

# Business Strategy in the Clash of Long-Term Planning and Short-Term Profit Optimisation

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# Why trend research matters for Munich Re

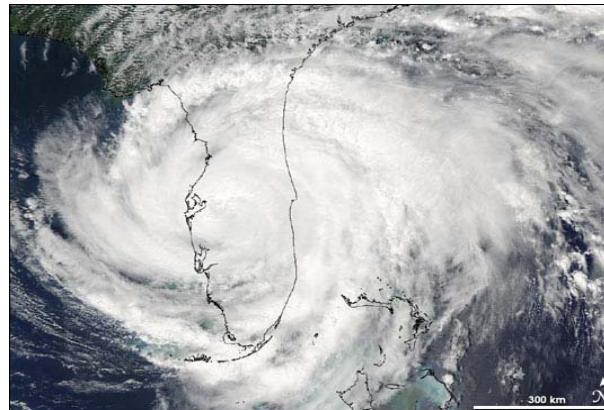


**Regardless where or for what reason  
a loss occurs throughout the world,  
we are most likely concerned**

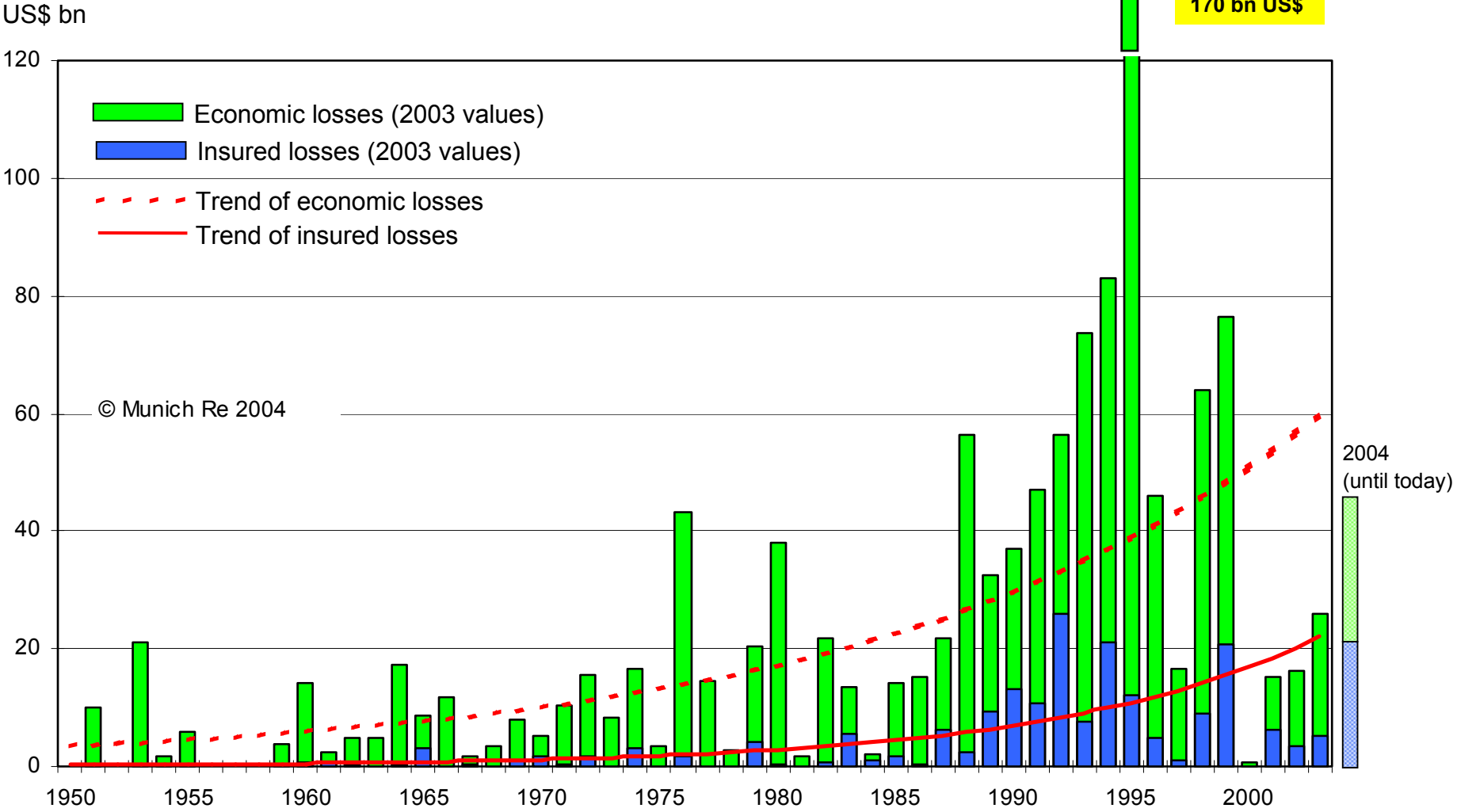


## Therefore: Long-standing, extensive research at Munich Re concerning insurance/loss trends

- Geo Risk Research:
  - For 30 years outstanding research regarding natural hazards
  - Group of experts from all important areas of geosciences
  - Calculation of loss scenarios, modelling of natural hazards worldwide
  - Research of trends regarding losses from natural hazards (e.g. global warming)
  - Most comprehensive archive worldwide on natural hazards and natural catastrophes



# Trend of rising losses from natural hazards: Great natural catastrophes 1950 - 2003



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- Casualty Risks
  - Changing risk profiles
  - „Emerging Risks“, e.g. genetic engineering, nanotechnology
  - Social influence on insurance and liability developments

# Clash of long-term planning and short-term profit optimisation

Munich Re

## Example: US-Casualty insurance 1998 – 2000 – *“The largest man-made disaster” ?*

- Policy of short-term profit optimization and market share realization at the expense of later years widespread in the insurance industry
- Inadequate prices and conditions combined with insufficient provisions for incurred losses
- Lack of long-term profitability

Long-term Profitability  
=  
Sustainable Corporate Strategy

# Requirements for a sustainable corporate strategy

- Continuous review of the business model regarding its long-term profit potential
- Short-term “windfall profits” which are in conflict with the long-term strategy shouldn't be utilised
- Need to stick to a long-term strategy for a longer term, i.e. defending the long-term strategy – if needed – against upcoming, different “mainstream views”
- Need for a continued analysis of the changing business environment, e.g. through trend research



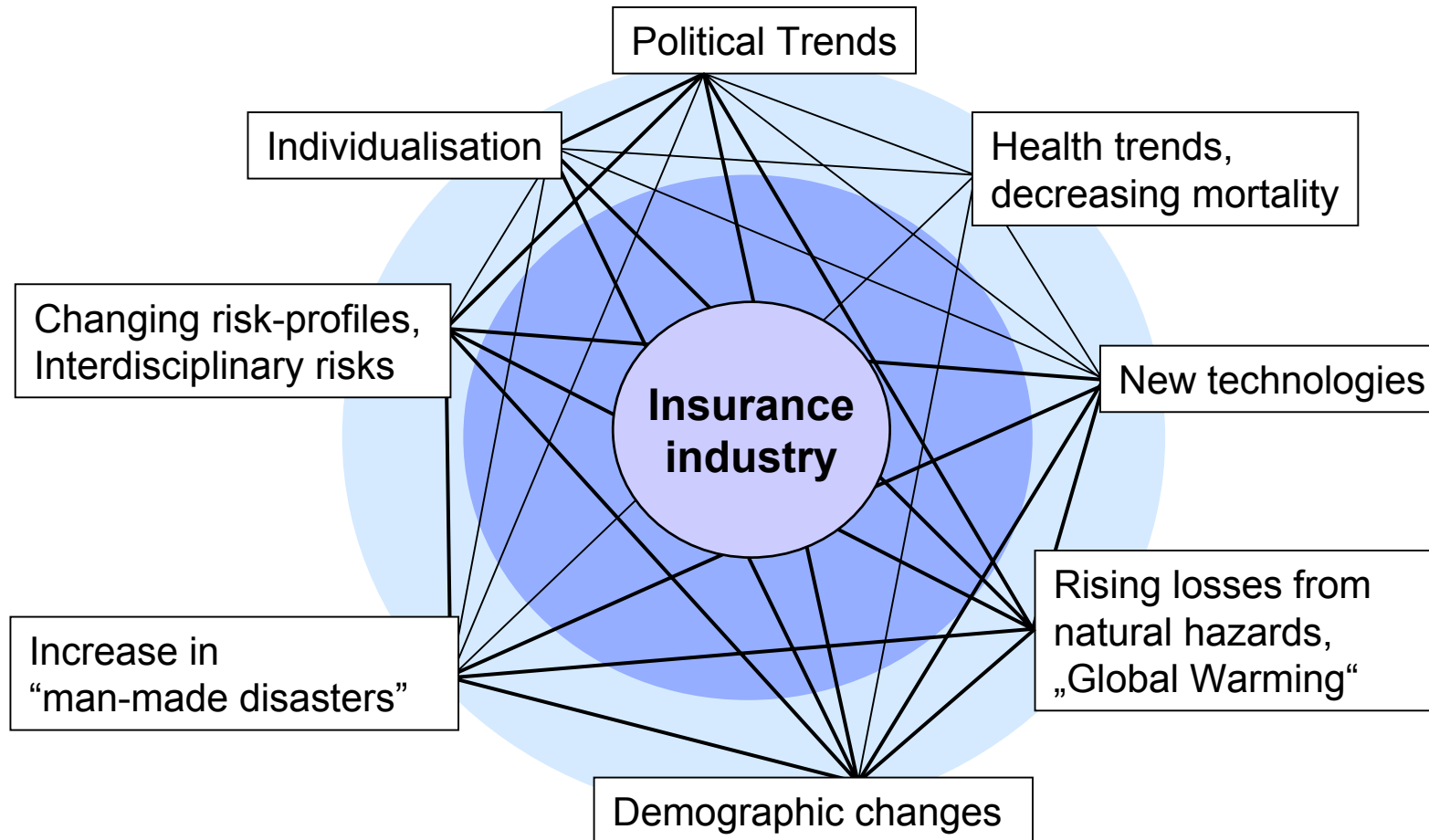
# Analysis of the business environment

## Example: Trend research at Munich Re

- Balanced monitoring and analysis of risks **and** chances for the company
- Integrated observation of trends both within **and** outside the insurance industry
  - => Close interlinking of internal research with third party research
- Prevention of an “ivory tower of trend research” at Munich Re: lean structure of research with clear focus on the consequences for business activities
- Definition of future scenarios for the environment/“wild cards”

Two sides of the same coin: Responsibility of the (re)insurance industry in the discussion of risks for society (e.g. global warming)

# Examples for external „mega trends“ in insurance



## Conclusion:

**Long-term corporate success in insurance business needs**

**a long-term, sustainable corporate strategy, supported by skilful trend research.**

