

Quarterly Statement: Munich Re likely to surpass 2019 profit target

- Q3 profit of €865m
- High quarterly profit thanks to good operating result, high currency gains and strong investment result
- Major losses from Hurricane Dorian and Typhoon Faxai offset
- Profit guidance raised for year overall: >€2.5bn, increase in anticipated premium income: >€49bn



“We are very pleased to have achieved extremely good results for two quarters in a row now, despite costly hurricanes and typhoons. We now expect to surpass our initial profit and revenue targets overall for 2019.”

Christoph Jurecka, CFO

Summary of Q3 figures

Munich Re generated a profit of €865m (483m)¹ in Q3 2019, and a total of €2,490m for Q1–3. The operating result fell to €980m compared with €1,040m for the same quarter last year, and the other non-operating result was –€146m (–151m). The currency result amounted to €228m (–127m); exchange rates for the US dollar and a number of emerging-market currencies led to high currency gains. The tax ratio was 14.2%. Equity, at €31,578m, increased significantly compared with the beginning of the year (€26,500m), particularly thanks to the good result in Q1–3 and the higher valuation reserves for fixed-interest securities and equities. Gross premiums written increased by 7.4% to €13,743m compared with the same quarter last year (€12,790m); if exchange rates had remained unchanged, the increase would have amounted to 5.5%.

The return on equity (RoE) was 11.3% in Q3 and 11.4% in Q1–3.

¹ Previous year's figures in parentheses

The solvency ratio was approx. 230% at the end of Q3 (245% as at 31 December 2018).

In Q1–3, Munich Re bought back a total of 3.4 million of its own shares under its share buy-back programme, a volume corresponding to €0.7bn.

Reinsurance: Result of €746m

The reinsurance field of business contributed €746m (309m) to the consolidated result in Q3. The operating result amounted to €690m (589m). Gross premiums written increased by 11.9% to €9,582m (8,566m).

Life and health reinsurance business posted a pleasing profit of €282m (159m). Premium income rose to €2,989m (2,805m). The technical result, including business with non-significant risk transfer, was €218m (88m) in Q3, and totalled €387m (419m) for the first nine months of 2019. This exceptionally good quarterly result was due to contract restructuring and favourable claims experience overall. Despite the good result in Q3, there remains a risk – announced already at the end of the first half-year – that Munich Re will not reach its annual target of around €500m.

Property-casualty reinsurance contributed €464m (151m) to the consolidated result in Q3. Premium volume rose to €6,593m (5,761m). The combined ratio was 104.7% (100.7%) of net earned premium due to high major losses. The figure for Q1–3 was 97.0% (97.3%), keeping the company well on track to meet its target of 98% for the full year.

Major losses of over €10m each totalled €981m (599m) in Q3 and €1,662m (1,267m) for Q1–3. These figures include run-off profits and losses for major claims from previous years. Major-loss expenditure corresponded to 18.4% (12.5%) of net earned premium for Q3, which was significantly higher than the projected long-term average of 12%. In Q1–3, major-loss expenditure constituted 10.9% (9.3%) of net earned premium. Man-made major losses in Q3 amounted to a relatively high €404m (94m), mostly due to aviation and space as well as fire losses. Large natural catastrophes cost a total of €577m (505m), with Hurricane Dorian (~€360m) and Typhoon Faxai (~€380m) being major contributors. Typhoon Hagibis is expected to prove even more costly; its losses will be reported in Q4.

In Q3, loss reserves of around €220m were released for basic claims from prior years, which corresponds to 4.0 % of net earned premiums. In Q1–3, reserves of around €780m were released, which constitutes 5.1 % of net earned premiums. Munich Re still aims to set aside reserves for newly emerging claims at the top end of the range of reasonable estimates, so that profits from the release of a portion of these reserves are possible at a later stage.

ERGO: Result of €119m

ERGO generated a profit of €119m (173m) for Munich Re in Q3, and a total of €339m (359m) from January until the end of September. ERGO is thus currently on track to achieve its profit target of around €400m for the year.

The ERGO Property-casualty Germany segment generated a profit of €36m (–18m) in Q3, driven by a good technical result. ERGO International posted a pleasing result of €76m (15m). This was mainly due to a very good operating result; last year's figure was adversely affected in part by losses from the sale of companies outside Germany. ERGO Life and Health Germany contributed a result of €8m (176m) – last year's figure had benefited from positive one-off effects. The same applies to ERGO's operating result of €291m (451m). Adjusted for the previous year's effects, ERGO therefore showed an overall improvement.

The combined ratios are all very good: in Property/casualty Germany, the figure improved to 92.1% (94.7%) for Q3 and 92.0% (95.3%) for Q1–3. ERGO International posted a combined ratio of 91.8% (93.3%) for Q3 and 94.1% (94.7%) for Q1–3.

Overall premium income across all lines totalled €4,344m (4,427m) in Q3 2019; gross premiums written amounted to €4,161m (4,224m). The slight year-on-year decrease was mainly due to the sale of companies outside Germany; after adjusting for this effect, premium income remained stable.

Investments: Investment result of €2,131m

The Group's investment result (excluding insurance-related investments) increased to €2,131m (1,311m) in Q3, and totalled €5,772m (4,865m) in Q1–3. The good investment result for Q3 was mainly attributable to high gains on the disposal of fixed-interest securities and equities. Net gains on disposals excluding derivatives increased accordingly, to €633m (46m). Regular income from investments increased to €1,674m (1,598m). The net balance of derivatives rose to €121m (56m), driven by profits from interest-rate derivatives in both reinsurance and from ERGO's interest-rate hedging programme.

Overall, the Q3 investment result represents a return of 3.4% based on the average market value of the portfolio, and it amounted to 3.2% across Q1–3. The running yield was 2.7% and the reinvestment yield 2.1% in Q3. Munich Re expects to earn around 3% overall on its investments in 2019. The equity-backing ratio, including equity derivatives, increased to 6.1% as at 30 September 2019 (5.2% as at 31 December 2018).

Total investments (excluding insurance-related investments) as at 30 September 2019 increased compared with the 2018 year-end figure, with the carrying amount rising to €232,933m (€216,852m) and the market to value €253,521m (€231,876m).

The Group's asset manager is MEAG. In addition to the Group's investments, MEAG managed a portfolio volume of €17.1bn (15.5bn) for third parties as at 30 September 2019.

Outlook: Profit and premium targets raised

Given its positive performance through the first nine months, Munich Re expects to post an annual profit exceeding €2.5bn in 2019, based on premium volume of more than €49bn. In the reinsurance field of business, Munich Re now expects to earn a profit of over €2.1bn and premium income of over €31bn. All other expectations for 2019 remain unchanged compared with those presented in Munich Re's half-year report for 2019, published in August.

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Munich Re

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