

IFRS 8 – Implementation in the Munich Re Group – Questions and Answers

1) What perspective is taken as a basis for determining the segments, i.e. who is the *chief operating decision maker*¹ (CODM)?

In the Munich Re Group, the CODM within the meaning of IFRS 8 is the Group Committee:

Group management				
Business field	Reinsurance	Primary insurance	International Health	Asset management
Operational responsibility	Reinsurance Committee ²	ERGO Board	IH Committee ³	MEAG ⁴
Managing unit	Group Controlling / Integrated Risk Management			
Responsible Committee	Group Committee			

2) Who manages the individual fields of business?

Reinsurance (RI)

Business field reinsurance						
Line	Property-casualty				Life	BF as a whole
	Underwriting					Investments
Division/operational responsibility	EULA ⁵	GAPA ⁶	GCNA ⁷	SFR ⁸	L	Asset-liability management
Performance measure	Value added				MCEV	Risk/return
Operational controlling unit	Reinsurance Controlling					
Responsible board member/committee	Jeworrek /Reinsurance Committee					

¹ The CODM is defined as the main decision maker with regard to allocating resources to and assessing the performance of the operating segments.

² The Reinsurance Committee was formed from within the ranks of the Board of Management and is responsible for the strategic management of the business field reinsurance.

³ The International Health Committee as the management body develops and steers all the Munich Re Group's primary insurance and reinsurance activities in the international health market.

⁴ MEAG MUNICH ERGO AssetManagement GmbH (MEAG) is the asset manager of Munich Re and ERGO.

⁵⁻⁸ Abbreviations for divisions with regional responsibility: "Europe and Latin America", "Germany, Asia Pacific and Africa", "Global Clients/North America"; "Special and Financial Risks"

Primary insurance (PI)

Business field primary insurance						
Unit	ERGO (excluding parts of IH)					
	Underwriting			Investments		
Line / operational responsibility	Germany			IO ⁹ (excl. IH)	Other	ERGO Finances
	Life	Health	Property-casualty			
Performance measure	<i>Value added/MCEV (life, German health)</i>			<i>Risk/return</i>		
Operational controlling unit	ERGO Controlling					
Responsible board member / committee	Oletzky / ERGO Board					

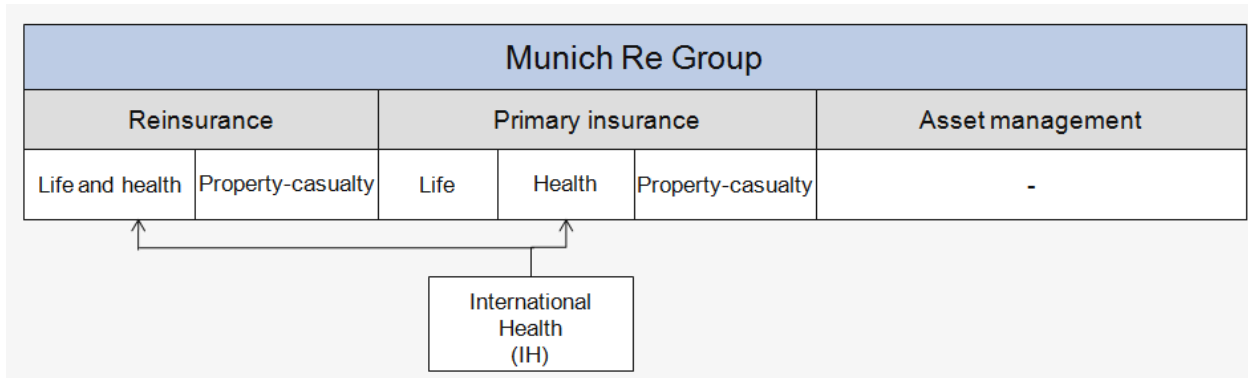
⁹ International Organization

International Health (IH)

Business field International Health			
Line	Health RI	Foreign health PI	BF as a whole
	Underwriting		Investments
Unit / operational responsibility	MR incl. foreign primary insurers	ERGO IH	<i>MR/ERGO</i>
Performance measure	<i>Value added</i>	<i>Value added</i>	<i>Risk/return</i>
Operational controlling unit	IH Controlling		
Responsible board member / committee	Strassl / IH Board		

3) How is this view reflected in the segmentation?

The business fields of reinsurance and primary insurance are shown as usual. A distinction is made according to “life and health” and “property-casualty” as hitherto. A difference, however, is that in future life and health will be shown separately in primary insurance. The background to this is that, on the one hand, health business is managed separately internally and, on the other hand, it has a significant volume in the Group.



Owing to its still small size, International Health is split up, with parts of it being shown together with life reinsurance and parts together with German health primary insurance. In this respect, “life and health” in reinsurance and “health” in primary insurance are “aggregated segments”.

Even after a future disclosure of International Health, German health business will remain a separate segment in primary insurance (cf. diagram relating to question 6).

4) Why is IH not shown as a separate segment?

IH’s current premium volume does not meet any of the three quantitative thresholds at present. These are:

- (a) Segment earnings, including intersegmental sales, are 10% or more of the combined revenue, internal and external, of all operating segments (segment point of view);
- (b) The segment’s reported profit or loss is 10% or more of the greater of
 - (i) the total reported profit,
 - (ii) the total reported loss;
- (c) Its assets are 10% or more of the combined assets of all the operating segments.

5) Why has IH been allocated to the long-term life segment in reinsurance and not to property-casualty? Why are life and health not separated in reinsurance, as they are in primary insurance?

IH could have been assigned to the reinsurance sub-segment “property-casualty”; but for reasons of consistency and better comparability with prior years, the previous disclosure approach is being maintained.

Health business in reinsurance is not significant in terms of volume; the information value of separating it between the two segments “reinsurance life” and “reinsurance health” would be marginal.

6) When will IH be shown as a separate segment and how will the segment reporting change as a consequence?

As soon as IH breaks through one of the above-mentioned thresholds, segment disclosure shall be changed as follows:

Munich Re Group					
Reinsurance		Primary insurance			Asset management
Life and health	Property-casualty	Life	Health	Property-casualty	–



Munich Re Group					
Reinsurance	International Health	Primary insurance			Asset management
Life	Property-casualty	–	Life	Health (Germany)	Property-casualty

7) Does ERGO’s segmentation differ from the Munich Re Group segmentation?

ERGO’s segmentation differs from Munich Re Group segmentation, since ERGO’s internal management of the business differs from the Munich Re Group management of ERGO as a whole. Even if ERGO’s management focuses formally on ERGO as a whole, the de facto controlling process (including annual planning) is based on the segments “life Germany”, “health Germany”, “property-casualty Germany” and – because of its small size – “international operations” in total. This applies both to the value-based management methods (EEV and VBM) and to the analysis of the IFRS figures. Aggregation of the German segments with the relevant international-operations segments is currently still unproblematic owing to the small volume of the latter, so that the Munich Re segmentation is close to the Munich Re management of ERGO. If ERGO’s international operations (IO) reach the quantitative thresholds without the IH companies, we will introduce separate disclosure.

ERGO				
Life	Health	Composite	IO	Other/Consolidation
Munich Re Group				
Reinsurance		Primary insurance		
Life and health	Property-casualty	Life	Health	Property-casualty

8) Why do the total amounts of the segments primary insurance life and primary insurance health not tally with the previous disclosure for primary insurance life and health?

There are business transactions between the companies of the segments “primary insurance life” and “primary insurance health” which have hitherto been eliminated in the consolidation process. In the new disclosure, these transactions are found in the consolidation column. However, the differences are usually in the one-digit million euro region.

9) What performance measures are used and which are published?

In the Munich Re Group, value added on a gross basis (value-based management – VBM) is used as performance measure for property-casualty business and health reinsurance business. Besides this, MCEV (Market-Consistent Embedded Value) is used for life business and German comprehensive health insurance. In addition, the IFRS result contributions of the business fields are important observation measures in planning and strategy. Therefore, in accordance with the rules of IFRS 8, recourse is made to the IFRS segment result. However, the management of the underwriting business on the one hand and of investments on the other (in analogy with VBM) is to be taken into account through the disclosure of subtotals:

- Disclosure of a technical result
- Disclosure of a non-technical result
- Operating result (total)

This means that the operating result is chosen as the central segment performance measure. The disclosure of the operating result helps readers to assess the underwriting business, since it shows the actual value-adding power of the Munich Re Group in core business, making possible an improved assessment of its sustained performance.

10) What changes result for the segment reporting?

Besides an increase in the “thereof” items, whose disclosure the standard requires, the structure of the income statement shows the following changes:

Old structure of segment reporting:

<i>Gross premiums written</i>	5. Investment income
- From insurance transactions with other segments	Investment expenses
- From insurance transactions with external third parties	Investment result
1. Gross earned premiums	<i>Thereof:</i>
Ceded	- Income from associates
Net earned premiums	6. Other income
2. Gross expenses for claims and benefits	7. Other expenses
Ceded share	8. Operating result
Net expenses for claims and benefits	9. Amortisation of goodwill
4. Gross operating expenses	10. Finance costs
Ceded share	11. Taxes on income
Net operating expenses	12. Consolidated result

New structure of segment reporting:

<i>Gross premiums written</i>	6. Investment income
- From insurance transactions with other segments	Investment expenses
- From insurance transactions with external third parties	Investment result
1. Gross earned premiums	<i>Thereof:</i>
Ceded	- Income from associates
Net earned premiums	7. Other operating income
2. Income from technical interest	8. Other operating expenses
3. Gross expenses for claims and benefits	9. Deduction of income from technical interest
Ceded share	10. Non-technical result
Net expenses for claims and benefits	11. Operating result
4. Gross operating expenses	12. Other non-operating result, impairment losses of goodwill and finance costs
Ceded share	
Net operating expenses	13. Taxes on income
5. Technical result	14. Consolidated result

The changes are implemented in the same way in the consolidated income statement, albeit with item 12 being broken down into the individual subitems at Group level.

11) How do I interpret the “operating result”?

The operating result is a pre-tax result not influenced by unplannable factors such as currency effects, by financing arrangements or by structural decisions clearly not assignable to ordinary business operations (ERGO holding company). This result item further enhances the transparency of the Munich Re Group’s financial reporting and makes possible an even better assessment of its sustained value-adding performance.

12) Why don’t we adjust the operating result to eliminate components that are dependent on the volatility of the capital markets?

Although it would be reasonable and possible to smooth the result to eliminate extraordinary components, we have not taken this approach for three reasons, deliberately refraining from “normalising” the result:

- We regard all components of the investment result as being linked with our core business, and therefore as operating components.
- Such smoothing would require a host of assumptions and differentiations, some of them arbitrary, and we see it as basically immaterial from which result sources the return on investments is derived.
- It would lead to a number of inconsistencies with other balance-sheet and income-statement items directly dependent on the investment result and thus also on the result of disposals and the write-downs of investments. (For example, the item “expenses for claims and benefits” would have to be normalised in the same way, meaning that the requisite transparency of disclosure would no longer be provided for.)

In any case, we offer the reader of our financial statements very extensive information on the composition of the investment result, broken down by type of investment and income. In addition, we are now improving the transparency further by allocating the income from technical interest to the technical result.

13) Why don’t we adjust the operating result to eliminate exceptional expenses for major losses, as we do in value-based management?

Adjusting the operating result to eliminate the influence of exceptional expenses for major losses would limit the volatility of the result measure and lead to a smoothing of this measure over time. We have decided against such an adjustment, since the risk of random fluctuations is an inherent component of insurance business, meaning that major-loss events are part of the technical result. We regularly provide for transparency regarding the share of major losses in our combined ratio by publishing information in our quarterly reports and presentations for analysts.

14) How is the income from technical interest calculated and how is it interpreted?

The income from technical interest ...

- has to be calculated and interpreted segment-specifically due to the type of insurance business
- is the risk-free interest on provisions (reinsurance and property-casualty primary insurance) or the guaranteed interest including the savings process (life primary insurance) or the actuarial interest rate (German health primary insurance health).

Reinsurance life/health

Risk-free interest on the technical provisions

The income from technical interest is taken over from the internal reporting. This interest income corresponds to the “interest on underwriting provisions” for Munich Reinsurance Company which is booked according to the agreements from the underlying reinsurance contracts (this portion is identical to the “interest on technical provisions” in Munich Reinsurance Company’s German GAAP accounts). Since risk-free interest is mostly taken as a basis, this is a good approximation. The relevant amounts from the subsidiaries are added to this.

Reinsurance property-casualty

Risk-free interest on the technical provisions

Reserves are posted discounted for workers’ compensation business (WC) and without consideration of an interest-rate effect for the rest of the property-casualty business. For WC, the discount on the provisions is “unwound” to determine the technical interest. The remaining interest involves the reserves for non-life business excluding WC (in line with the application of the discount factors to determine available financial resources). The interest rate is calculated quarterly on the basis of the replicating portfolio⁵ and applied to the total claims provisions (minus provisions for workers’ compensation), unearned premiums and other technical provisions. Additionally, the interest rates are weighted quarterly based on the percentaged distribution of the renewal over the business year.

Primary insurance life

Guaranteed interest including allocations to the provision for premium refunds (RfB)

- Allocation to the provision for future policy benefits on the basis of the guaranteed interest rate,
i.e. average coupon rate
- + Allocations to actual and deferred RfB (without tax effects)
- + Unrealised gains on investments for the benefit of life insurance policyholders who bear the investment risk (unit-linked life insurance)
- Unrealised losses in respect of unit-linked life insurance
- = Income from technical interest in life primary insurance

⁵ The replicating portfolio is an investment portfolio that serves to reflect the payout structure of the technical provisions by matching investments as closely as possible with the characteristics of the provisions.

Primary insurance health

Actuarial interest including allocations to the provision for premium refunds (RfB)

- Allocation to ageing reserve on the basis of the IFRS actuarial interest rate
- + Allocation to the ageing reserve for compulsory long term care insurance and to the additional and premium-loading reserve on the basis of German GAAP actuarial interest rate (since no reallocation)
- + Allocations to actual and deferred RfB
- = Income from technical interest in health primary insurance

Primary insurance property-casualty

Risk-free interest on the technical provisions

Approach for primary insurance non-life is like the procedure for reinsurance non-life, i.e.

- Unwinding of discount on the provisions
(provisions for personal accident insurance with premium refund [UBR] and annuity provision)
- + Interest on the other undiscounted technical provisions (all claims provisions without UBR and annuity provision, unearned premiums and misc. technical provisions) on the basis of the replication portfolio, in line with calculation for reinsurance property-casualty
- = Income from technical interest in property-casualty primary insurance

15) How is the technical result to be interpreted?

The technical result embraces the result components assignable to the operative underwriting business. It thus gives an insight into the quality of the individual segments in underwriting. Via the income from technical interest, investment earnings and other income linked to the underwriting business are also taken into account as part of the technical result.

16) How is the non-technical result to be interpreted?

The non-technical result represents the shareholders' portion of the other business, i.e. the investment result and other result elements before tax, finance costs and exchange-rate influences, after the income from technical interest has been deducted and added to the underwriting business. This shows the performance of the Munich Re Group and its segments in the area investment and other sources of income.

17) What items is the "other non-operating result" made up of?

The following items are regarded as non-operating, since they are not explicitly planned and managed (or can only be influenced to some extent) or are not directly related to business operations:

- Realised and unrealised foreign exchange gains and losses
- Income and expenses in respect of disposals and write-ups and write-downs of intangible assets (land rights, software, etc.).

- Other non-technical income and expenses, e.g. income and expenses unrelated to the accounting period, project costs and other amounts that cannot be allocated elsewhere
- These also include large portions of the holding-company expenses of ERGO AG (primary insurance property-casualty segment).

18) Why do we net the items “other non-operating result”, “finance costs” and “impairment losses of goodwill” in the segments?

For segment reporting, the focus is on the operating result. Finance costs, impairment losses of goodwill and components of the other non-operating result are not segment-specifically planned.

19) What changes result for the balance sheet?

The segment balance sheet will continue to be published in the same format as hitherto, albeit with the separation of life and health primary insurance into two segments (based on internal management).