Munich RE

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Press release

Munich Re starts the financial year 2013 with a quarterly profit of €979m

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The first three months of 2013 went very well for Munich Re Group-wide. Thus Munich Re posted a consolidated result of €979m (previous year: €782m) for the first quarter of 2013. For the current financial year as a whole, Munich Re is continuing to aim for a profit of close to €3bn.

As last year, claims expenditure for major losses in the first quarter was below the long-term average. CFO Jörg Schneider commented on the first quarter of 2013 as follows: "There happened to be lower claims burdens from major losses, but the Group's operating earnings also proved to be robust. After this good start, we are optimistic of achieving our profit target for the year of close to €3bn."

The investment result was slightly lower than in the same period last year, partly because regular interest income fell and investments for unit-linked life insurance grew less strongly than last year.

Summary of the figures for the first three months
All in all, the operating result rose by 15.5% to €1,388m (1,202m). The other non-operating result improved owing to foreign-exchange effects by €305m to €110m (–195m). Taxes on income totalled €451m (159m). Compared with year-end 2012, equity rose by 4.4% to €28.6bn, mainly thanks to the high quarterly profit. The annualised return on risk-adjusted capital (RORAC) amounted to 14.3% and the return on equity (RoE) to 14.0%. Gross premiums written increased by 0.5% to €13.3bn (13.2bn). If exchange rates had remained the same, premium volume would have increased by 1.4% compared with the same period last year.

Primary insurance: Good result of €127m
The operating result for the first three months of 2013 was €223m (257m), while the consolidated result totalled €127m (145m). The ERGO Insurance Group posted a significantly improved result of €120m (97m).

At 95.9% of net earned premiums, the combined ratio was slightly higher than in last year's first quarter (95.3%). In international property-casualty insurance, the combined ratio improved to around 99.2% (101.3%) of net earned premiums. In German business, it amounted to 93.9% (91.3%).

Total premium income across all lines of business fell by 2.2% in the first quarter of 2013 and came to €4,908m (5,016m), while gross premiums written decreased by 1.2% to €4,643m (4,698m). The main reasons for the reduction were the smaller amount of single-premium business in the life segment and the absence of premiums from the South Korean company ERGO Daum Direct, sold in 2012.

ERGO CEO Torsten Oletzky commented: "The good result for the quarter gives us momentum to meet the challenges that lie ahead this year: the launch of our new life insurance product mid-year and the realisation of new structures in sales."

Reinsurance: Very good result of €827m
Reinsurance business delivered very good results from January to March: The operating result amounted to €1,120m (906m). Altogether, the business field of reinsurance accounted for around €827m (634m) of the Group consolidated result. Major losses were well below expectations.

Premium income in the first three months was up 1.8% on the same period last year, rising to €7.0bn (6.8bn). If exchange rates had remained the same, premium volume for the first three months would have risen by 3.2% year on year. In the life reinsurance segment, gross premiums written were down slightly by 1.2% to €2,569m (2,599m) for the first three months.

Despite growth being curbed by foreign-exchange effects, premiums in property-casualty reinsurance rose by a total of 3.6% to €4,398m (4,245m). Premium income benefited particularly from price increases in the segments recently affected by major losses, including natural catastrophe covers and marine business. Also, rising premium volumes in US agricultural insurance and at US primary insurance subsidiaries American Modern and Hartford Steam Boiler Group contributed to the premium growth in the first quarter.

The combined ratio in property-casualty reinsurance in the first quarter was 85.7% (94.6%) of net earned premiums. Natural catastrophe losses amounted to around €24m (41m) and man-made major losses to €81m (223m), representing only 0.6% and 2.0% of net earned premiums respectively. Floods at the end of January in Queensland, Australia, and a satellite claim gave rise to losses in the mid double-digit million euro range for Munich Re in each case. As loss reserves remain significantly above the level of losses reported, there were moderate reserve releases of approximately €100m.

In the renewals at 1 April 2013, a premium volume of around €1.0bn was up for renewal. Some 38% of this concerned the markets of Japan and Korea, and another 35% North America and Global Clients. At slightly over 40%, natural catastrophe business accounted for a high percentage of this volume. Overall, prices moved sideways at a high level. This also applied to Japan, despite an increased supply of capacity from established and new market players. Consequently, the volume of business diminished somewhat while the price level, which gives an indication of the potential profitability of the business, remained stable.

The renewals at 1 July mainly involve treaty business in the US market and in Australia, New Zealand and Latin America, with a premium volume of around €2.2bn up for renewal. A high percentage of this – around 30% – will again be accounted for by natural catastrophe covers. Munich Re expects slight price erosion for such covers in the USA, due to growing capacity. Apart from this, Munich Re anticipates a stable price level. Torsten Jeworrek, Munich Re’s Reinsurance CEO, said: "As always, we will attach great importance to strict underwriting discipline."

Munich Health: Result of €37m
Munich Health’s operating result increased to €48m (32m), leading to a positive result of €37m (5m).

Gross premiums written remained almost unchanged compared with the previous year at €1,674m (1,680m). In primary insurance, Munich Health posted modest premium growth of 0.6% to €532m (529m). In reinsurance, the small decline by 0.8% to €1.1bn (1.2bn) was mainly attributable to adverse currency translation effects. If exchange rates had remained the same, the total premium volume at Munich Health would have increased by 1.1% compared with the previous year.

The combined ratio for January to March was 99.4% (99.5%).

Business written by US primary insurer Windsor Health Group (WHG) produced another loss, amounting to €15m (19m). The extensive measures decided on to improve the result situation at WHG are being implemented with great focus. The rest of Munich Health's primary insurance business developed positively.

Investments: Investment result of €2.0bn
At €216.2bn (226.8bn at market values), total investments at 31 March 2013 increased by €2.4bn or 1.1% owing largely to new investments due to the greater business volume, and changes in the market value of non-fixed-interest securities. The off-balance-sheet unrealised valuation reserves fell from €10.7bn at the beginning of the year to €10.6bn. There were only small shifts between asset classes compared with year-end 2012. Fixed-interest securities, loans and short-term fixed-interest investments continued to make up the largest portion of Munich Re's investments, with a share of around 86% at market value. Equities accounted for 4.0% (31 December 2012: 3.7%) or 3.9% (3.4%) after hedging, and real estate for 2.3% (31 December 2012: 2.4%).

For the period January to March 2013, the Group's investment result showed a year-on-year reduction of 10.6% to €2.0bn (2.2bn). The result represents an annualised return of 3.6%.

In the write-ups and write-downs of investments, Munich Re posted net write-downs of €103m (179m), in particular on its interest-rate derivatives and swaptions, as these lost market value due to a slight rise in interest-rate levels. Net gains on the disposal of equities and fixed-interest securities amounted to €446m (461m), with the gains on disposal being realised almost entirely by the primary insurance companies. In reinsurance, Munich Re deliberately refrained from making shifts in investments with a view to protecting the valuation reserves and to limiting reinvestment at lower interest rates to unavoidable cases where securities had matured.

The Group's asset manager is MEAG. Its assets under management as at 31 March 2013 included not only Group investments but also segregated and retail funds totalling €12.0bn (11.5bn).

Outlook for 2013: Result of close to €3bn remains the target
The expectations for 2013 have scarcely changed compared with those presented in Munich Re's 2012 annual report published in mid-March. Assuming exchange rates remain stable, the Group anticipates that for the financial year 2013 its gross premiums written will range between €50bn and €52bn. Gross premium income of some €27bn is expected in the reinsurance segment, and a figure of just under €17bn for primary insurance. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should be slightly below €18.5bn. Gross premiums written of just over €6.5bn are projected for Munich Health.

For property-casualty reinsurance, Munich Re's target is a combined ratio of around 94% of net earned premiums, taking into account the run-off of loss reserves for prior accident years. If the incidence of major losses remains within the expected range in the further course of the year, Munich Re would probably even better this target. In property-casualty primary insurance, the combined ratio for 2013 should be approximately 95%. The figure for Munich Health is expected to be around 100%.

Munich Re does not anticipate any rapid or significant rise in capital market interest rates in 2013, so regular income from investments is likely to be relatively low. Overall, Munich Re anticipates a return on investment of around 3.3%. The return of 3.6% posted in the first three months of 2013 cannot be extrapolated to the year as a whole because Munich Re is reckoning with lower gains on the disposal of investments in the remaining quarters.

The consolidated result in reinsurance should total between €2.3bn and €2.5bn in 2013. For the primary insurance segment, Munich Re projects a consolidated result in the range of €400–500m, with €350–450m for the ERGO Group. The difference between the two figures is mainly attributable to intra-Group transactions between primary insurance and reinsurance. In the Munich Health business field, a further loss in 2013 cannot be ruled out yet owing to the difficult situation at WHG.

Given average claims experience, Munich Re envisages a technical result for 2013 of the same level as in 2012. The Group continues to aim for a consolidated result of close to €3bn, subject to actual claims experience with regard to major losses being within normal bounds and to its income statement not being impacted by severe currency or capital market developments, significant changes in fiscal parameters, or other special factors.

CFO Schneider explained: "The result of nearly €1bn for the first quarter should not be simply extrapolated for twelve months. But with this strong start to the year, we have taken a pleasing step towards our result target. Furthermore, we continue to see profitable growth opportunities, particularly in markets like Asia-Pacific, for which we are well positioned."

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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 2012, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €3.2bn on premium income of around €52bn. It operates in all lines of insurance, with around 45,000 employees throughout the world. With premium income of around €28bn 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. Its primary insurance operations are concentrated mainly in the ERGO Insurance Group, one of the major insurance groups in Germany and Europe. ERGO is represented in over 30 countries worldwide and offers a comprehensive range of insurances, provision products and services. In 2012, ERGO posted premium income of €19bn. 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 €214bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

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Key figures (IFRS) for the Group in the first quarter of 2013*

(in €m unless otherwise indicated)

		1st quarter 2013	1st quarter 2012	Change	
				Absolute	%
Gross premiums written		13,284	13,222	62	0.5
Net earned premiums		12,096	12,367	-271	-2.2
Net expenses for claims and benefits		9,580	10,233	-653	-6.4
Technical result		1,279	972	307	31.6
Investment result		2,007	2,244	-237	-10.6
Thereof	Realised gains	686	986	-300	-30.4
	Realised losses	362	614	-252	-41.0
Non-technical result		109	230	-121	-52.6
Operating result		1,388	1,202	186	15.5
Net finance costs		-68	-66	-2	-3.0
Taxes on income		451	159	292	183.6
Consolidated profit		979	782	197	25.2
Thereof attributable to	Munich Reinsurance Company equity holders	972	780	192	24.6
	Minority interests	7	2	5	250.0
		31.03.2013	**31.12.2012**		
Investments		216,235	213,823	2,412	1.1
Equity		28,620	27,423	1,197	4.4
Staff		45,375	45,437	-62	-0.1

Reinsurance		**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
Gross premiums written		6,967	6,844	123	1.8
Technical result		1,091	697	394	56.5
Non-technical result		29	209	-180	-86.1
Operating result		1,120	906	214	23.6
Result		827	634	193	30.4
Thereof	**Reinsurance – Life**	**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	2,569	2,599	-30	-1.2
	Technical result	209	153	56	36.6
	Non-technical result	13	37	-24	-64.9
	Operating result	222	190	32	16.8
	Result	172	129	43	33.3
	Reinsurance – Property-casualty	**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	4,398	4,245	153	3.6
	Combined ratio in %	85.7	94.6	-8.9	
	Technical result	882	544	338	62.1
	Non-technical result	16	172	-156	-90.7
	Operating result	898	716	182	25.4
	Result	655	505	150	29.7

Primary insurance*		**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
Gross premiums written		4,643	4,698	-55	-1.2
Technical result		175	263	-88	-33.5
Non-technical result		48	-6	54	-
Operating result		223	257	-34	-13.2
Result		127	145	-18	-12.4
Thereof	**Primary insurance – Life**	**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	1,357	1,406	-49	-3.5
	Technical result	-21	87	-108	-
	Non-technical result	60	23	37	160.9
	Operating result	39	110	-71	-64.5
	Result	32	86	-54	-62.8
	Primary insurance – Health	**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	1,432	1,457	-25	-1.7
	Technical result	101	79	22	27.8
	Non-technical result	-50	-46	-4	-8.7
	Operating result	51	33	18	54.5
	Result	25	16	9	56.3
	Primary insurance – Property-casualty	**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	1,854	1,835	19	1.0
	Combined ratio in %	95.9	95.3	0.6	
	Technical result	95	97	-2	-2.1
	Non-technical result	38	17	21	123.5
	Operating result	133	114	19	16.7
	Result	70	43	27	62.8
Munich Health		**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
Gross premiums written		1,674	1,680	-6	-0.4
Combined ratio in %		99.4	99.5	-0.1	
Technical result		13	12	1	8.3
Non-technical result		35	20	15	75.0
Operating result		48	32	16	50.0
Result		37	5	32	640.0
Shares		**1st quarter 2013**	**1st quarter 2012**	**Change**	
				Absolute	%
Earnings per share in €		5.43	4.39	1.04	23.7
* Previous year's figures adjusted pursuant to IAS 8.					