Munich RE

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Press release

Munich Re posts profit of over €2.4bn for 2010 and raises dividend to €6.25

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On the basis of preliminary estimates, Munich Re achieved a consolidated result of €2.43bn for 2010 (previous year: €2.56bn), despite substantial major losses. The profit for the fourth quarter totalled €0.48bn (0.78bn). Shareholders are to participate in last year's success through another increase in the dividend: subject to approval by the Supervisory Board and the Annual General Meeting, the dividend will rise by 50 cents to €6.25 (5.75) per share. In addition, Munich Re has announced a further share buy-back programme: shares with a volume of up to €500m are to be repurchased before the Annual General Meeting in 2012.

CFO Jörg Schneider summed up the provisional figures: "Despite weighty major losses, which also affected us at the end of the year, we are presenting a good result. Our shareholders are to benefit without delay. With the proposed increase in the dividend to €6.25 per share and the continuation of our share buy-backs, we are maintaining our attractive dividend and capital repatriation policy." For 2011, Munich Re expects a somewhat better technical result than in 2010 and a consolidated result of around the same level.

Gross premiums written by the Group in the financial year 2010 rose significantly by almost 10% to €45.5bn (41.4bn). Despite last year's high dividend payout and share buy-backs, Group equity increased by €0.8bn to €23.0bn (31 December 2009: €22.3bn): In the fourth quarter, it fell by €1.1bn (30 September 2010: €24.1bn) due to the ongoing share buy-back and a reduction in unrealised gains on fixed-interest securities, after a distinct rise in market interest rates at the end of the year. The Group’s investment result improved by nearly 10% to €8.6bn (7.9bn), despite a significant decrease in the net balance of write-ups and write-downs by €0.7bn to only –€0.4bn. Net gains on the disposal of investments were again high at €1.6bn.

The ERGO Insurance Group, in which Munich Re has concentrated its primary insurance business, more than doubled its profit to €355m (173m) based on preliminary figures. Before consolidation, the result of the primary insurance segment increased by nearly 79% to €0.66bn (0.37bn), of which €0.22bn (0.27bn) was attributable to the fourth quarter. Gross premiums written in the primary insurance segment in 2010 grew by around 5% to €17.5bn (16.6bn), with the fourth quarter accounting for €4.3bn (4.3bn). ERGO recorded growth in

all its business fields in Germany but particularly in its international business. The combined ratio for property-casualty primary insurance in 2010 (including legal protection insurance) amounted to 96.8% (93.2%). Natural hazard events, such as the long harsh winter extending well into spring and damage caused by floods, were responsible for considerably higher claims expenditure in 2010, especially in international business. The combined ratio for the fourth quarter amounted to 100.4% (90.3%). ERGO CEO Torsten Oletzky commented: "We invested a lot of effort in successfully launching the ERGO brand in the German insurance market. In the process, we managed to improve both our premium income and our result. I therefore regard 2010 as a good year for ERGO."

Munich Re's reinsurance business was marked by high claims costs for major losses in 2010. The reinsurance segment nevertheless contributed around €2.10bn (2.58bn) to the consolidated result. Compared with the previous year, premium income grew by over 8% to €23.6bn (21.8bn), nearly €6.0bn (5.3bn) of which came from the fourth quarter. Without currency translation effects, premium would have risen by 1.5% in 2010.

In the life reinsurance segment, gross premiums written in 2010 were up by over 16% compared with the previous year, reaching €7.9bn (6.8bn). Growth derived mainly from major treaties concluded by individual clients for capital relief. For reserve-strengthening in US long term care business and write-downs of deferred acquisition costs for this business, expenses of €0.32bn before tax and €0.22bn after tax were incurred; the amounts for the fourth quarter were €0.24bn and €0.15bn respectively.

The combined ratio in property-casualty reinsurance was 100.5% (95.3%) of net earned premiums for the year as a whole and 96.0% (92.3%) for the fourth quarter. As a consequence of the customary year-end review of reserves, the combined ratio includes a moderate reduction of claims provisions. The overall figure for the year contains 11.0 (1.4) percentage points for natural catastrophes, and the figure for the final three months 11.7 (–2.1) percentage points. Natural catastrophe losses amounted to around €1.56bn (0.2bn) for the entire year. The largest loss event for Munich Re in 2010 was the devastating earthquake in Chile. For the earthquake in New Zealand, Munich Re is now reckoning with a claims burden of €0.34bn.

The largest individual loss in the fourth quarter was the flooding in northeastern Australia, with claims costs of around €0.27bn. After extreme precipitation at the end of the year, large areas of the state of Queensland were inundated, with the floods continuing into the first weeks of January. The metropolis of Brisbane was hit by its worst floods for more than three decades. This means that, on the basis of current estimates, the claims burden accounted for in the fourth quarter of 2010 will be followed by claims expenses of a similar amount in the first quarter of 2011. The insured market loss for all events together is estimated at A$ 4–5bn.

Munich Health, the Group's third field of business, whose figures are being shown for separately for the first time in 2010, contributed €0.06bn (0.03bn) to

the Group's overall result, with €0.01bn of this attributable to the fourth quarter. Premium income written by Munich Health in 2010 was significantly up on the previous year, climbing by over 29% to €5.1bn (4.0bn), with the fourth quarter accounting for €1.3bn (1.1bn). Its combined ratio totalled 99.7% (99.4%) for 2010 and 100.0% (99.8%) from October to December. This ratio relates only to short-term health business, not to business conducted like life insurance. In January 2011, Munich Re completed its acquisition of the Windsor Health Group Inc. (Windsor), a specialist US health insurer. The purchase was a further step towards realising Munich Health's strategy of strengthening its position in the US Medicare market.

The share buy-back programme launched in May 2010 is proceeding according to plan. By the end of January 2011, Munich Re had repurchased a total of 7 million shares with a volume of €752m. Before the next Annual General Meeting on 20 April 2011, shares with an overall volume of up to €1bn are to be acquired. In the following period, up to the Annual General Meeting in 2012, a buy-back volume of up to €500m is planned. The full execution of these share buy-back programmes remains subject to developments in the capital markets and the general economic environment. CFO Schneider: "Share buy-backs remain an important component of our shareholder-friendly, active capital management."

Very satisfactory renewals of reinsurance treaties in the property-casualty segment at 1 January 2011

Overall, pressure on prices in most lines of business and regions is persisting. Munich Re therefore consistently withdrew from under-rated business. It nevertheless proved possible to expand accounts with individual major clients, so that the business volume grew slightly on balance, despite the difficult environment. Munich Re owes this profitable growth especially to its ability to swiftly offer complex, tailor-made reinsurance solutions to its clients. Besides this, the many large losses resulting from natural hazards and also from man-made events, had a stabilising influence on the lines of business and regions affected. Thus, prices increased markedly for natural catastrophe covers in Australia/New Zealand (Oceania) and in offshore energy business. There were no major changes in conditions in this renewal season. The overall outcome of the reinsurance treaty renewals at 1 January 2011 was again very satisfactory for Munich Re.

Torsten Jeworrek, Munich Re’s Reinsurance CEO: "We were able to score very successfully in this round of renewals with individual solutions for strategically important major clients. Clients reward Munich Re for being able to structure and underwrite large and very demanding reinsurance programmes. This competence provides clients with tangible added value, for which they are prepared to pay an appropriate premium."

Details of the renewals

At 1 January 2011, roughly two-thirds of Munich Re's global property-casualty business was up for renewal, i.e. reinsurance treaties with a premium volume of approximately €7.9bn.

Treaties with a premium volume of €6.6bn were renewed (around 84% of the business volume up for renewal). As a consequence of Munich Re's strict cycle management, around 16% of the treaty business (€1.3bn) was terminated because agreement could not be reached on prices or conditions. New business with a volume of approximately €1.2bn was acquired. Altogether, Munich Re's premium volume in this renewal season increased to €8.2bn or by 4.1% (around €330m) compared with the previous year, partly as a result of organic growth in renewed business. Through systematic portfolio management, the profitability of the renewed portfolio was slightly improved, with the price level rising by 0.1% year on year.

"The markets remain challenging", stressed Torsten Jeworrek. "Capacity continues to be available in sufficient quantities in most lines and regions. We have geared ourselves to this situation, consistently pursuing our strategy – including in particular the expansion of niche business – and writing very selectively. With this approach and our high degree of client focus, we are able to operate our business profitably even in this difficult environment."

The composition of the renewed portfolio by line of business is essentially unchanged. The percentage of business in the Asia-Pacific region increased compared with the previous year, rising from 11% to 15%: clients with strongly growing original business, especially in China, are using reinsurance as a capital substitute. Munich Re's financial strength, its client proximity and its technical expertise, make it a much sought-after partner in this respect. Beyond this, growth came from motor quota shares in the UK, where primary insurance premiums have risen appreciably. Munich Re succeeded in successfully expanding its agricultural reinsurance business in the USA. It was also able to take advantage of improved prices and conditions for offshore energy business and for natural catastrophe covers in loss-affected regions (Australia).

By contrast, Munich Re systematically shed business in lines where keen competition led to prices falling to a level that it no longer considered profitable. This particularly includes casualty business in the USA and motor business in some continental European markets.

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Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. This is how Munich Re creates value for clients, shareholders and staff. In the financial year 2009, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.56bn on premium income of around €41bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €25bn from reinsurance alone, it is one of the world's leading reinsurers. Especially when clients require solutions for complex risks, Munich Re is a much sought-after risk carrier. The 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 Germany and Europe. 40 million clients in over 30 countries place their trust in the services and security it provides. In international healthcare business, Munich Re pools its insurance and reinsurance operations, as well as related services, under the Munich Health brand. Munich Re's global investments amounting to €182bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Disclaimer
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