

The Property and Casualty Insurance Industry

Forces of Change at the start of the 21st Century

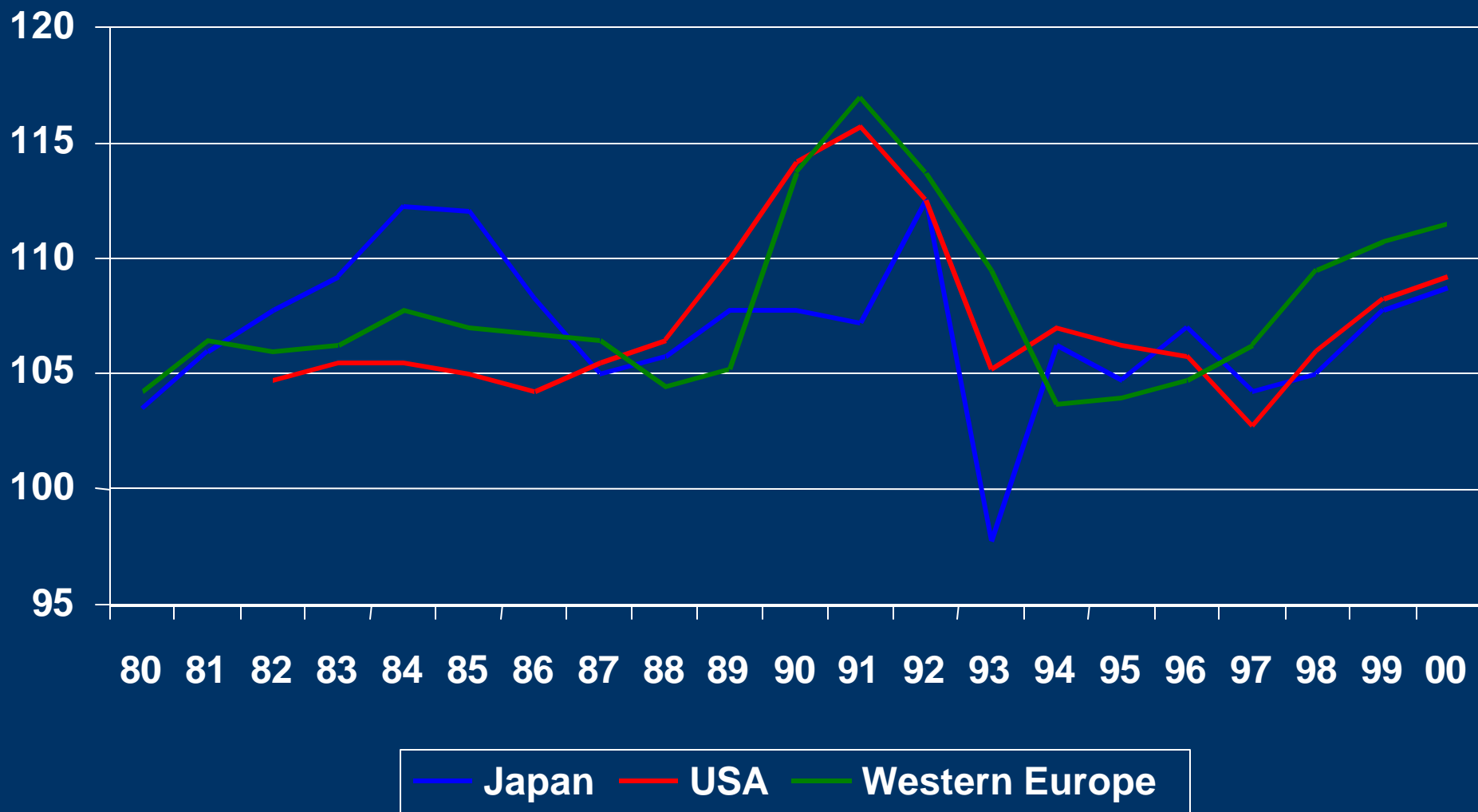
Nikolaus von Bomhard



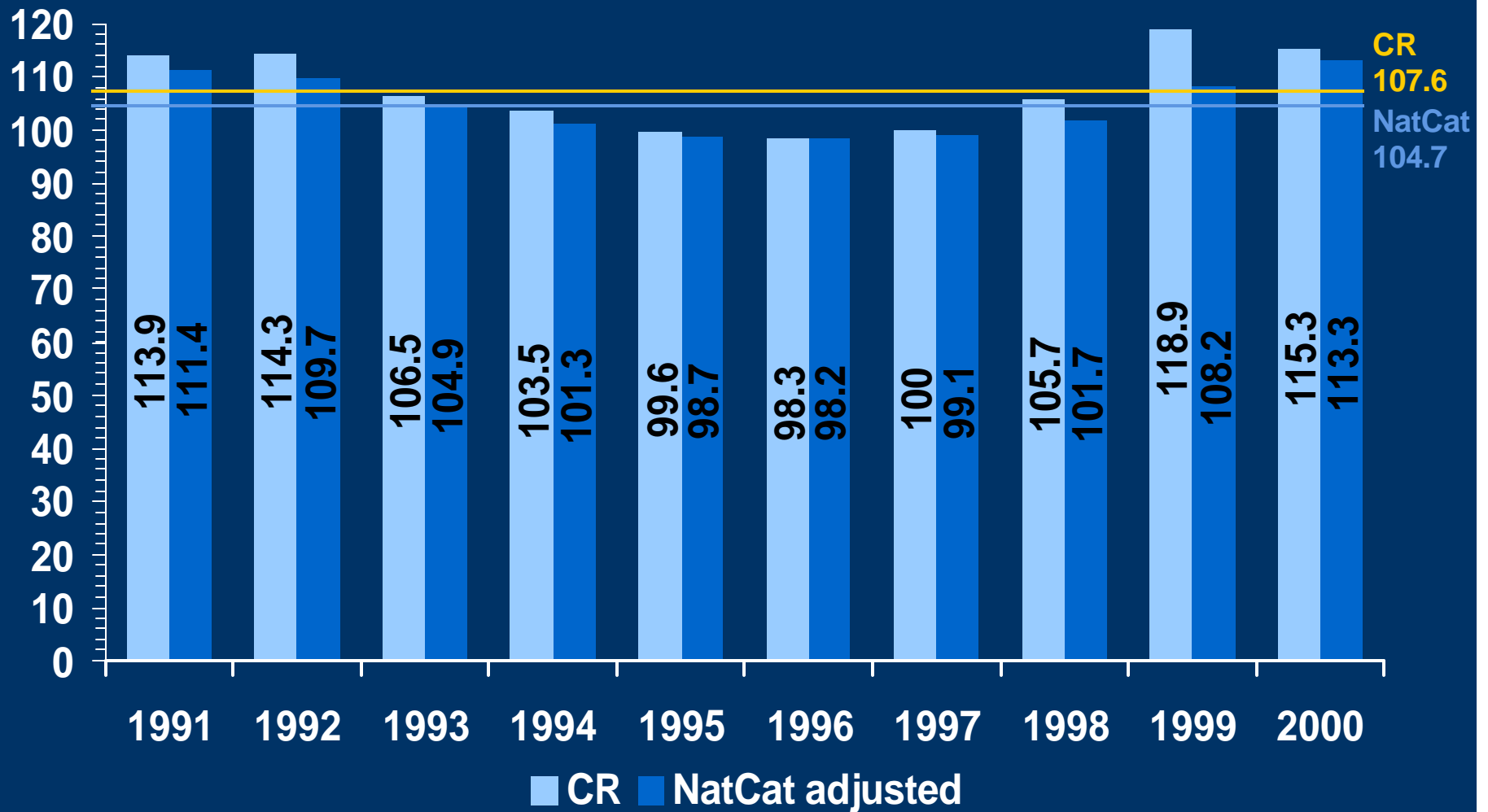
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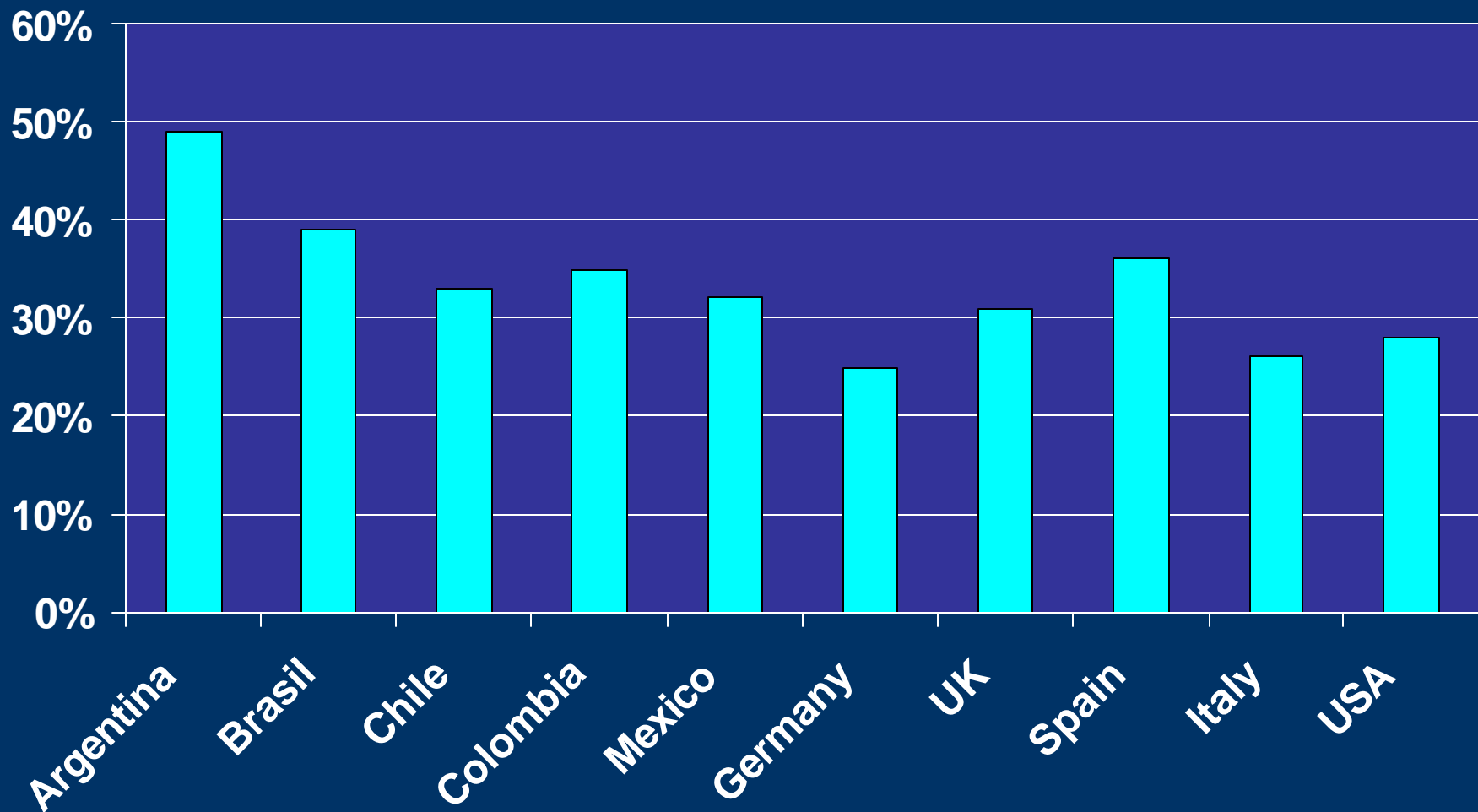
Combined Ratio in %: Insurance Industry 1980-00 - USA, Japan, Western Europe



Combined Ratio in %: Reinsurance between 1991-2000

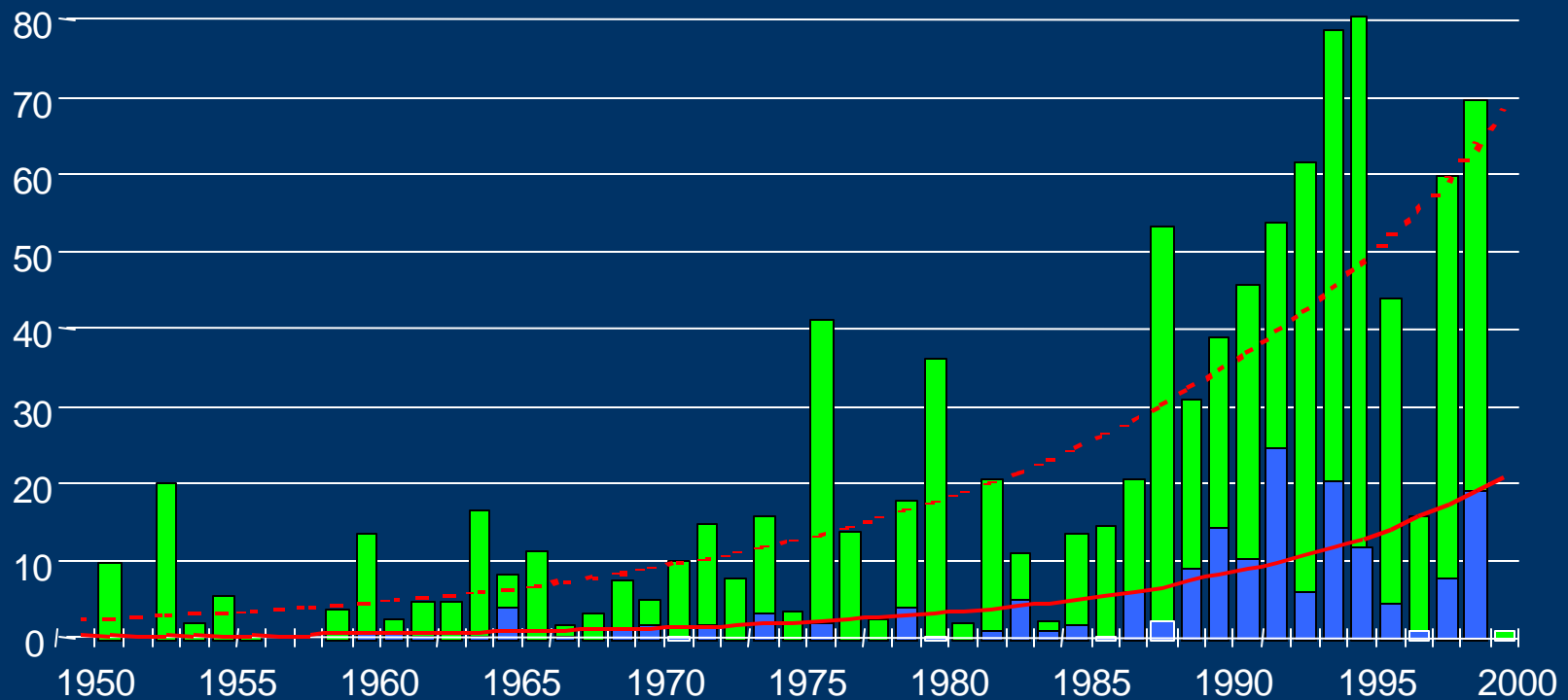


Acquisition and Administration costs: Latin America vs. Europe and USA



Non-Life Risks - Size and Exposure: Increasing Natural Disaster and Economic Losses

in US\$ bn.
(2000 values)



■ Economic losses (2000 values) ■ Insured losses (2000 values) - - - Trend economic losses — Trend insured losses

Exposure areas with potential for dramatic financial impact

- Terrorism
- Computer Viruses
- Electro Magnetic Radiation
- Toxic Mold
- Environmental Liability/Asbestos
- D&O/E&O (Enron/Arthur Andersen being the latest example)

11th September 2001



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Estimates

Human loss: 2,500 fatalities
Insurance loss: US\$ 50-55 billion

Comparison to other loss scenarios:

- Environmental Liability: global: US\$ 38-53bn.
domestic US: US\$ 30-40bn.
- Asbestos Liability: global: US\$ 117-127bn.
domestic US: US\$ 55-65bn.
- Hurricane Andrew: US\$ 22bn.

Estimates

	\$bn.	%
Property - Towers One & Two	3.5	6.8
Property - Other	5.0	9.8
Business Interruption	10.0	19.5
Workers Compensation	3.5	6.7
Aviation Hull	0.5	1.0
Event Cancellation & Misc.	2.0	3.9
Liability - Airlines	3.5	6.8
Liability - Other	20.0	39.0
Total, Non-Life	47.5	92.7
Life	3.5 - 4	7.3
Total	50 - 55	100.0

New Capital for Bermuda

Bermuda Reinsurer	Investor	
AXIS Speciality Ltd.	Marsh & McLennan	\$ 1.600m
Endurance Specialty Ins. Ltd.	Aon with Zurich Financial Services	\$ 1.200m
ACE		\$ 1.150m
Montpellier Re	White Mountain Insurance	\$ 1.000m
Allied World	AIG/Chubb/Goldman	\$ 1.000m
XL Capital		\$ 819m
Arch Capital Group Ltd.		\$ 763m
Da Vinci Reinsurance Ltd.	Renaissance Re	\$ 400m
Partner Re		\$ 388m
Total		\$ 8.320m

Latest additions: Olympus Re and Queens Island Re @ USD 100m each

>> Development Options for Insurers

Three strategic routes:

- Fully integrated insurance provider
- Niche player
- Financial services provider

>> Models for Financial Services Provider

Fully integrated (Allianz / Dresdner Bank)

- “Financial supermarket”
- Bank fully controlled by the insurer

Strategic alliance (Munich Re / HypoVereinsbank)

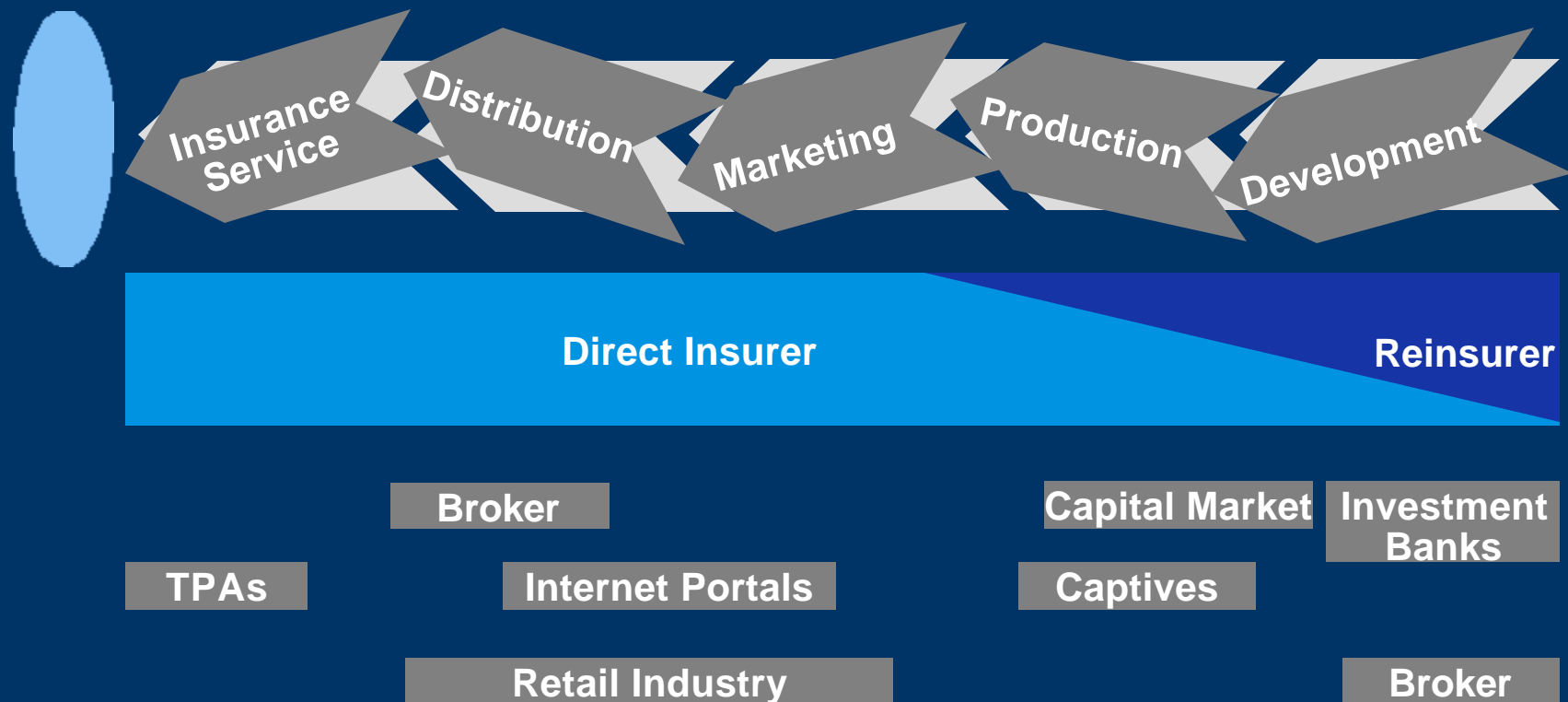
- Cross-selling potential
- Underpinned by cross-shareholding

Departure from bankassurance (?) (Deutsche Bank)

- Sale of insurance shareholdings

>> The Financial Services Industry Landscape

Restructuring of the value chain



Focus on Cost Management

- Reduction of acquisition costs
- More standardization of products
- Greatest possible automation of underwriting
- Effective automation of processing

Refinement of Capital Management

- Capital allocation
- The price of AAA
- Tools to measure Value Creation

Closing remarks



**Thank you
for your attention**



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