Media Release

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Pandemics, climate change, cyber: Major risks of our time – Better preparation needed

- Pandemics: Accumulation risk for insurers – State-backed pools required
- Increase in cyber attacks during the pandemic – Market outlook remains positive
- Climate change: Inaction will make climate risks systemic

"The coronavirus pandemic needs to be a lesson to us all: We must take action more rapidly and vigorously to ensure that we are not as unprepared as we were with COVID-19 for risks such as cyber attacks or climate change. It is possible to better safeguard against the financial consequences of such risks for the benefit of humanity. It needs to be clear that systemic risks like pandemics also require systemic countermeasures – for instance, the creation of state-backed risk pools to make uninsurable risks bearable."

Torsten Jeworrek, Member of the Board of Management

Globalisation has made the consequences of catastrophes more extreme

The coronavirus pandemic has shown the world how vulnerable it is to very large risks. Trillions in financial losses ought to be a wake-up call for economies to better equip themselves for extreme risks of this nature. We therefore must not lose sight of major threat scenarios such as cyber and climate change because their consequences could be even more far-reaching in the long run than those of a pandemic. Prevention measures and suitable risk transfer instruments can make societies more resilient.

The systemic nature of very large losses has increased as a result of globalisation and digitalisation. From 1990 to 2008, world trade grew twice as strongly as the overall economy. And since then, trade has still increased more rapidly than economic output. This greater interconnectedness has also heightened interdependencies. Yet a variety of solutions are conceivable for the three major risks of our time – pandemics, cyber and climate change.

Pandemics: Accumulation risk for insurers – State-backed pools required

The expenditure that insurers have incurred for COVID-19 losses is significant. The burden is already nearing that of the most costly natural catastrophes. Life and health insurance covers pandemic risks, and the cancellation of numerous major events has also caused significant losses. Liability and travel insurance as well as credit business have sustained claims.

Yet the greatest economic losses by far have been caused by business interruptions owing to imposed lockdowns. Given that these losses occurred almost simultaneously across many sectors of the economy, they are not insurable by the private sector alone. The American Property Casualty Insurance Association (APCIA) estimates that US insurers' risk capital would have been fully consumed within a matter of weeks if business interruption losses owing to the coronavirus had been covered.

"We need new reliable mechanisms to insure such risks. The only way to achieve this is by creating state-backed risk pools in which insurers can participate with limited capacity. Furthermore, insurers can help to assess risks accurately and organise distribution and claims settlement", said Stefan Golling, Chief Underwriter at Munich Re.

Increase in cyber attacks during the pandemic – Market outlook remains positive

As a result of the lockdown measures to curb the rate of coronavirus infections, companies moved many of their business processes almost entirely and directly online, which under normal circumstances might have taken years. The cyber attack risk has consequently increased, since it is more difficult to safeguard the security of data and processes outside a corporate network. At the same time, awareness of digital dependency has increased, so that more investment in IT security is necessary and likely.

Coverage for cyber risks remains one of Munich Re's most important strategic growth areas and fields of activity. The cyber insurance market will triple to around US$ 20bn between 2020 and 2025. With a market share of around 10%, Munich Re is one of the leading insurers.

"Munich Re has a team of over 130 experts who develop cyber solutions for the entire value chain, from risk analysis and prevention to risk transfer. In addition, it has a steadily growing network of external experts and partners offering services before and after a cyber attack. The cyber market may grow even more strongly than anticipated in the face of the additional momentum from digitalisation", Golling said.

Climate change: Inaction will make climate risks systemic

Climate change remains humanity's greatest challenge as it has a long-term impact and cannot be reversed for generations. Since 1980, weather-related natural catastrophes have been responsible for around US$ 4,200bn in losses and have cost the lives of almost a million people. Only about a third of these losses were insured. And the figure does not even include indirect losses following the breakdown of supply chains, banks experiencing a surge in loan defaults, or power plants having to scale back production during a heatwave.

“So far, climate change has not been a systemic risk, but it will be if global warming continues unabated. Certain regions will no longer be arable in a few generations’ time. The loss probabilities of certain natural hazards are on the rise, and we are already seeing this with severe thunderstorms and forest fires”, said Board member Torsten Jeworrek.

It is crucial to acknowledge risks of change as a result of climate change, and find out where risk assessments based on past data are no longer accurate owing to a change in probabilities. This applies not only to insurers and financial service providers but also to the real economy which needs to identify climate risks on its balance sheet – for instance, in the case of long-term credits or investments. Digitalisation and more precise data analysis help to improve the tools for assessing such risks and developing better risk transfer solutions.

In the battle against climate change, the consistent use of new technologies in the energy sector, in transportation, and in industrial and food production plays a key role. In addition to renewable energies, these technologies mainly comprise energy storage and carbon-free energy sources such as “green” hydrogen and synthetically manufactured fuels. There is also a need for technologies that can remove carbon dioxide from the atmosphere and store it. As a risk carrier, Munich Re facilitates the market entry and affordability of such new key technologies by developing innovative insurance solutions for them or investing in them. To create incentives for this technology transfer, it is also indispensable to internationally implement consistent carbon pricing with well-functioning market mechanisms.

The COVID-19 pandemic largely caught the world unawares, even though experts have long been issuing such warnings. “We must draw the right conclusions from this and make better preparations in order to minimise losses. As a company, we are doing our share by analysing and helping to understand risks with the expertise we have at our disposal, and we are absorbing part of these with suitable insurance solutions”, said Jeworrek.

Update on recent loss events

Since 30 June 2020, the following recent developments have affected Munich Reinsurance Company:

Since 30 June, COVID-19-related losses so far have developed with reduced momentum, compared with the first two quarters.

On 4 August 2020, a devastating explosion occurred in Beirut. Munich Re expects claims in a low three-digit-million euro range from this event, mostly relating to property.

Munich Re also anticipates a low triple-digit-million euro amount in claims expenditure for the damage caused by hurricanes Hanna, Isaias and Laura in July and August 2020, based on an initial, still uncertain estimation.

The California wildfire season is currently still ongoing. The impact for Munich Re is at this point in time not estimated to be material.

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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, cyberattacks, or pandemics. 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.