Munich RE

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Press release

Munich Re starts the financial year 2014 with a quarterly profit of €924m

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The first quarter of 2014 went well for Munich Re: the consolidated result for the first three months amounted to €924m (same period last year: €970m). For the current financial year as a whole, Munich Re is continuing to aim for a profit of €3bn.

CFO Jörg Schneider commented on the first quarter of 2014 as follows: "Our operating earnings are robust. In addition, we were largely spared major losses. Despite negative currency effects, we almost matched the outstanding result of the first quarter last year. After this good start, we are optimistic of achieving our profit target of €3bn for the year."

Summary of the figures for the first three months
Owing to the lower technical result, the operating result of €1,307m was below the very good figure for the same quarter last year (€1,370m). The amount posted under "other non-operating result" showed a decrease of €224m to –€114m (+110m) due to negative foreign-exchange effects. Taxes on income totalled €213m (442m). Despite share buy-backs of €0.6bn in the first quarter of 2014, equity capital rose by 4.4% to €27.4bn compared with the year-end figure of €26.2bn, mainly thanks to the high quarterly profit and the positive development of on-balance-sheet net unrealised gains on investments. Munich Re is now commencing the further share buy-back programme it announced in March: by the Annual General Meeting on 23 April 2015, shares with a volume of up to €1bn are to be repurchased.

The annualised return on risk-adjusted capital (RORAC) amounted to 15.4%, thus exceeding the target of 15%. The return on equity (RoE) totalled 13.8%. Gross premiums written fell by 2.7% to €12.9bn (13.3bn). If exchange rates had remained the same, premium volume would have risen by 1.4% year on year.

Reinsurance: Result of €750m
Reinsurance business delivered good results from January to March. The operating result amounted to €991m (1,120m). Altogether, the business field of reinsurance accounted for around €750m (828m) of the Group consolidated result.

Gross premiums written in the first three months were down 1.6% on the same period last year, decreasing to €6.9bn (7.0bn). If exchange rates had remained the same, premium volume would have risen by 4.5%. In the life reinsurance segment, gross premiums written were down by 3.6% to €2,477m (2,569m) for the first three months. Premium in property-casualty reinsurance fell slightly by 0.4% overall to €4,381m (4,398m). Premium volume benefited particularly from the conclusion of new large-volume treaties and increased shares in existing ones in Australian and Chinese motor business. Torsten Jeworrek, Munich Re's Reinsurance CEO: "Thanks to our solution competence and client proximity, such customised, large-volume transactions have become a regular part of our business." Unlike in the previous year, however, the development of the euro against other currencies had a negative effect on Munich Re's premium income.

The combined ratio in property-casualty reinsurance in the first quarter was 86.9% (85.7%) of net earned premiums. Natural catastrophe losses amounted to around €36m (24m) and man-made major losses to €3.3m (82m), representing only 0.9% and 0.1% of net earned premiums respectively. As loss reserves remain significantly above the level of losses reported, there were moderate reserve releases of close to €140m. This represents some 3.5 percentage points of the combined ratio.

With regard to the renewals at 1 April 2014, Jeworrek said: "Despite the price erosion, the profitability of our portfolio remained at a good level, above our return expectation." A premium volume of around €0.8bn was up for renewal. About a quarter of this concerned the Japanese market, and another 40% North America and global clients. At slightly over 40%, natural catastrophe business accounted for a relatively high percentage of this volume. While the premium volume of business written stayed largely stable, prices fell by around 8%.

The renewals at 1 July 2014 mainly involve treaty business in the US market and in Australia and Latin America, with a premium volume of around €2.2bn up for renewal. A high percentage of this – around 25% – will again be accounted for by natural catastrophe covers. Munich Re expects the environment to remain competitive, if the market is not affected by major loss events. But as these renewals were already affected by pressure on prices last year, Munich Re expects the price erosion for natural catastrophe covers to be less than in the renewals at 1 April 2014. Jeworrek stated: "Munich Re is maintaining its clear, profit-oriented underwriting policy. With customised solutions and a rising number of private placements, we can limit the impact of the negative market trend on our own portfolio."

Primary insurance: Result of €154m

The operating result for the first three months of 2014 was a high €282m (205m), while the consolidated result totalled €154m (117m). The ERGO Insurance Group posted a result of €138m (120m).

At 95.0% of net earned premiums, the combined ratio in property-casualty insurance was somewhat lower than in last year's first quarter (95.9%). In international property-casualty insurance, the combined ratio improved to around 94.9% (99.2%). In German business, it amounted to 95.1% (93.9%).

Total premium income across all lines of business fell by 1.4% in the first quarter of 2014 and came to €4,838m (4,908m), while gross premiums written decreased by 1.7% to €4,565m (4,643m). The main reason for the reduction was lower premium income in property-casualty insurance: in Germany mainly in commercial-industrial business, and internationally in legal protection insurance. Premium income in life and health insurance was at the same level as last year.

ERGO CEO Torsten Oletzky commented: "With this start, ERGO is well on track to meet its profit target for the year of €350–450m."

Munich Health: Result of €20m
Munich Health's operating result amounted to €25m (48m), and its consolidated result to €20m (37m).

At €1,501m (1,674m), gross premiums written fell year on year. Owing to the sale of Windsor Health Group (WHG), premiums in primary insurance decreased by 30.6% to €369m (532m). In reinsurance, the small decline of 0.9% to €1,132m (1,142m) was mainly attributable to adverse currency translation effects. If exchange rates had remained the same, with adjustment for the sale of WHG, Munich Health's gross premiums would have increased overall by 6.7% in comparison to the first quarter of 2013.

The combined ratio for January to March was 99.7% (99.4%).

Investments: Investment result of €2.1bn
At €213.4bn (223.5bn at market values), total investments at 31 March 2014 increased by €4.0bn or 1.9% owing to changes in market values. Off-balance-sheet unrealised valuation reserves rose from €8.3bn to €10.0bn since the beginning of the year. There were only small shifts between asset classes compared with year-end 2013. 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 85% at market value. Equities make up 4.5% (31.12.2013: 4.6%) and 4.2% after hedging (31.12.2013: 4.5%), while real estate accounts for 2.5% (31.12.2013: 2.5%).

For the period January to March 2014, the Group's investment result showed a small year-on-year improvement of 3.1% to €2.1bn (2.0bn). The result represents an annualised return of 3.8%.

In the write-ups and write-downs of its investments, Munich Re posted net write-downs of €127m (103m), particularly on interest-rate and equity derivatives. The main reason for the higher write-downs compared with the previous year is the fall in the market values both of equity derivatives and of interest-rate derivatives in reinsurance in the past quarter. On the other hand, the interest-rate hedging programme in primary insurance benefited from increasing market values. Net gains on the disposal of investments amounted to €512m (324m). The year-on-year improvement was due chiefly to gains realised on the disposal of interest-rate derivatives. In the past quarter, Munich Re also realised higher gains in its equity portfolio.

The Group's asset manager is MEAG, whose assets under management as at 31 March 2014 included not only Group investments but also segregated and retail funds totalling €12.8bn (12.9bn).

Outlook for 2014: Result of €3bn remains the target
The expectations for 2014 have scarcely changed compared with those presented in Munich Re's annual report for 2013, published in March. For the financial year 2014, the Group now anticipates that its gross premiums written will be around €48bn. The decrease compared with the figure of around €50bn forecast in the Group's 2013 annual report is solely attributable to adverse currency translation effects. Owing to these currency effects, Munich Re expects gross premium income of slightly over €26bn in the reinsurance segment, and a figure of some €16.5bn 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 €18bn. Gross premiums written of slightly below €5.5bn are projected for Munich Health.

For property-casualty reinsurance, Munich Re's target remains a combined ratio of around 94% of net earned premiums. The relief effect from the low major-loss expenditure over the year thus far has partially been offset by the effects of price reductions and a change in the portfolio mix, in particular an increased share of long-tail casualty business, which can still be profitable even if loss ratios are higher. In property-casualty primary insurance, the combined ratio for 2014 should be approximately 95%. The combined ratio for Munich Health is likely to be around 99%.

For 2014, Munich Re anticipates consistently low interest-rate levels and hence somewhat lower regular income from fixed-interest investments. Overall, Munich Re expects a return on investment of around 3.3%.

The consolidated result in reinsurance should total between €2.3bn and €2.5bn in 2014. For the primary insurance segment, Munich Re projects a consolidated result for 2014 in the range of €400–500m, with €350–450m for the ERGO Group. The difference between the consolidated result targets for the primary insurance segment and ERGO is mainly attributable to intra-Group business between primary insurance and reinsurance. Munich Re is targeting a profit of around €100m for Munich Health.

The Group is aiming for a consolidated result of €3bn, subject to claims experience with regard to major losses being within normal bounds and to its income statement not being impacted by severe exchange-rate or capital market developments, significant changes in fiscal parameters, or other exceptional factors. CFO Schneider stated: "With the good start to the year, we have taken a marked step towards our result target."

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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 2013, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €3.3bn on premium income of over €51bn. It operates in all lines of insurance, with almost 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 2013, ERGO posted premium income of €18bn. 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 €209bn 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 2014*

(in €m unless otherwise indicated)

		1st quarter 2014	1st quarter 2013	Change	
				Absolute	in %
Gross premiums written		**12,924**	13,284	-360	-2.7
Net earned premiums		**11,895**	12,096	-201	-1.7
Net expenses for claims and benefits		**9,991**	9,580	411	4.3
Technical result		**1,197**	1,266	-69	-5.5
Investment result		**2,070**	2,007	63	3.1
Thereof	Realised gains	**881**	686	195	28.4
	Realised losses	**369**	362	7	1.9
Non-technical result		**110**	104	6	5.8
Operating result		**1,307**	1,370	-63	-4.6
Net finance costs		**-56**	-68	12	17.6
Taxes on income		**213**	442	-229	-51.8
Consolidated profit		**924**	970	-46	-4.7
Thereof attributable to	Munich Reinsurance Company equity holders	**919**	963	-44	-4.6
	Minority interests	**5**	7	-2	-28.6
		31.3.2014	31.12.2013		
Investments		**213,438**	209,474	3,964	1.9
Equity		**27,393**	26,226	1,167	4.4
Employees		**44,247**	44,665	-418	-0.9

Reinsurance	**1st quarter 2014**	1st quarter 2013	Change	
			Absolute	in %
Gross premiums written	**6,858**	6,967	-109	-1.6
Technical result	**926**	1,091	-165	-15.1
Non-technical result	**65**	29	36	124.1
Operating result	**991**	1,120	-129	-11.5
Result	**750**	828	-78	-9.4

Thereof	**Reinsurance – Life**	**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
	Gross premiums written	**2,477**	2,569	-92	-3.6
	Technical result	**104**	209	-105	-50.2
	Non-technical result	**18**	13	5	38.5
	Operating result	**122**	222	-100	-45.0
	Result	**103**	173	-70	-40.5
	Reinsurance – Property-casualty	**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
	Gross premiums written	**4,381**	4,398	-17	-0.4
	Combined ratio in %	**86.9**	85.7	1.2	
	Technical result	**822**	882	-60	-6.8
	Non-technical result	**47**	16	31	193.8
	Operating result	**869**	898	-29	-3.2
	Result	**647**	655	-8	-1.2

Primary insurance*		**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
Gross premiums written		**4,565**	4,643	-78	-1.7
Technical result		**257**	162	95	58.6
Non-technical result		**25**	43	-18	-41.9
Operating result		**282**	205	77	37.6
Result		**154**	117	37	31.6
Thereof	**Primary insurance – Life**	**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
	Gross premiums written	**1,355**	1,357	-2	-0.1
	Technical result	**31**	-34	65	-
	Non-technical result	**58**	60	-2	-3.3
	Operating result	**89**	26	63	242.3
	Result	**44**	23	21	91.3
	Primary insurance – Health	**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
	Gross premiums written	**1,431**	1,432	-1	-0.1
	Technical result	**125**	101	24	23.8
	Non-technical result	**-59**	-50	-9	-18.0
	Operating result	**66**	51	15	29.4
	Result	**33**	25	8	32.0
	Primary insurance – Property-casualty	**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
	Gross premiums written	**1,779**	1,854	-75	-4.0
	Combined ratio in %	**95.0**	95.9	-0.9	
	Technical result	**101**	95	6	6.3
	Non-technical result	**26**	33	-7	-21.2
	Operating result	**127**	128	-1	-0.8
	Result	**77**	69	8	11.6
Munich Health		**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
Gross premiums written		**1,501**	1,674	-173	-10.3
Combined ratio in %		**99.7**	99.4	0.3	
Technical result		**14**	13	1	7.7
Non-technical result		**11**	35	-24	-68.6
Operating result		**25**	48	-23	-47.9
Result		**20**	37	-17	-45.9
Shares		**1st quarter 2014**	1st quarter 2013	Change	
				Absolute	in %
Earnings per share in €		**5.24**	5.39	-0.15	-2.8

* Previous year's figures adjusted pursuant to IAS 8.