Münchener Rück
Munich Re Group

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Munich Re with clear profit for 2008 despite financial crisis

Notwithstanding the most severe financial crisis for generations, Munich Re recorded a clear profit for the financial year 2008, in line with previous announcements. According to preliminary calculations, the consolidated profit amounted to €1.5bn. The profit for the fourth quarter totalled around €100m. The Group's financial strength will enable Munich Re to distribute a large part of the profit for the year to shareholders: subject to approval by the Supervisory Board and the Annual General Meeting, the dividend will remain unchanged at €5.50 per share. The reinsurance market is showing distinct signs of hardening, a turnaround in prices having been achieved. Munich Re has also succeeded in improving the profitability of its portfolio.

"In view of the financial crisis, the result for 2008 is satisfactory. Thanks to our pronounced risk management and a diversified investment portfolio, we have come through the crisis relatively well so far," said CFO Jörg Schneider. In the previous year, the profit totalled €3.9bn, but this had benefited from an extraordinary tax effect of €0.4bn. Gross premiums written by the Munich Re Group in 2008 rose by 1.5% to €37.8bn.

The past year was marked by claims burdens both for natural catastrophes and for man-made losses. In reinsurance, the combined ratio (for property-casualty business) amounted to 99.5%, compared with 96.4% in the previous year, whilst in primary insurance (including legal expenses insurance) it once more showed a very good level of 91.2% (93.4%).

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The Group's equity exposure was again significantly reduced in the fourth quarter to 3.6% (30 September: 9.3%). In the same period, equity hedging was further expanded, thus cutting net exposure to 1.7% (30 September: 4.6%). Nevertheless, owing to the continuing market turbulence, Munich Re also had to make write-downs on equity portfolios in the fourth quarter, with impact on the income statement. These were again cushioned by write-ups of derivatives, especially equity-hedging instruments. The overall balance of write-downs, write-ups and net gains on disposal of equities and derivatives with non-fixed-interest underlyings amounted to €0.7bn in the final quarter and to €-0.2bn for the year as a whole. In view of the high volatility on the interest-rate markets, Munich Re also made prudent write-downs of about €0.4bn on fixed-interest securities in the fourth quarter and about €0.5bn for the year as whole, in both cases with impact on the income statement.

"Naturally, as an investor of about €175bn, we too had to absorb large losses on our risk-oriented investments. But our asset manager MEAG has continued to steer our portfolio successfully through the crisis. We have reduced our equity exposure further and have invested strongly in secure government bonds, but have increasingly also taken selective advantage of good return opportunities especially from corporate bonds," said Schneider.

At 31 December, the shareholders' equity for the Group stood at €21.3bn – around the same level as at 30 September. "Our capitalisation remains solid and even contains a buffer for the further profitable expansion of our business", emphasised Schneider.

The ERGO Insurance Group's contribution to the consolidated result was according to preliminary calculations €92m (781m), also reflecting the upheavals on the financial markets. From the underwriting perspective, 2008 was another excellent year: at 90.7%, the combined ratio in property-casualty insurance (including legal expenses insurance) was well within the long-term target of 95%.

Premium income in the primary insurance segment rose, mainly due to international expansion. By contrast, life insurance shows a marked decrease, due in particular to a fall in single-premium business, which suffered in the second half of 2008 as a result of the financial market crisis

Renewal of reinsurance treaties at 1 January 2009
At 1 January 2009, about two-thirds of Munich Re's property-casualty reinsurance portfolio was up for renewal. This corresponds to a premium volume of around €8.3bn.

Development of prices, terms and conditions varied greatly between lines and regions. Overall, however, stable or increased prices were recorded market-wide. Torsten Jeworrek, member of Munich Re's Board of Management, on the renewals: "The turnaround has been achieved. The erosion of reinsurance prices over the last few years has been halted. We have succeeded in improving our portfolio through price increases for existing business and attractive new business, but also by terminating business that was no longer profitable.”

Of the total renewal business, 17.6% (a volume of around €1.5bn) was not renewed. New business of €954m was written in more attractive segments. Together with the renewed business (around €6.8bn) and a slight increase in shares in existing business (€256m), the net outcome was a reduction of 3% in premium volume to around €8bn. The price level improved by 2.6% compared with the previous year.

The portfolio written at 1 January shows the following changes:
The share of liability, motor and accident business has fallen by around four percentage points, whilst the share of other lines – mainly shorter-tail business – has increased. In particular, owing to inadequate original rates, the Group has scaled back proportional business in Greater China, motor business in Germany, and workers’ compensation business in the USA. On the other hand, the Group has grown its business in other, more attractive lines. An example is offshore energy business, where the price level has improved markedly, rising in some cases by over 100% following last year’s hurricane losses. Also other treaties with US hurricane exposure now have a much improved rate level. Agricultural business, which has produced profitable results for many years, has also been expanded.

Jeworrek: “Certainly, not all our expectations were fulfilled. The development of the economy as a whole, with its effects on the insurance industry’s capitalisation and results, has not yet led to a situation in all markets where the players recognise the need for prices, terms and conditions that are consistently risk-adequate. I am nevertheless satisfied with the outcome of the renewals. We have been able to improve the quality of our portfolio.”

Although the traditional renewal date in most countries is 1 January, for reinsurance treaties in Japan, Korea and India – and in some cases in the USA – it is 1 April. Moreover, the main renewal date in the USA (especially for natural catastrophe covers), and also in Latin America and Australia, is 1 July.

“The market will carry on hardening in this year’s subsequent renewal rounds. Reinsurance is currently one of the few remaining possibilities for primary insurers to swiftly obtain the capital they need. I am therefore firmly convinced that there will be a further increase in its significance, and particularly in the significance of individual reinsurers’ security”, said Jeworrek. “Our underwriters continue to be guided by the clear instruction that we are adhering to our profit-oriented underwriting policy.”

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The **Munich Re Group** operates worldwide, turning risk into value. In the financial year 2007, it achieved a profit of €3,937m, the highest since the company was founded in 1880, on premium income of approximately €37bn. The Group operates in all lines of business, with around 43,000 employees at over 50 locations throughout the world and is characterised by particularly pronounced diversification, client focus and earnings stability. With premium income of around €21.5bn from reinsurance alone, it is one of the world's leading reinsurers. Its primary insurance operations are mainly concentrated in the ERGO Insurance Group. With premium income of over €17bn, ERGO is one of the largest insurance groups in Europe and Germany. It is the market leader in Europe in health and legal expenses insurance, and 34 million clients in over 30 countries place their trust in the services and security it provides. The global investments of the Munich Re Group amounting to €176bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.
