Munich RE

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Press release

Munich Re posts €1.2bn profit for first half-year 2010

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In the second quarter of 2010, Munich Re achieved a consolidated profit of €709m (same period last year: €697m). The very pleasing investment result of €5.1bn for the first half-year made a particularly large contribution to the renewed high profit. Munich Re is maintaining its profit target of over €2bn for 2010. In primary insurance, the advertising campaign for the ERGO brand has begun in Germany.

Summing up the result for the first half-year, which was marked by exceptionally heavy burdens from major losses, CEO Nikolaus von Bomhard said: “While the technical result was again hit by large losses in the second quarter, we were able to post a very pleasing profit from investments.” At €5.1bn, the investment result for the first half-year showed a marked improvement (+42.8%) on the same period last year.

As well as the claims and result situation, von Bomhard also focused on the launch of ERGO’s advertising campaign: “Clients today acquire their information through a range of channels and make decisions on the basis of a variety of criteria. In this environment, a partnership-type relationship with clients and understanding of their needs are of great importance in the insurance industry. That is why the realignment of the ERGO brand now is so crucial.”

Von Bomhard confirmed the previous target for the year 2010 as a whole: “We aim to earn a profit of over €2bn in 2010 – that remains ambitious, but it is achievable.”

Summary of the figures for the first six months
From January to June, the Group recorded an operating result of €2,218m (2,109m), €1,448m of this in the second quarter. Compared with year-end 2009, equity rose by 6.6% to €23.7bn. The annualised return on risk-adjusted capital (RORAC) amounted to 13.2% and the return on equity (RoE) to 10.4%. Gross premiums written were up 9.3% to €22.6bn (20.7bn), with €11.0bn attributable to the second quarter. At unchanged exchange rates, premium volume would have increased by 5.8% in the first six months compared with the same period last year.

Primary insurance: ERGO launches advertising campaign for its brand
The operating result for the first six months of 2010 was up considerably on the previous year to a good €627m (276m), €376m of this in the second quarter. Due to a write-down on the goodwill of Turkish subsidiaries, the increase in net profit for the year was less pronounced. Before elimination of intra-Group transactions across segments, the consolidated result amounted to €293m (1m), with the second quarter contributing €128m. The ERGO Insurance Group posted a satisfactory consolidated result of €164m (–19m).

ERGO CEO Torsten Oletzky commented: "I am very happy with ERGO's second quarter. In this context, we were well able to absorb the impairment losses of goodwill of our Turkish subsidiary ERGO SIGORTA totalling €109m." With the write-down, ERGO is reflecting stricter reserving regulations and the difficult earnings situation on the Turkish motor insurance market. Without the impairment losses, the positive development would have been more apparent, also in the consolidated result.

In the first half-year, the combined ratio for the property-casualty segment (including legal protection insurance) amounted to 96.6% (94.7%). Natural hazard events such as Winter Storm Xynthia, flooding and the long, harsh winter – notably also outside Germany – led to the increase in the ratio. Its level in the second quarter was good at 94.5% (93.3%).

Total premium income across all lines showed growth of 7.6% from January to June, amounting to €9.9bn (9.2bn), with €4.8bn (4.4bn) from April to June.

In the life segment, total premium income rose markedly by 9% to €4.2bn (3.8bn) since January, the months of April to June accounting for €2.2bn, whilst premium in international business grew by 12.2% to €1.1bn (0.9bn) in the first half-year. Total domestic premium income amounted to €3.1bn (2.9bn) – a rise of 7.9%. German new business was 35.4% higher than the same period last year, thanks to the favourable development of single-premium business, where double-digit growth rates were achieved, especially in traditional annuity covers. Based on German new business, the annual premium equivalent (APE = regular premium income plus 10% of single-premium volume) was up 9.4% on last year at €245m (224m).

In the health insurance segment, premium income in the first six months of 2010 climbed by 5.6% to €2.8bn (2.6bn), of which €1.3bn was attributable to the second quarter. The second-quarter increase also amounted to 5.6%. Besides necessary premium adjustments at the start of the year, the conclusion of a major contract also had a positive effect.

In the property-casualty insurance segment, ERGO posted premium income totalling €3.0bn (2.8bn) in the first six months of the year, the months of April to July accounting for €1.3bn. International business grew appreciably – by 17.0% to €1.2bn (1.0bn) – partly due to favourable exchange-rate developments. German business also showed growth, with premium since the start of the year climbing by 2.2% to €1.82bn (1.78bn). ERGO increased its premium income in commercial and industrial business in particular.

Regarding the nationwide advertising campaign launched in July, Oletzky said: “The campaign with the slogan ‘To insure is to understand’ formulates a new qualitative approach to customer care – one that is open and direct. That we have received so much positive feedback since the campaign was launched – from clients, brokers and members of staff alike – shows us that we are on the right track.”

Reinsurance: Half-year profit of €1,057m despite heavy loss burden
In the first half of 2010, reinsurance business was impacted by high claims costs for major losses. The operating result fell to €1.7bn (2.0bn), of which €1.1bn derived from the second quarter. Reinsurance contributed €1,057m (1,309m) to the Group’s overall profit, €633m of this (631m) in the second quarter.

The combined ratio for the first half-year was 106.4% (97.9%) of net earned premiums and 103.8% (98.4%) for April to June. In the second quarter, 5.4 (1.5) percentage points of this related to natural catastrophes, compared with 12.8 (3.5) percentage points in the first half-year. Natural-catastrophe expenditure in the first half of 2010 thus significantly exceeded the figure for the same period last year: of the originally projected 6.5% for natural catastrophes in the annual loss ratio, around 6 percentage points were incurred in the first half of the current financial year alone, totalling approximately €900m (243m). Given the high insurance penetration in commercial and industrial business, it is not surprising that the devastating earthquake in Chile on 27 February was responsible for the largest individual loss in the first half-year. Munich Re estimates its total expenditure for this event at nearly US$ 1bn after retrocession and before tax, equivalent to approximately 10 percentage points of the loss ratio. In terms of Munich Re’s loss burden, the earthquake was the third-largest loss in its history, after the attack on the World Trade Center (2001) and Hurricane Katrina (2005).

On 20 April, the Deepwater Horizon oil rig exploded in the Gulf of Mexico, causing 11 fatalities, a high amount of property damage, and an environmental catastrophe. This catastrophe is also turning into one of the most expensive claims ever in the offshore energy sector. For Munich Re, it was the largest loss event in the second quarter: the Group is currently reckoning with expenditure in the low three-digit million euro range. At approximately €60m, Munich Re’s share of the property loss from the sinking of the oil rig is relatively easy to quantify. By contrast, the liability losses cannot yet be gauged with reasonable certainty, since issues need to be clarified regarding the cause of the disaster – a complex process, especially given the large number of parties involved. Munich Re has made adequate provision for this. Torsten Jeworrek, Munich Re's Reinsurance CEO, stressed: “Painful as the consequences of Deepwater Horizon are, it is now essential to reassess the issue of adequate insurance covers and retentions for large engineering projects and the liability risks involved in such projects. This should also have positive effects on the future development of pricing.”

Premium income grew by 6.0% in the first six months year on year and totalled €11.6bn (10.9bn), of which €5.6bn (5.5bn) was attributable to the second quarter. Adjusted to eliminate the effects of changes in exchange rates, premium volume would have increased by 1.5% in the first six months. The US subsidiary

Hartford Steam Boiler, which was acquired in 2009, continued to have a positive effect on premium volume, generating premiums of €329m in the first half of the year. Gross premiums written in the life reinsurance segment showed an increase of 26.0% to €3.9bn (3.1bn), boosted by large-volume quota share deals.

As at 1 July 2010, business with a volume of nearly €1.7bn was renewed in parts of the US market, Australia and Latin America. This represents around 16% of Munich Re's total treaty business up for renewal. The markets' sideways trend continued in this renewal season: the price level in Munich Re's renewed portfolio remained stable (–0.1%) with the exception of markets with recent claims experience. Altogether, compared with last year, the volume of business renewed rose by 2.8% (around €46m) to approximately €1.7bn. Jeworrek's preliminary conclusion for the 2010 renewals: "The negotiations this year were not easy, but thanks to our financial strength and our expertise, what we achieved was impressive: We have succeeded in maintaining the profitability of our portfolio at virtually the same level."

Munich Health: Premiums written rise to €2.6bn

As from this year, Munich Re is reporting Munich Health as a separate segment under IFRS 8 for the first time. Munich Health brings together under one roof Munich Re's global healthcare insurance and reinsurance know-how, including the related services. Munich Health's business was previously disclosed in the segments "life and health reinsurance" and "health primary insurance". The figures for the previous year have been adjusted accordingly.

Munich Health generated a stable operating result of €60m (56m) (+7.1%), contributing €16m (–8m) to the Group's overall profit, €27m of this in the second quarter. In its current one- to two-year consolidation phase, Munich Health intends to increase the profitability of its existing activities and continue to grow organically.

The combined ratio was 100.4% (98.7%) for the period January to June 2010 and 99.5% (97.8%) for April to June. This ratio only relates to short-term health business, and not to business conducted like life insurance.

Premium income climbed markedly by 40.3% to €2,555m (1,821m) in the first half-year, with the second quarter contributing €1,303m (1,052m). International health primary insurance business showed an increase of 6.4% to €965m (907m), with premium growth particularly in Spain and Belgium. Sterling Life's premium income was down because the US regulatory framework has been tightened for the senior segment on which it focuses. The growth in reinsurance premium income to €1,590m (914m) is essentially due to the conclusion of large-volume quota share treaties which clients are using for capital relief in the wake of the financial crisis. If exchange rates had remained the same, premium volume would have been 31.9% higher than in the first six months of 2009.

Investments: Result of €5.1bn up significantly on the previous year

At €192.5bn, total investments at 30 June 2010 increased by €10.3bn or 5.6% compared with year-end 2009, chiefly due to currency translation effects and the decline in risk-free interest rates.

For the period January to June 2010, the Group's investment result showed a major year-on-year improvement of 42.8% to €5.1bn (3.6bn). Annualised, the result represents a return of 5.3% in relation to the average market value of the portfolio. The equity-backing ratio was 2.5% (31 December 2009: 2.8%), based on the Group's total investments at market value, including hedging instruments. The portfolio continues to focus on fixed-interest investments, €163bn of which are fixed-interest securities and loans. Just over 46% of this portfolio (which includes short-term items) is in government bonds or similar instruments for which public institutions are liable, Approximately 33% and 16% of these were apportionable to German and US issuers respectively, and 14% to Greece, Portugal, Ireland, Spain and Italy.

The overall balance of write-ups and write-downs plus net gains on disposals amounted to a very pleasing €1,351m (–28m) for the first half-year. Here the Group benefited from its conservative but nevertheless active asset management. The high contributions to profits stem from gains realised on careful portfolio reallocations, especially from the disposal of equities and government and corporate bonds, and from the disposal and revaluation of derivative financial instruments. CFO Jörg Schneider was very satisfied: "The investment results in the first half-year far exceeded our previous expectations. Our good asset-liability management at the Group's insurance companies and our investment professionals at MEAG prove that it is still possible to generate a very good investment result even in a difficult low-interest-rate environment with modest risks."

The Group's asset manager is MEAG MUNICH ERGO AssetManagement GmbH. In addition to Group investments, MEAG had segregated and retail funds totalling €8.1bn (7.9bn) under management as at 30 June 2010.

Outlook for 2010: Profit target of over €2bn continues to stand
If exchange rates remain stable and the economy-related losses in premium income for primary insurers and their impact on reinsurance covers keep within reasonable bounds or can be offset by additional business, the Group anticipates that its gross premium volume in the reinsurance segment will range between €23bn and €24bn (previous forecast: €22–23bn). For primary insurance (excluding health primary insurance business written outside Germany by Munich Health) gross premiums of €17–18bn are expected. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should be in the region of €19bn. Around €5bn is expected for Munich Health (previous forecast: €4.5bn). Overall, subject to the preconditions described, Munich Re now expects its gross premiums written in primary insurance, reinsurance and Munich Health in the current financial year 2010 (total consolidated premium) to be between €44bn and €46bn (previously expected: €43–45bn).

Munich Re envisages a combined ratio of around 97% of net earned premiums over the market cycle as a whole. However, the latter figure is likely to be exceeded significantly in 2010 given the earthquake in Chile, the consequences of the Deepwater Horizon disaster and the accumulation of other major losses. In addition, the cyclone season has begun and will last until the end of November. Munich Re's geoscientists anticipate that the frequency of cyclones will tend to be higher in 2010, since there will be no El Niño effect this year and the Atlantic's surface water temperatures have reached record levels. In property-casualty primary insurance, the 2010 goal is another combined ratio within the long-term target of 95%.

In its investments, Munich Re does not expect any significant further increases in capital market interest rates for 2010, so regular income from its largely fixed-interest-based portfolio is likely to be comparatively reduced. Due to the pleasing investment result in the first half-year, the Group is now reckoning with a return on investment (RoI) of just over 4% for 2010, even if there are no changes in the capital markets in the second half of 2010. Munich Re is still aiming at a consolidated result of over €2bn for 2010. Following the major losses in the first half-year, this target remains ambitious, but given normal loss experience and continued strong investment results it is certainly achievable. Munich Re continues to assess its medium- to long-term business opportunities as positive.

In May 2010, Munich Re launched another share buy-back programme: before the next Annual General Meeting on 20 April 2011, shares with a volume of up to €1bn are to be repurchased. The full execution of this share buy-back programme remains subject to developments in the capital markets and the general economic environment. By the end of July 2010, Munich Re had repurchased a total of 2.0 million shares with a volume of €207m.

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Key figures (IFRS) for the Group in the first half of 2010*
(in €m unless otherwise indicated)

	1st half-year 2010	1st half-year 2009	Change absolute	Change %
Gross premiums written	**22,613**	20,693	1,920	9.3
Net earned premiums	**21,078**	19,129	1,949	10.2
Net expenses for claims and benefits	**18,552**	16,014	2,538	15.8
Technical result	**677**	1,018	-341	-33.5
Investment result,	**5,078**	3,555	1,523	42.8
Thereof realised gains	**2,162**	2,301	-139	-6.0
realised losses	**1,115**	1,662	-547	-32.9
Non-technical result	**1,541**	1,091	450	41.2
Operating result	**2,218**	2,109	109	5.2
Finance costs	**145**	158	-13	-8.2
Taxes on income	**445**	568	-123	-21.7
Consolidated profit	1,194	1,134	60	5.3
Thereof attributable				
to Munich Reinsurance Company equity holders	1,191	1,118	73	6.5
to minority interests	3	16	-13	-81.3
	30.6.2010	31.12.2009		
Investments	**192,462**	182,175	10,287	5.6
Equity	**23,749**	22,278	1,471	6.6
Employees	**47,087**	47,249	-162	-0.3

REINSURANCE**	**1st half-year 2010**	1st half-year 2009	Change absolute	Change %
Gross premiums written	**11,567**	10,909	658	6.0
Thereof Life	**3,891**	3,089	802	26.0
Property-casualty	**7,676**	7,820	-144	-1.8
Combined ratio in %	**106.4**	97.9	8.5	
Technical result	**448**	598	-150	-25.1
Non-technical result	**1,249**	1,358	-109	-8.0
Operating result	**1,697**	1,956	-259	-13.2
Result	**1,057**	1,309	-252	-19.3

PRIMARY INSURANCE**	**1st half-year 2010**	1st half-year 2009	Change absolute	Change %
Gross premiums written	**8,866**	8,419	447	5.3
Combined ratio in %	**96.6**	94.7	1.9	
Technical result	**255**	498	-243	-48.8
Non-technical result	**372**	-222	594	-
Operating result	**627**	276	351	127.2
Result	**293**	1	292	>1,000.0

MUNICH HEALTH**	**1st half-year 2010**	1st half-year 2009	Change	
			absolute	%
Gross premiums written	**2,555**	1,821	734	40.3
Combined ratio in %	**100.4**	98.7	1.7	
Technical result	**17**	31	-14	-45.2
Non-technical result	**43**	25	18	72.0
Operating result	**60**	56	4	7.1
Result	**16**	-8	24	-

SHARES	**1st half-year 2010**	1st half-year 2009	Change	
Earnings per share in €	**6.33**	5.73	0.60	10.5

* Previous year's figures adjusted owing to first-time recognition of Munich Health as a separate segment and to IFRS 3.62 and IAS 8.

** Before elimination of intra-Group transactions across segments.

Key figures (IFRS) for the Group in the second quarter of 2010*
(in €m unless otherwise indicated)

	2nd quarter 2010	2nd quarter 2009	Change absolute	Change %
Gross premiums written	**10,956**	10,326	630	6.1
Net earned premiums	**10,925**	10,132	793	7.8
Net expenses for claims and benefits	**9,158**	8,659	499	5.8
Technical result	**539**	478	61	12.8
Investment result,	**2,618**	2,188	430	19.7
Thereof realised gains	**1,079**	897	182	20.3
realised losses	**687**	617	70	11.3
Non-technical result	**909**	895	14	1.6
Operating result	**1,448**	1,373	75	5.5
Finance costs	**76**	76	-	-
Taxes on income	**372**	312	60	19.2
Consolidated profit	709	697	12	1.7
Thereof attributable				
to Munich Reinsurance Company equity holders	709	685	24	3.5
to minority interests	-	12	-12	-100.0

REINSURANCE**	**2nd quarter 2010**	2nd quarter 2009	Change absolute	Change %
Gross premiums written	**5,639**	5,505	134	2.4
Thereof Life	**2,048**	1,731	317	18.3
Property-casualty	**3,591**	3,774	-183	-4.8
Combined ratio in %	**103.8**	98.4	5.4	
Technical result	**340**	278	62	22.3
Non-technical result	**752**	821	-69	-8.4
Operating result	**1,092**	1,099	-7	-0.6
Result	**633**	631	2	0.3

PRIMARY INSURANCE**	**2nd quarter 2010**	2nd quarter 2009	Change absolute	Change %
Gross premiums written	**4,152**	3,951	201	5.1
Combined ratio in %	**94.5**	93.3	1.2	
Technical result	**204**	254	-50	-19.7
Non-technical result	**172**	-41	213	-
Operating result	**376**	213	163	76.5
Result	**128**	60	68	113.3

MUNICH HEALTH**	**2nd quarter 2010**	2nd quarter 2009	Change	
			absolute	%
Gross premiums written	**1,303**	1,052	251	23.9
Combined ratio in %	**99.5**	97.8	1.7	
Technical result	**22**	26	-4	-15.4
Non-technical result	**34**	27	7	25.9
Operating result	**56**	53	3	5.7
Result	**27**	-4	31	-
SHARES	**2nd quarter 2010**	2nd quarter 2009	Change	
Earnings per share in €	**3.80**	3.51	0.29	8.3

* Previous year's figures adjusted owing to first-time recognition of Munich Health as a separate segment and to IFRS 3.62 and IAS 8.

** Before elimination of intra-Group transactions across segments.