Media Release

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Munich Re expects rising reinsurance prices in Europe

- Munich Re expects to see continued market hardening to accompany January renewals
- The January renewals are particularly important for the European market – major losses and inflation indicate more pricing discipline
- Due to the character of risks like natural catastrophes, COVID-19, and rising cyber attacks, the role of reinsurance is increasingly transcending risk transfer

„Rising prices for various assets and the latest major losses make considerably higher reinsurance rates in Europe likely. The major losses produced by extreme flooding in Central Europe and the rise in weather events like droughts and wildfires affect regions that, in some cases, are not characterised by risk-adequate prices and conditions. In addition, the higher inflation is accompanied by continuing low interest rates for investments. Accordingly, I see a number of indicators for prolonged market hardening when the renewals come.“

Doris Höpke, member of the Board of Management

Economic conditions and renewals

The most serious losses in Europe this year were in connection with the floods that struck Central Europe in mid-July. Overall losses amounted to an estimated €46bn, of which over €9bn were insured. In Germany, the flooding – which produced overall losses of around €33bn and insured losses of at least €7bn – was the most expensive natural catastrophe in its history. In addition to improved preventive measures, the influence of climate change, which makes precisely this type of regional extreme rainfall more probable, has to be taken into greater account in risk assessments.

At the same time, the eurozone has seen a recent spike in inflation – well above 3% in September, and climbing to over 4% in Germany. Higher inflation also leads to higher claims costs. In the long term, the inflation rates will likely normalise again, but remain above the pre-COVID level. In contrast, interest-rate levels have remained virtually unchanged. Taken together, these two factors are producing an upward pressure when it comes to insurance prices.

Very large losses and the role of insurance

In response to the very large losses resulting from the flooding, the pandemic, and increasingly also cyber attacks, Munich Re's strategy is to be a reliable point of contact for all aspects of clients' risk management in the context of very large risks – from consulting on risk prevention and risk transfer, working hand in hand with the state or the capital market wherever necessary, to providing support with disaster recovery.

The latest very large losses, including those in Europe, show that the role of insurance must extend far beyond assuming risks and compensating for losses. Consulting based on sound risk expertise can promote more active prevention, helping to prevent or reduce losses. Risk assumption puts a price tag on risks, which supports risk-adequate action. We contribute our know-how on risk avoidance and the development of innovative insurance solutions like state-supported pools. And when it comes to managing losses, insurers can help by entering into partnerships with suitable companies and by working to ensure that claimants receive support that goes beyond simple loss compensation.

Where people's risk awareness is too low, or the risk exceeds the risk-bearing capacities of private insurers, reinsurance providers actively work to help find new solutions. Examples to be mentioned include the perennially discussed topic of compulsory flood insurance in Germany, or the potential expansion of state-supported risk pools, which would be necessary in order to cover pandemic-related business interruptions. State-supported risk pools would also be needed to combat certain systemic cyber risks, e.g. those resulting from cyber warfare, since they can't be borne by insurers alone.

"This is how I see the future role of insurance: We want to be the central partner for comprehensive risk management, to be a resilience provider, if you will. The basis for insurance, and for risk management of any type, is to monitor and understand risks, and to subsequently develop forward-thinking solutions that can strengthen society in the long term. And of course we want to help reduce the considerable gaps in insurance that can still be found in many industrialised countries, like insurance for flood losses in Germany. Otherwise, many people will have no way to cover their losses, or will have to hope they receive state support, even though these losses could have been insured in exchange for a suitable premium," said Höpke at the Baden-Baden Reinsurance Meeting.

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Munich Re

Munich Re is one of the world's leading providers of reinsurance, primary insurance and insurance-related risk solutions. The group consists of the reinsurance and ERGO business segments, as well as the asset management company MEAG. Munich Re is globally active and operates in all lines of the insurance business. Since it was founded in 1880, Munich Re has been known for its unrivalled risk-related expertise and its sound financial position. It offers customers financial protection when faced with exceptional levels of damage – from the 1906 San Francisco earthquake through to the 2019 Pacific typhoon season. Munich Re possesses outstanding innovative strength, which enables it to also provide coverage for extraordinary risks such as rocket launches, renewable energies or cyberattacks. The company is playing a key role in driving forward the digital transformation of the insurance industry, and in doing so has further expanded its ability to assess risks and the range of services that it offers. Its tailor-made solutions and close proximity to its customers make Munich Re one of the world's most sought-after risk partners for businesses, institutions, and private individuals.

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