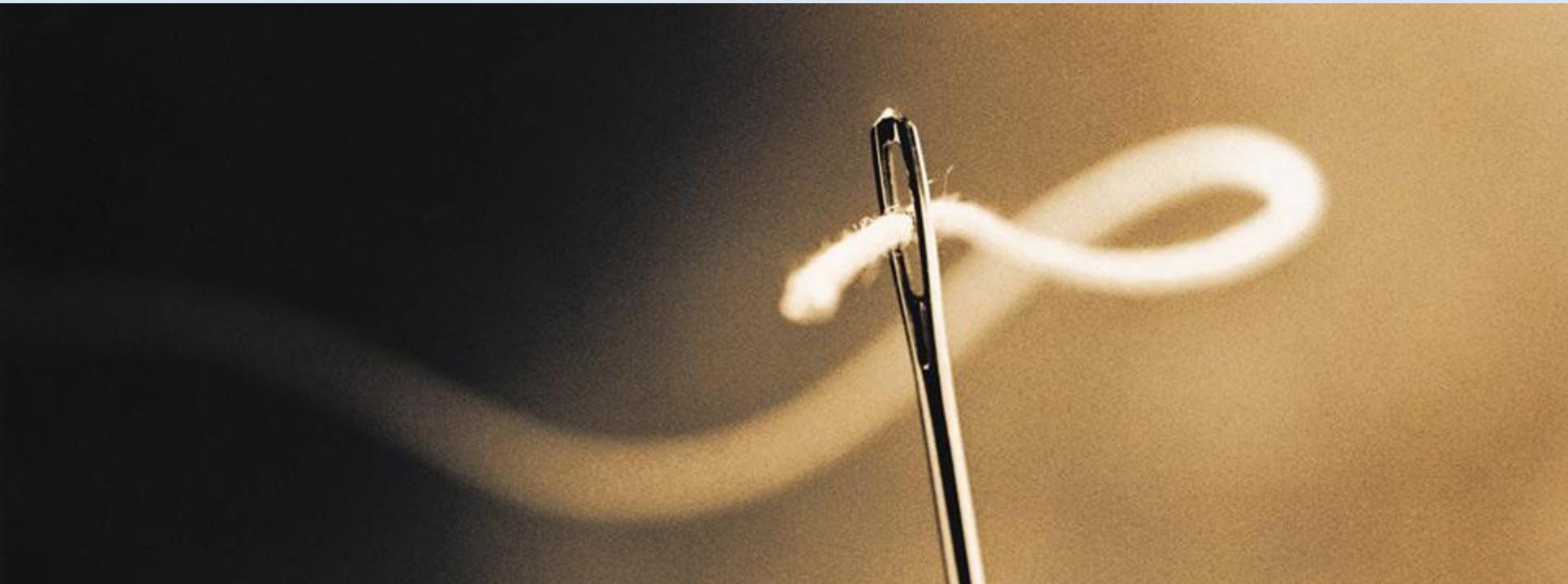


Premium income PI insurance UK and Germany

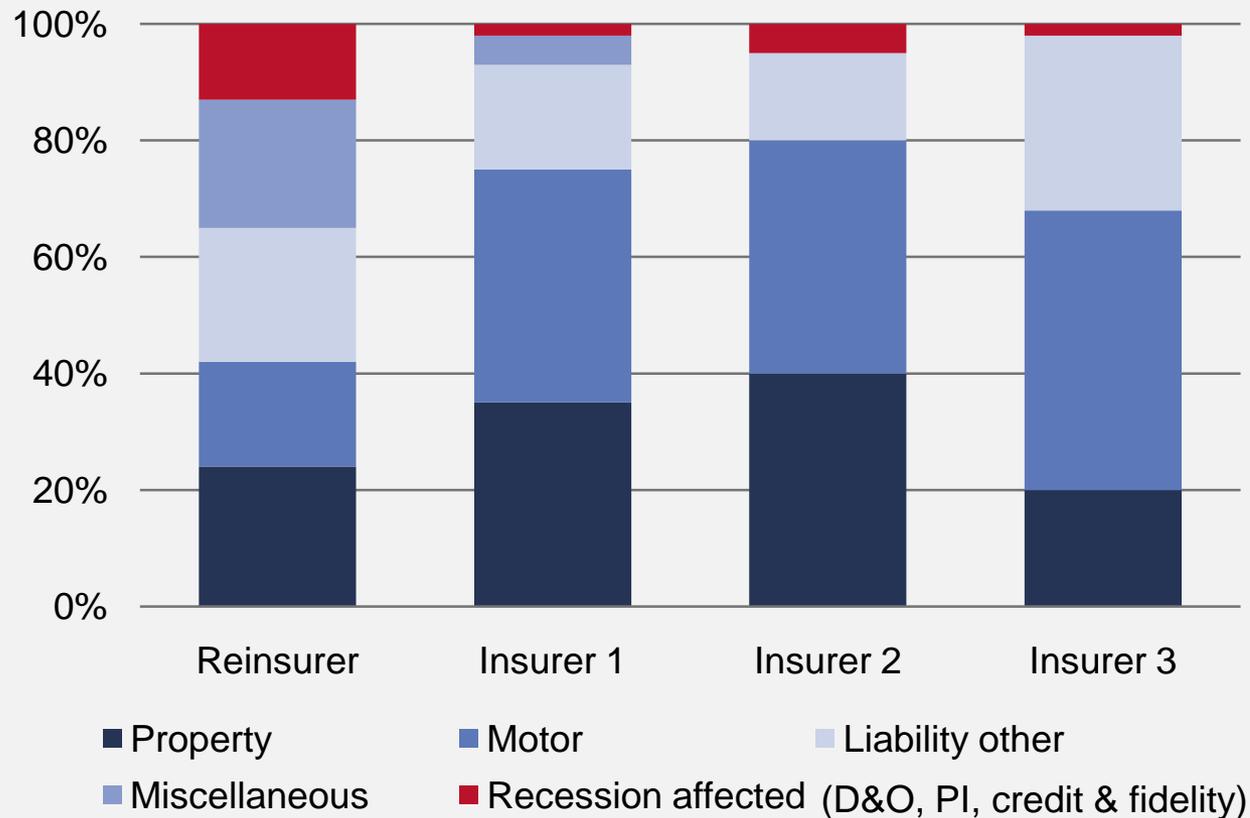


- increased demand for PI (compulsory and non-compulsory)
- more detailed definition of duties of care for professions (lawyers, accountants etc.)
- ongoing strong competition
- Higher claims activity in Financial Institutions PI
- Higher claims activity in Commercial PI for certain professions
- jurisprudence tends to raise future PI payouts
- dependancy on evolving legal landscape
- 2009 sets the course for 2010 / 2011 (claims activity/pricing)

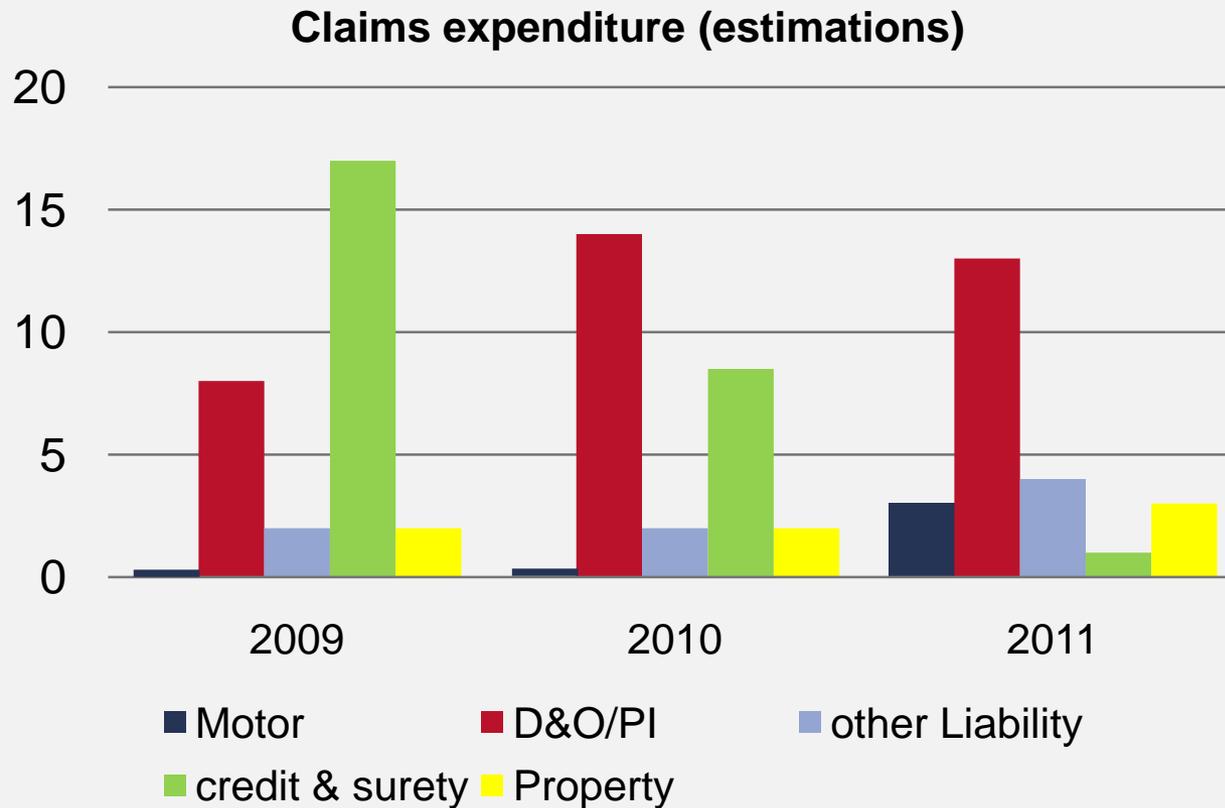
How the recession impacts non-life insurers



A recession is not uniformly bad news for non-life insurers



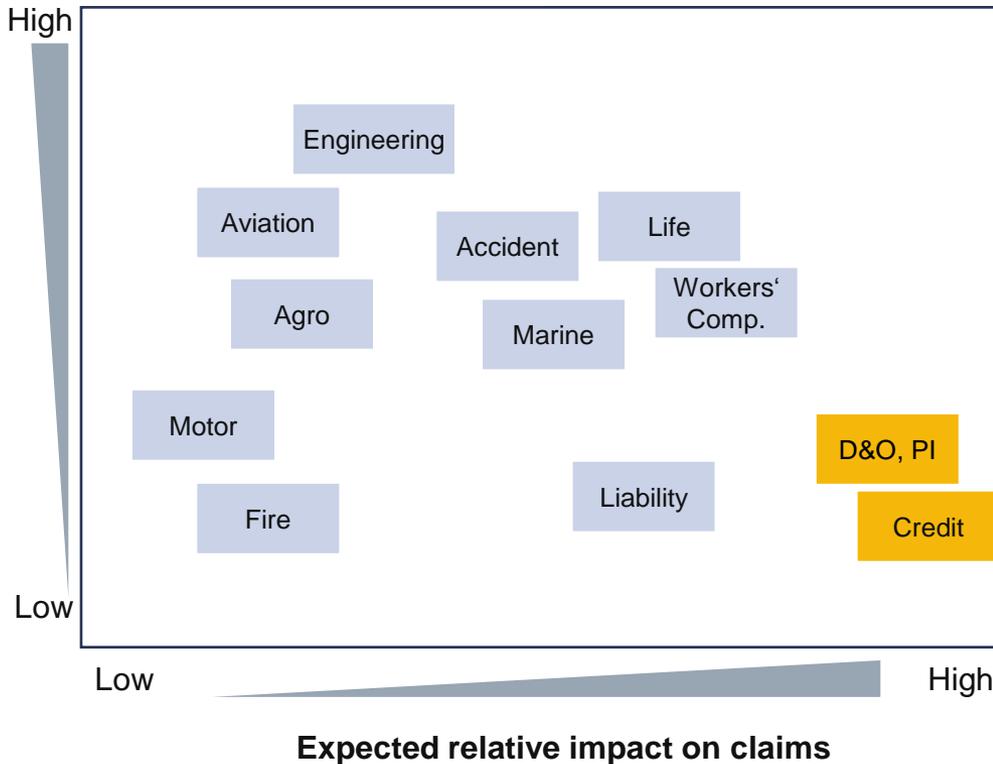
Illustrative Claims Growth by business line



Impact of severe recession scenario on reinsurance portfolio

Illustrative

Expected relative impact on premium volume



Workers' Comp.: Higher number of midsize losses succeeding lay offs and decline in premiums

Liability: Lower investments, fewer quality controls and low cost components in production lead to higher claims

D&O and PI: Increase in loss frequency at early stage of recession, hardening of market with time lag

Motor: Slightly positive effect on loss ratios, but possibly decrease in demand

Fire: Decline in claims due to higher discipline, demand dependent on economy

Engineering: Declining premiums as consequence of reduced activities in building sector; claims ambiguous

Accident: Reduction in premiums, moderate increase of loss ratio due to moral hazard

Marine: Declining premiums due to lower shipping volume possibly moral hazard claims

Credit: Significant increase of losses due to higher default rates; higher rates

Aviation: Demand will decrease due to less passengers

Agro: With stable rates, insured values depending on commodity prices

Life: Reduced volume, higher lapse rates, lower investment results, more suicides and disability claims

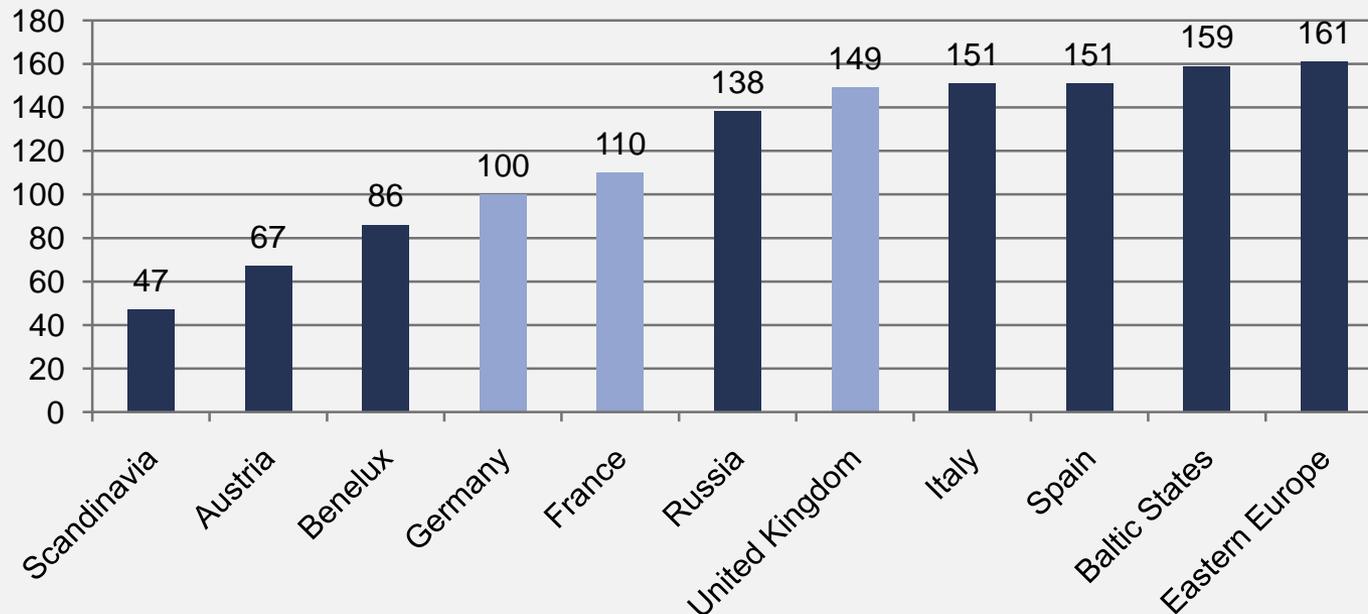
➤ Closer monitoring required for lines with high vulnerability from crisis

Professional Indemnity

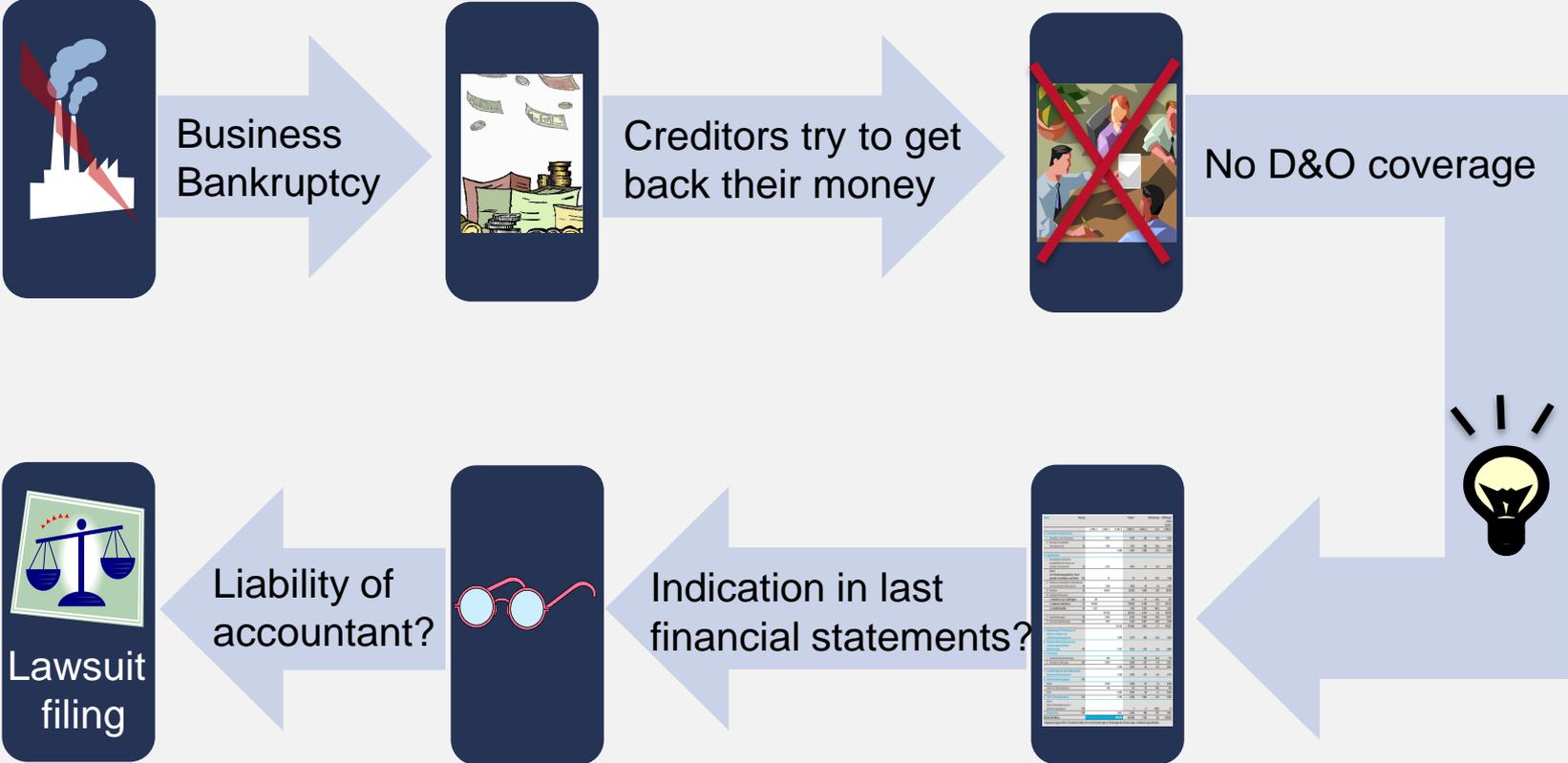
- Link to bankruptcies

- ➔ Professional indemnity claims depend on the economic cycle / specific claims costs drivers will vary for different types of profession and companies.
- ➔ There seems to be relationship between the number of corporate insolvencies and PI claims as shareholders/creditors often turn to the professional advisors of bankrupt companies in an attempt to be reimbursed

Estimation of the risk of business bankruptcy
(Index, Germany = 100)



Example for an exposed professional group – accountants/auditors



Implications for Commercial PI (Non-FI): Exposed professional groups depend on local environment

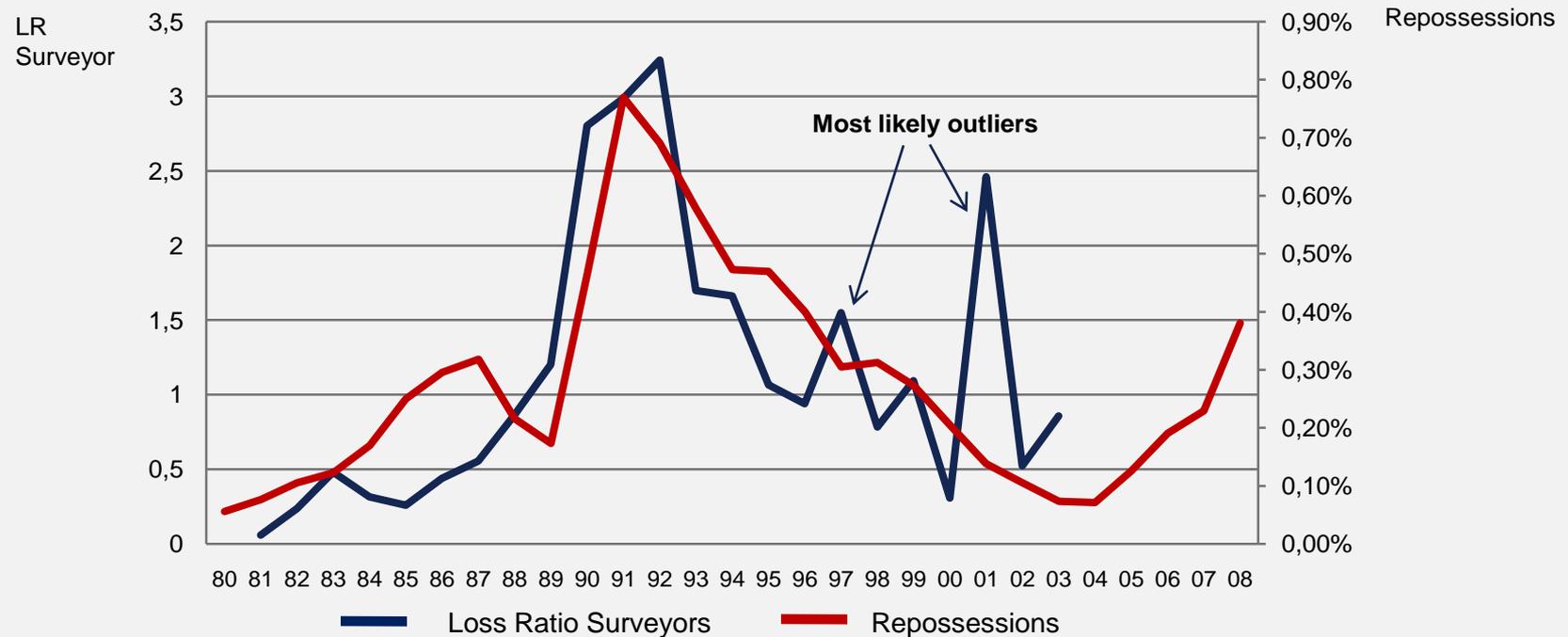
Examples:

- **Accountants/auditors** > auditing malpractice, false financial statements
- **Lawyers** > due diligences; bankruptcy law
- **Insurance brokers** > placing of a carrier who will later become insolvent
(remember AON Flex cover, Double A Product aiming to replace an underlying carrier who is in danger of becoming insolvent; brokers try to shift their liability by these products)
- **Real estate related professions:**
 - agents
 - ...
 - surveyors > all types of professions that do assessment

Implications for Commercial PI (Non-FI): Examples for local crises – surveyors

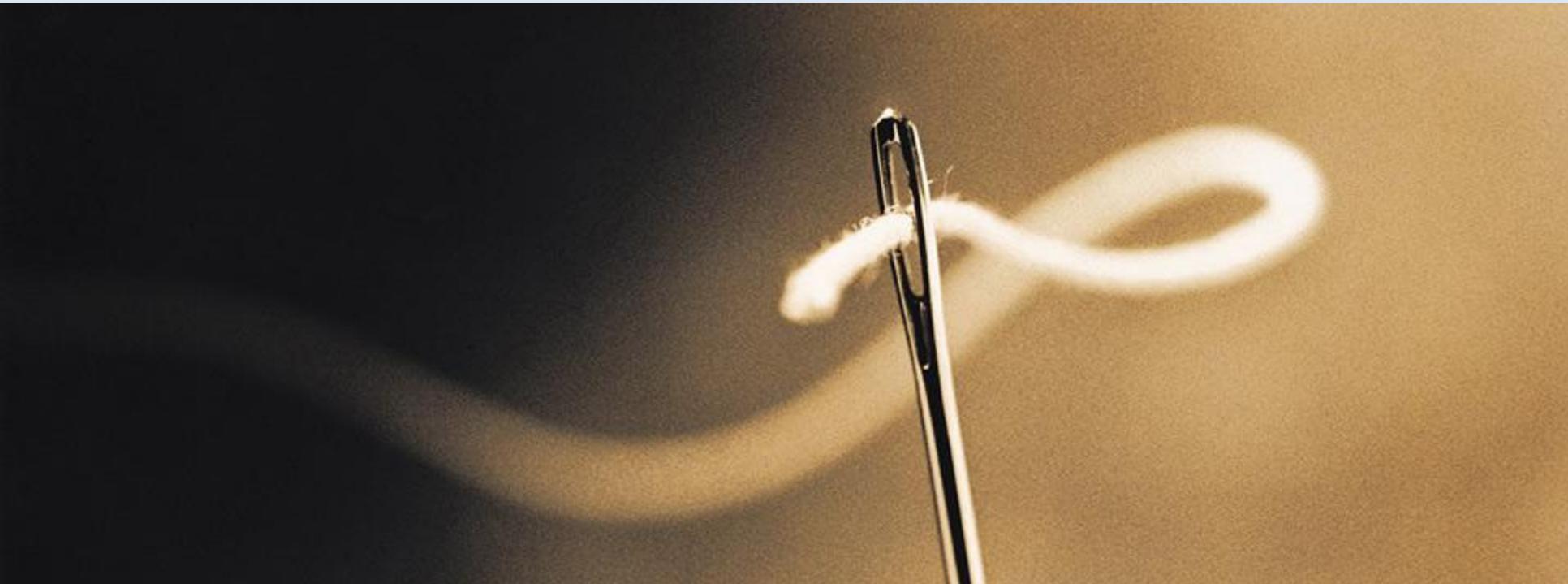
Hypothesis: Strong link between repossessions and PI LR's

Repossessions and loss ratio portfolio with surveyors

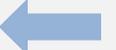


Source: Munich Re, Impact of the Economic Downturn on Professional Indemnity Insurance in the UK

How Recession affects PI insurance



Increased claims activity will lead to:

- Demand 
- Premiums 
- Deductibles 
- Restricted  cover 
- Aggregation issues 

Aggregation - who & why

- Insureds & Reinsureds: aggregate to avoid multiple deductibles from one event
- Insurers & Reinsurers: aggregate to hit cap on limits for similar claims re same event



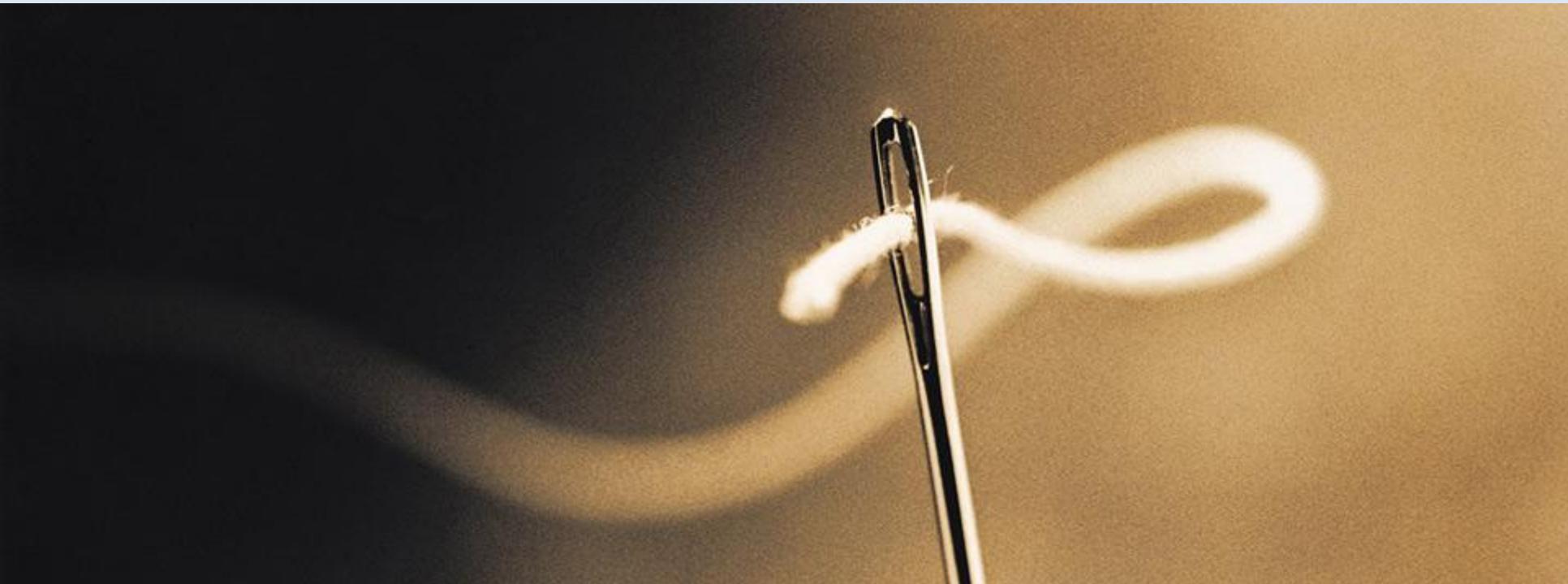
Aggregation: wordings

A certain maximum sum to be paid in respect:

- “any one event”
- “each and every loss arising out of one event”
- “each and every loss and/or occurrence and/or series of losses and/or occurrences arising out of one event”
- “claim or claims arising from one originating cause”
- “any one accident”
- “any one occurrence”
- “any one claim or number of claims arising out of the same occurrence”

No aggregation of systemic risks

Challenges for Reinsurance



Munich Re Analysis - Impact of severe recession scenario on reinsurance portfolio

Munich Re Board Decision - Managing D&O and PI in times of deep recession: quantification, worst-case scenarios, cross-balance sheet accumulations and correlations

Current Economic Environment:

Severity of the financial market crisis, impact of recession, threat of depression, low interest rates, late reporting, ongoing write-offs, insolvencies, liquidity crunch, ...

→ At present, **considerable uncertainty** about modeling losses, determining technically appropriate rates, profitability in the mid-term for Financial Lines, significant risk of loss.

- Reduction of Financial Lines book
- In particular scrutiny on Financial Institutions business
- Implementation of rate-change and exposure-change monitoring, both for direct and reinsurance markets
- Regular reporting to Munich Re Board of Management
- Highest underwriting standards, no leeway for deviations
- Emphasis on claims handling
- Portfolio transparency, identification of high-hazard segments

Thank you very much for your attention!

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