Munich RE

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Press release

Munich Re increases profit guidance for 2012 to around €3bn

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Munich Re expects a higher consolidated result for 2012 than previously envisaged: following a profit of €2.7bn for the first nine months of 2012 (same period last year: €80m), Munich Re is now looking at a consolidated profit of around €3bn for the year as a whole, providing the burdens from Hurricane Sandy and other potential major loss events remain within the currently expectable range.

In the third quarter of 2012, Munich Re posted a consolidated profit of €1,136m (same period last year: €290m). Alongside a continued positive performance in underwriting, this result was also driven by a high investment result.

Commenting on the business performance for first nine months, CFO Jörg Schneider said: "The result for the first three quarters is more than pleasing. Despite Hurricane Sandy, we are very optimistic of realising a profit in the region of €3bn for 2012." At the beginning of the year, Munich Re had envisaged a profit of around €2.5bn for 2012, but had indicated when it published its half-year results in August that there was the prospect of this figure being slightly surpassed. Schneider continued: "Our forward-looking risk management, prudent investment policy and profit-oriented underwriting approach are proving particularly effective in this difficult macroeconomic climate."

Following unusually low claims costs for natural catastrophes in the first nine months of 2012, a serious natural catastrophe occurred in the fourth quarter in the form of the exceptionally wide-ranging Hurricane Sandy. Besides the great human suffering it caused, the disaster gave rise to substantial insured losses of a still unquantifiable amount. Schneider explained: "The high number of individual losses and the vast extent of the storm make loss estimation very difficult. Based on a provisional estimate characterised by a high degree of uncertainty, we anticipate Munich Re's share of the losses to be in the mid three-digit million euro range."

Summary of the figures for the first nine months
From January to September, the Group recorded an operating result of €3,738m (402m). In the third quarter, it posted an operating result of €1,434m. Compared with year-end 2011, equity rose by 16.4% to €27.1bn. The annualised return on risk-adjusted capital (RORAC) amounted to 14.9% and the return on equity

(RoE) to 14.5%. Gross premiums written were up 5.3% to €39.1bn (37.2bn), with €13.2bn attributable to the third quarter. If exchange rates had remained the same, premium volume would have been 0.6% higher than in the first three quarters of the previous year.

Primary insurance: Nine-month result of €333m

The ERGO Insurance Group, in which Munich Re concentrates its primary insurance business, posted an increase of 8.2% in its operating result to €670m (619m) for the first three quarters, €120m of this in the third quarter. The consolidated result for the first nine months totalled €333m (223m), of which €38m derived from the third quarter. ERGO's profit was significantly above the previous year's level at €321m (260m), with €66m stemming from the period July to September.

Total premium income across all lines showed growth of 3.6% to €13.9bn (14.4bn) for the period from January to September, with €4.4bn (4.6bn) in the third quarter. Gross premiums written in the first three quarters decreased to €12.9bn (13.2bn).

The combined ratio for the property-casualty segment (including legal protection insurance) amounted to 96.9% (98.2%) for the period January to September. For German business, the combined ratio was 95.6% (94.4%), mainly owing to higher expenses for major losses. In international business, the figure was significantly improved at 99.1% (103.9%). In Poland, the combined ratio – at 93.8% (99.4%) – was again pleasing. In Turkey, the consolidation measures started to bear fruit, with the combined ratio improving to 122.8% (127.8%).

"We are satisfied with the result for the third quarter in this very challenging market environment. The significant result improvement in our international business is especially gratifying", said Torsten Oletzky, CEO of the ERGO Insurance Group.

Reinsurance: High profit of €2.3bn for the first nine months

The operating result totalled €2,909m (–368m), of which €1,207m (665m) derived from the third quarter. Altogether, the reinsurance field of business accounted for around €2,329m (–168m) of the Group consolidated result, the third quarter bringing in €1,036m (308m).

Premium income grew strongly by 8.1% in the first nine months year on year and totalled €21.2bn (19.6bn), with €7.5bn (6.5bn) accounted for by the third quarter. If exchange rates had remained the same, premium volume for the first nine months would have risen by 0.7% year on year. In the life reinsurance segment, gross premiums written rose by 15.3% to €8.2bn (7.1bn) in the first three quarters. Large-volume reinsurance treaties concluded in recent years primarily for the purpose of capital relief continued to contribute to this pleasing trend. In property-casualty reinsurance, rate increases for natural catastrophe covers and rising premium income owing to new business in agricultural reinsurance had a particularly positive effect. Premiums grew overall by 4.1% to €13.0bn (12.5bn).

As in the first half of the year, the burden from major losses was below average in the third quarter. Net major-loss expenditure before tax amounted to €1,054m (3,933m) for the period from January to September and €337m (291m) for the third quarter. Munich Re continues to anticipate a net burden of approximately €160m (after sliding-scale commission) from losses under crop failure covers as a consequence of the persistent drought in large agricultural areas in the USA. Munich Re had already posted provisions for the expected claims notifications in the second quarter.

At the end of August, Hurricane Isaac hit the US Gulf Coast with heavy rain and gale-force gusts, costing Munich Re around €80m in total. The loss estimate for the earthquakes that caused substantial damage in northern Italy in the second quarter has been adjusted from the original assessment of €79m to €150m. On balance, Munich Re was able to reduce provisions for losses from prior accident years by nearly €100m: whereas provisions of around €300m were released for basic losses especially in aviation and property business, there was a run-off loss of approximately €200m for major losses.

Altogether, the combined ratio for the first nine months totalled 93.6% of net earned premiums (same period last year: 118.1%). The figure for the third quarter was 89.4% (87.3%).

Looking ahead to the renewals of reinsurance treaties at 1 January 2013, Munich Re's Reinsurance CEO Torsten Jeworrek said: "Currently, there is still sufficient capacity available in the reinsurance markets. We estimate that prices, terms and conditions will at least remain stable in the forthcoming renewals in most markets. In particular, the low interest-rate level needs to be considered in pricing." Munich Re considers it possible that the current capital market environment will result in an increase in prices for long-tail business in future, especially in the casualty sector. Jeworrek continued: "It is also foreseeable that Hurricane Sandy will lead to a further rise in prices in US property business and for non-proportional natural catastrophe covers."

Munich Health: Profit of €64m for the first nine months

In the first nine months of the year, Munich Health posted a 20.2% increase in its operating result to €131m (109m), of which €96m (44m) was attributable to the third quarter. Munich Health thus contributed €64m (17m) to the Group's overall profit, €58m of this in the third quarter. Primary insurance business in Spain and in the MENA region once again performed very positively. Nevertheless, there were burdens from US Medicare Advantage business (private health insurance for seniors), which will probably also have an impact on the fourth-quarter result.

Gross premium income in the first three quarters was significantly up (14.1%) on the same period last year, rising to €5,028m (4,406m). International health primary insurance business showed a strong increase of 14.3% to €1,685m (1,474m), stemming especially from the US primary insurance companies. The growth in reinsurance premium income to €3,343m (2,932m) was attributable to large treaties concluded by clients for capital relief.

The combined ratio was 99.2% for the first three quarters of 2012, as in the previous year, and 96.4% (97.8%) for the third quarter.

Investments: Result of €6.3bn for the first nine months
Investments at 30 September 2012 showed an increase of €11.4bn or 5.6% compared with year-end 2011, totalling €213.1bn, or €222.4bn (207.1bn) at market values. This increase was partly due to the lower interest-rate level in the second and third quarters, which had a positive effect on the market values of fixed-interest securities. Besides this, the market value of the portfolio benefited from new investments due to a higher volume of business. Since the turn of the year, unrealised valuation reserves have risen from €11.2bn to €20.1bn, or by 9.0% (5.4%) in relation to the market value of all investments. 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 87% at market value. Equities accounted for 3.2% (31 December 2011: 3.2%) or 2.9% (2.0%) after hedging, and real estate for 2.4% (31 December 2011: 2.6%). Munich Re further reduced its portfolio of southern European government bonds.

For the period January to September 2012, the Group's investment result showed a major year-on-year improvement of 30.2% to €6.3bn (4.8bn). At €451m, a large share of this was due to earnings from unit-linked life insurance. The result represents an annualised return of 3.9%.

At €5.8bn, regular income decreased slightly in the first nine months of 2012 compared with the same period last year. The running yield declined from 4.1% to 3.6%, owing to falling returns on reinvestment after shifts into what continue to be very safe investments and to growth in the portfolio. The overall balance of write-ups and write-downs plus net gains on disposal amounted to 428m (–444m) for the first nine months. Write-ups were primarily on interest-rate derivatives due to a fall in interest-rate levels. Net gains on the disposal of investments totalled €525m (1,196m). A large portion of this came from switching investments in government bonds, covered bonds and corporate bonds, and from the realisation of gains on equities. However, the Group posted losses on the disposal of equity derivatives with which Munich Re hedges its equity portfolio against price setbacks.

CFO Jörg Schneider: "The good mix of our investment portfolio protects us against crisis scenarios; we are sticking to our balanced investment strategy." In the third quarter, the Group intensified its diversification with investments in government bonds of emerging countries, British covered bonds and corporate bonds. In addition, it expanded its investments in equities, renewable energy facilities and infrastructure. Schneider emphasised that Munich Re had so far positioned itself correctly with relatively long durations: "This has enabled us to at least partly cushion negative effects in the current low-interest-rate environment," he said.

The Group's asset manager is MEAG, whose assets under management as at 30 September 2012 included not only Group investments but also segregated and retail funds totalling €11.1bn (10.4bn).

Outlook for 2012: Profit expectation of around €3bn

Based on exchange rates remaining stable, the Group now anticipates that for the 2012 financial year its gross premiums written will be around €52bn. Gross premium income of some €28bn is expected in the reinsurance segment, and a figure of just over €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 over €18.5bn. Gross premiums written of well over €6.5bn are projected for Munich Health.

For property-casualty reinsurance, Munich Re's target is a combined ratio of around 96% of net earned premiums over the market and interest-rate cycle as a whole. In the first nine months, it bettered this mark significantly thanks to a low burden from major losses. In the fourth quarter, a reduction in provisions for prior accident years may be possible. Munich Re thus anticipates an overall combined ratio for 2012 that is well below the 96% mark, despite the burdens from Hurricane Sandy.

Munich Re envisages a combined ratio of just over 97% in property-casualty primary insurance.

For the remainder of 2012, Munich Re does not foresee any rapid increase in capital-market interest rates. The investment return is likely to be slightly over 3.5%.

The consolidated result in reinsurance should be in the range of €2.7bn in 2012. Munich Re is continuing to target a consolidated result of around €450m for the primary insurance segment and €400m for the ERGO Group, not yet taking into account restructuring expenses that may be accounted for in the fourth quarter of 2012 in connection with the sales reorganisation programme. Munich Re's projection for Munich Health's consolidated result is slightly above €50m.

Based on the gratifying profit for the first three quarters, the annual result for Munich Re (Group) is likely to be better than previously anticipated. CFO Jörg Schneider: "At the beginning of the year, we envisaged a profit in the range of €2.5bn for the whole of 2012. We are now much more optimistic with a profit guidance of around €3bn for the Group." Stating that two months before the end of the financial year was too early to make a definite announcement regarding the dividend for 2012, Schneider nevertheless declared: "If the annual result is good and the general situation allows, we intend to pay a dividend that is higher than the €6.25 paid for the previous financial year. In that case, our capitalisation will still remain strong enough for us to be able to take advantage of profitable growth opportunities at any time."

As always, the outlook is subject to actual claims experience and the impact of severe currency or capital market developments on the income statement in the weeks remaining until the end of the year.

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Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. Munich Re creates value for clients, shareholders and staff alike. In the financial year 2011, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €0.71bn on premium income of around €50bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €27bn 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 2011, ERGO posted premium income of €20bn. 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 €202bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Disclaimer
This press release contains forward-looking statements that are based on current assumptions and forecasts of the management of Munich Re. Known and unknown risks, uncertainties and other factors could lead to material differences between the forward-looking statements given here and the actual development, in particular the results, financial situation and performance of our Company. The Company assumes no liability to update these forward-looking statements or to conform them to future events or developments.

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Key figures (IFRS) for the Group in the first nine months of 2012* (in €m unless otherwise indicated)

	Q1–Q3 2012	Q1–Q3 2011	Change Absolute	Change %
Gross premiums written	39,133	37,166	1,967	5.3
Net earned premiums	37,645	35,041	2,604	7.4
Net expenses for claims and benefits	30,878	30,905	-27	-0.1
Technical result	2,832	-212	3,044	-
Investment result	6,271	4,815	1,456	30.2
Thereof realised capital gains	3,002	4,042	-1,040	-25.7
realised losses	2,477	2,846	-369	-13.0
Non-technical result	906	614	292	47.6
Operating result	3,738	402	3,336	829.9
Net finance costs	-222	-214	-8	-3.7
Taxes on income	525	-408	933	-
Consolidated profit	2,730	80	2,650	>1,000.0
Thereof attributable to				
Munich Reinsurance Company equity holders	2,718	75	2,643	>1,000.0
minority interests	12	5	7	140.0
	30.09.2012	31.12.2011		
Investments (carrying amounts)	213,077	201,707	11,370	5.6
Equity	27,124	23,309	3,815	16.4
Employees	46,374	47,206	-832	-1.8

REINSURANCE	**Q1–Q3 2012**	Q1–Q3 2011	Change Absolute	Change %
Gross premiums written	21,186	19,593	1,593	8.1
Thereof life	8,191	7,104	1,087	15.3
property-casualty	12,995	12,489	506	4.1
Combined ratio in %	93.6	118.1**	-24.5	
Technical result	2,143	-766	2,909	-
Non-technical result	766	398	368	92.5
Operating result	2,909	-368	3,277	-
Result	2,329	-168	2,497	-

PRIMARY INSURANCE	**Q1–Q3 2012**	Q1–Q3 2011	Change Absolute	Change %
Gross premiums written	12,919	13,167	-248	-1.9
Combined ratio in %	96.9	98.2	-1.3	
Technical result	615	501	114	22.8
Non-technical result	55	118	-63	-53.4
Operating result	670	619	51	8.2
Result	333	223	110	49.3

MUNICH HEALTH	**Q1–Q3 2012**	Q1–Q3 2011	Change	
			Absolute	%
Gross premiums written	5,028	4,406	622	14.1
Combined ratio in %	99.2	99.2	-	
Technical result	74	53	21	39.6
Non-technical result	57	56	1	1.8
Operating result	131	109	22	20.2
Result	64	17	47	276.5

SHARES	**Q1–Q3 2012**	Q1–Q3 2011	Change	
Earnings per share in €	15.30	0.42	14.88	>1,000.0

* Previous year's figures adjusted due to changes in the calculation of technical interest rate and the changeover to segment reporting without a consolidation column.

** Before risk transfer to the capital markets; 116.2% after risk transfer.

Key figures (IFRS) for the Group in the third quarter of 2012* (in €m unless otherwise indicated)

	3rd quarter 2012	3rd quarter 2011	Change Absolute	Change %
Gross premiums written	13,236	12,217	1,019	8.3
Net earned premiums	12,758	11,796	962	8.2
Net expenses for claims and benefits	10,350	9,396	954	10.2
Technical result	1,129	1,054	75	7.1
Investment result	2,221	1,347	874	64.9
Thereof realised capital gains	1,027	1,901	-874	-46.0
realised losses	882	1,345	-463	-34.4
Non-technical result	305	-215	520	-
Operating result	1,434	839	595	70.9
Net finance costs	-77	-76	-1	-1.3
Taxes on income	202	62	140	225.8
Consolidated profit	1,136	290	846	291.7
Thereof attributable to				
Munich Reinsurance Company equity holders	1,130	286	844	295.1
minority interests	6	4	2	50.0

REINSURANCE	**3rd quarter 2012**	3rd quarter 2011	Change Absolute	Change %
Gross premiums written	7,495	6,524	971	14.9
Thereof life	2,897	2,316	581	25.1
property-casualty	4,598	4,208	390	9.3
Combined ratio in %	89.4	87.3	2.1	
Technical result	899	880	19	2.2
Non-technical result	308	-215	523	-
Operating result	1,207	665	542	81.5
Result	1,036	308	728	236.4

PRIMARY INSURANCE	**3rd quarter 2012**	3rd quarter 2011	Change Absolute	Change %
Gross premiums written	4,061	4,246	-185	-4.4
Combined ratio in %	100.3	102.7	-2.4	
Technical result	157	142	15	10.6
Non-technical result	-37	-36	-1	-2.8
Operating result	120	106	14	13.2
Result	38	-14	52	-

MUNICH HEALTH	**3rd quarter 2012**	3rd quarter 2011	Change	
			Absolute	%
Gross premiums written	1,680	1,447	233	16.1
Combined ratio in %	96.4	97.8	-1.4	
Technical result	73	32	41	128.1
Non-technical result	23	12	11	91.7
Operating result	96	44	52	118.2
Result	58	-18	76	-
SHARES	**3rd quarter 2012**	3rd quarter 2011	Change	
Earnings per share in €	6.36	1.61	4.75	295.0

* Previous year's figures adjusted due to changes in the calculation of technical interest rate and the changeover to segment reporting without a consolidation column.