Munich RE

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Media Information

Munich Re affirms profit guidance despite natural catastrophes – quarterly profit of €483m

Jörg Schneider, Chief Financial Officer: “This good Q3 result puts us on track to achieve our profit target for 2018 – despite a series of major natural catastrophes still continuing in the fourth quarter. The benefits of first-class primary insurance and reinsurance cover become apparent in times of climate change and growing economic risks.”

- In Q1–3, Munich Re posted a profit of €2,038m and is thus on track to achieve its profit target of €2.1–2.5bn
- High losses in Q3 owing to Typhoon Jebi and Hurricane Florence (around €300m each)
- Profit guidance for ERGO raised to at least €350m, following good Q1–3
- Robust growth in property-casualty reinsurance

Summary of the figures for Q3
The operating result increased to €1,040m (–1,732m) year on year. The other non-operating result declined to –€272m (–243m); of which –€127m (–74m) was attributable to the currency translation result.
Taxes on income totalled €235m (previous year: positive tax result of €597m). At €27,117m, equity was lower than at the beginning of the year (€28,198m), since the good result for Q1–3 and positive currency translation effects were more than offset by the dividend payment, share buy-backs and lower unrealised gains attributable to higher interest rates. Gross premiums written increased by 4.2% to €12,790m (12,279m). If exchange rates had remained the same, premium volume would have risen by 4.3% year on year.

In Q3, the annualised return on risk-adjusted capital (RORAC) amounted to 7.7%, and the return on overall equity (RoE) totalled 7.2%. For the first nine months, the annualised return on risk-adjusted capital (RORAC) amounted to 10.8%, and the return on overall equity (RoE) totalled 9.9%.

At more than 260%, the solvency ratio at the end of Q3 was much higher than at the beginning of the year (244%). The increase in Q3 was mainly due to an update of property values.

As part of its active capital management, Munich Re has repurchased shares with a volume of around €746m in 2018 so far. In addition, Munich Re plans to issue a new subordinated bond.

Reinsurance: Result of €309m
The reinsurance field of business contributed €309m to the consolidated result in Q3. The operating result totalled €589m. In Q3 2017, the extremely high losses from hurricanes Harvey, Irma and Maria had resulted in a loss of €1,465m for the quarter and in a negative operating result of –€2,029m.

Gross premiums written increased by 6.2% to €8,566m (8,065m), and a decline in premium volume in life and health reinsurance was more than compensated for by significant premium growth in property-casualty reinsurance.

Life and health reinsurance business saw a year-on-year increase in profit to €159m (59m). Premium income declined to €2,805m (3,322m) owing to terminations and the restructuring of large-volume treaties. The technical result – including the result from business that is not recognised in the technical result as a consequence of non-significant risk transfer – amounted to €88m (37m) in Q3. It was adversely affected by a high individual loss in Canada, as well as by a first transaction forming part of the sale of Ellipse, a specialist provider of group life risk protection in the UK. The technical result for the first nine months totalled €419m (271m). Munich Re is thus well on track to reach the envisaged target of at least €475m for the year as a whole.

Property-casualty reinsurance contributed €151m (–1,525m) in Q3. Premium volume saw a significant and gratifying increase to €5,761m (4,743m), benefiting from organic growth. The combined ratio for Q3 was 100.7% (160.9%) of net earned premiums. At 97.3% (117.3%), the figure for Q1–3 remained at a good level and right on course to reach the envisaged figure of 97% for the year as a whole.

Overall expenditure for major losses of over €10m each amounted to €599m (3,165m) for Q3 (Q1–3: €1,267m). These amounts, which include run-off profits and losses for major claims from previous years, are equivalent to 12.5% of net earned premiums for Q3 and 9.3% for Q1–3.

Man-made major losses amounted to €94m (200m). Major losses from natural catastrophes totalled €505m (2,965m). Losses from Hurricane Michael and Typhoon Trami are expected to impact the Q4 result with around €350m.

As claims notifications for basic losses from prior years remained appreciably below the expected level overall, Munich Re was able to release reserves in the amount of around €190m (after adjustments for commissions), corresponding to 4.0 percentage points of net earned premiums. In Q1–3, Munich Re thus released reserves totalling approximately €570m, which is equivalent to 4.2 percentage points of net earned premiums. Munich Re still aims to set the amount of provisions for newly emerging claims at the very top end of the estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

ERGO: Result of €173m

In the ERGO field of business, Munich Re generated a profit of €173m (29m) in Q3, and €359m (224m) for the period from January to the end of September. The good quarterly result was driven by a very high segment profit of €176m for ERGO Life and Health Germany, which was attributable to a one-off effect from a change in assumptions regarding profit appropriation. Despite good operating performance, the ERGO Property-casualty Germany segment posted a slight loss of €18m in Q3 on account of a lower investment result. ERGO International generated a profit of €15m – in spite of negative one-off effects owing to the optimisation of its international portfolio. ERGO's operating result climbed to €451m (297m).

The combined ratios developed very pleasingly. In the Property-casualty Germany segment, the ratio improved to 94.7% (98.1%) in Q3, and amounted to 95.3% (96.6%) for Q1–3. For the ERGO International segment, the Q3 combined ratio was 93.3% (91.5%), and the figure for Q1–3 improved to 94.7% (95.5%).

Total premium income across all lines of business rose by 0.4% to €4,427m (4,410m) in Q3 2018, and gross premiums written were up by 0.2% to €4,224m (4,214m).

Investments: Investment result of €1,311m
The Group's investment result (excluding insurance-related investments) fell to €1,311m (1,589m) in Q3. Regular income from investments rose to €1,598m (1,527m). The net balance of derivatives improved to €56m (37m). The balance of gains and losses on disposals excluding derivatives saw a significant decrease to €46m (259m), mainly owing to lower financing needs for the additional interest reserve. Munich Re also posted higher net write-downs of €219m (84m) on non-derivative investments during the past quarter compared with the same period last year.

The investment result for Q3 represents an overall return of 2.3% in relation to the average market value of the portfolio. The running yield was 2.8%, and the reinvestment yield was 2.5%. The equity-backing ratio (including equity-linked derivatives) as at 30 September 2018 remained constant at 6.7% (31 December 2017: 6.7%).

With a carrying amount of €216,950m (market value of €231,271m), total investments (excluding insurance-related investments) as at 30 September 2018 were down slightly compared with the year-end 2017 figure of €217,562m (€231,885m at market value).

The Group's asset manager is MEAG, whose assets under management as at 30 September 2018 included not only Group investments, but also a volume of €16.2bn (15.9bn) for third parties.

Outlook for 2018: Higher profit guidance for ERGO
In light of the good results for Q1–3, Munich Re has raised its profit guidance for the ERGO field of business. A profit of at least €350m is now anticipated (previously: €250–300m). In view of positive premium development in the property-casualty reinsurance segment, Munich Re has narrowed down its target range for gross premiums written in the reinsurance field of business to approximately €31bn (previously: €29–31bn). For Munich Re as a whole, the target range has been substantiated at €48–49bn (previously: €46–49bn).

Besides that, expectations for 2018 have not changed in comparison with the figures given in the Quarterly Statement for Q2 2018 that was published in August. Munich Re has not revised its forecast consolidated result in the range of €2.1–2.5bn for 2018.

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Munich Re is one of the world's leading providers of reinsurance, primary insurance and insurance-related risk solutions. The group consists of the reinsurance and ERGO business segments, as well as the capital investment company MEAG. Munich Re is globally active and operates in all lines of the insurance business. Since it was founded in 1880, Munich Re has been known for its unrivalled risk-related expertise and its sound financial position. It offers customers financial protection when faced with exceptional levels of damage – from the 1906 San Francisco earthquake to the 2017 Atlantic hurricane season. Munich Re possesses outstanding innovative strength, which enables it to also provide coverage for extraordinary risks such as rocket launches, renewable energies, cyberattacks, or pandemics. The company is playing a key role in driving forward the digital transformation of the insurance industry, and in doing so has further expanded its ability to assess risks and the range of services that it offers. Its tailor-made solutions and close proximity to its customers make Munich Re one of the world's most sought-after risk partners for businesses, institutions, and private individuals.