Media Release

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Munich Re on track with multi-year ambition

- High quarterly result of €993m due to low major losses and reserve releases for basic losses from prior years
- July renewals bring new growth (+8.9%) and slightly increasing risk-adjusted prices (+0.5%)
- Profit guidance for 2019 unchanged at around €2.5bn

"We are delighted to have generated our highest quarterly result in four years. And we are confident that we will reach our profit guidance of €2.5bn for 2019 and €2.8bn for 2020 as set out in our multi-year ambition for 2018–2020. At the halfway stage of this programme, Munich Re is both strategically and financially on track."

Joachim Wenning, Chairman of the Board of Management

Summary of the Q2 figures

Munich Re generated a profit of €993m (728m)[1] in the second quarter of 2019. The operating result increased year on year to €1,569m (997m). The other non-operating result amounted to –€204m (–192m); the currency result was €27m (41m). Tax on income totalled €344m (68m). At €29,543m, equity was up on the start of the year (€26,500m) – as the dividend payout and share buy-backs were overcompensated for by the good result in the first half-year and the increase in valuation reserves on fixed-interest securities and equities. Gross premiums written improved year on year by 5.5% to €11,799m (11,188m). If exchange rates had remained unchanged, the increase would have been 3.5%.

The annualised return on risk-adjusted capital (RORAC) in Q2 amounted to 15.5%, and was 12.7% for the first half-year. The overall return on equity (RoE) totalled 13.6% for Q2, and 11.5% for the first half-year.

The solvency ratio was approximately 245% at the end of Q2 and thus stable versus the beginning of the year (244%).

[1] Figures in brackets = Previous-year figures

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In the first half-year 2019, Munich Re repurchased a total of 1.9 million shares worth €0.4bn as part of its share buy-back programme.

Reinsurance: Result of €858m

The reinsurance field of business contributed €858m (620m) to the consolidated result in Q2. The operating result amounted to €1,162m (701m). Gross premiums written increased by 9.4% to €7,583m (6,932m).

Life and health reinsurance business generated a profit of €154m (285m); premium income rose to €2,740m (2,309m). The technical result, including the result from business with non-significant risk transfer, totalled €64m (176m) in Q2, and €169m (331m) for the first half-year. This figure was impacted by a weak result in Australia owing to write-offs resulting from a change in legislation and adverse claims experience in disability business. Higher earnings volatility is expected in the upcoming quarters. Munich Re is currently working together with its clients to rehabilitate the existing portfolio. The technical result also saw a negative impact from the – now largely completed – shortening of durations in the Canadian asset portfolio, even though this effect was more than compensated for by investment profits. Depending on claims experience in the remainder of the year and the outcome of the annual reserve review, there is a substantial risk that Munich Re will fall short of the €500m guidance for 2019.

In Q2, property-casualty reinsurance business contributed €704m (335m) to the result. Premium volume rose to €4,842m (4,623m), due in particular to the positive impact of currency effects. The combined ratio was low at 87.7% (102.0%) of net earned premium. In the first half-year, it was 92.8% (95.5%), which is on track to achieve the Munich Re target level of around 98% for the full year.

Total expenditure for major losses in excess of €10m amounted to €202m (605m) for Q2, and €680m (667m) for the first six months of the year. These figures include run-off profits and losses for major claims from previous years, including additional expenditure of around €80m for losses from Typhoon Jebi. Major-loss expenditure was equivalent to 4.1% (13.3%) of net earned premium for Q2, and was thus considerably below the long-term average value of 12%. In the first half-year, major-loss expenditure was 6.9% (7.5%) of net earned premium. Man-made major losses amounted to €47m (501m) in Q2. Major-loss expenditure from natural catastrophes amounted to €155m (104m).

It was possible to release reserves of about €360m for basic losses from prior years in Q2; this equates to 7.3 percentage points of net earned premium. The releases were thus significantly above the full-year forecast of 4.0 percentage points, and were attributable in part to the successful conclusion of portfolio transactions and the release of corresponding reserves. A further contributing factor was the very favourable claims development in a number of classes, thanks to which a share of the conservative reserving could be released without diminishing the overall strength of reserves. Over the second half of the year, Munich Re expects releases closer to the 4.0 percentage-point guidance, depending on the year-end reserve review. Reserves amounting to €560m were released in the first half-year, equating to 5.7 percentage points of net earned premium. Munich Re also continues to seek 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.

In the renewals at 1 July 2019, the recently observed market recovery continued. In particular, there was a marked improvement in prices for reinsurance cover in the markets affected by natural catastrophes. However, there were also increases in loss expectations and stable renewals in unaffected regions and markets. The risk-adjusted price increase for the entire July renewals, i.e. excluding price increases which were offset by higher claims expectations, was 0.5%. Premium volume was up by 8.9% to €3.5bn. Munich Re was thus able to continue its growth, and in particular to generate attractive new business in the Americas.

ERGO: Result of €135m

In the ERGO field of business, Munich Re generated a profit of €135m (108m) in Q2, and €220m (185m) from January to the end of June. The good quarterly result was supported by a high segment result of €72m (–15m) in ERGO Life and Health Germany. A good investment result and changed assumptions on policyholder participations had a positive effect. The ERGO Property-casualty Germany segment generated a profit of €55m (57m) in Q2, thanks to a high technical result. Despite Storm Jörn, major-loss expenditure was lower than expected. The ERGO International segment was strongly hit by disposal losses in connection with the sale of businesses outside Germany, and profits fell to €8m (66m). ERGO's operating result grew to €407m (296m).

The development of the combined ratios remained pleasing. In the Property-casualty Germany segment, the combined ratio improved to 86.2% (90.3%) in Q2, and 91.9% (95.6%) for the first half-year. In the ERGO International segment, the ratio fell slightly to 95.0% (95.6%) in Q2, and to 95.2% (95.4%) for the first half-year.

Overall premium income across all lines of business rose by 6.9% in Q2 to €4,849m (4,534m); gross premiums written fell slightly by 0.9% to €4,217m (4,256m).

Investments: Investment result of €1,900m

The Group's investment result (excluding insurance-related investments) increased to €1,900m (1,759m) in Q2. Regular income from investments grew to €1,848m (1,836m), owing in particular to dividend income. The derivative result amounted to –€97m (–53m). The balance of gains and losses on disposals excluding derivatives increased to €436m (282m).

Overall in Q2 the investment result represented a return of 3.1% on the average fair value of the portfolio. The running yield was 3.0%, and the yield on reinvestment 2.2%. Munich Re still expects an ROI of 3% for the full year, although this figure is more likely to be rounded up than rounded down given that the interest rate environment has fallen again, and given the current expectations regarding realisation of valuation reserves and the net balance of derivatives. The equity-backing ratio, including equity-based derivatives, rose to 5.5% as at 30 June 2019 (31 December 2018: 5.2%).

With a carrying amount of €226,619m (fair value of €245,124m), total investments (excluding insurance-related investments) as at 30 June 2019 increased compared with the year-end 2018 figure of €216,852m (€231,876m at fair value).

The Group's asset manager is MEAG, whose assets under management as at 30 June 2019 included not only Group investments, but also a volume of €16.4bn (15.5bn) for third parties.

Outlook: 2019 profit target remains unchanged at around €2.5bn

Taking account of the mentioned risks in the technical result of the life and health reinsurance segment and the return on investment, all expectations for 2019 remain unchanged compared with the figures presented in the 2018 Annual Report published in March. Munich Re is still aiming for a consolidated profit of around €2.5bn for the 2019 financial year.

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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 and the California wildfires in 2018. 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.

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