Quarterly statement: Low quarterly profit due to high COVID-19-related losses

- Munich Re generated a profit of €221m in Q1
- High COVID-19-related losses totalling about €800m, particularly in event cancellation insurance
- Strong investment result despite turmoil in the capital markets
- April renewals show premium growth (+25.7%) and rising prices (+3.0%)

"The impact of the coronavirus pandemic on lives and economies is on our minds every day. We express our sympathy for the victims and their families. Munich Re is doing everything it can to protect the health of its clients, staff members and their families. The high losses due to COVID-19 are financially manageable for Munich Re. Thanks to our strong balance sheet and our prudent risk management, we remain a reliable partner to our clients – even in these challenging times."

Christoph Jurecka, CFO

Summary of Q1 figures

Munich Re generated a profit of €221m (633m) in Q1 2020. The operating result fell to €397m, compared with €771m for the same quarter last year. In addition, the other non-operating result amounted to –€11m (–18m). The currency result was €144m (58m), particularly owing to US-dollar exchange rates that led to currency gains. The tax ratio was 53.5%, a high figure largely attributable to non-tax-deductible losses on disposal and write-downs on equities. Gross premiums written increased by 6.8% year on year to €14,284m.

At €29,116m, equity was down from the level at the start of the year (€30,576m), due in particular to a fall in valuation reserves on equities. The solvency ratio was 212% (237% as at 31 December 2019), which is comfortably within the ideal range (175–220%).

The balance sheet shows an annualised return on equity (RoE) of 3.9% in Q1.

Under its 2019/2020 share buy-back programme, Munich Re repurchased 4.2 million of its shares, with a total value of €1.0bn. As announced on 31 March 2020, implementation of the scheduled 2020/2021 share buy-back programme has been discontinued until further notice and until there is greater clarity both on the actual burdens arising from COVID-19 and on capital requirements for potential organic or inorganic business opportunities.

Reinsurance: result of €149m

The reinsurance field of business contributed €149m (548m) to the consolidated result in Q1. The operating result amounted to €298m (633m). Gross premiums written increased to €9,235m (8,380m).

Life and health reinsurance business generated a profit of €8m (180m) in Q1. Gross premiums written rose to €3,079m (2,896m). The low quarterly result in this segment is attributable mostly to negative developments in North America that are altogether unrelated to the coronavirus pandemic. Instead, the low result was caused by higher-than-anticipated mortality in the USA, a catch-up effect owing to delays in claims reporting, and premium refunds in excess of expectations for some old policies. In Canada, reserves for outstanding claims were increased following a further reduction in interest rates. Business outside of North America was within expectations; a negative loss experience in the United Kingdom was offset by a higher-than-expected contribution to profits from Australia. The technical result, including business with non-significant risk transfer, was €56m (112m). Despite the weak start to 2020 in this segment, Munich Re still continues to assume that achieving its annual target of a technical result of €550m, including business with non-significant risk transfer, is still within reach.

Property-casualty reinsurance contributed €141m (367m) to the result in Q1. Premium volume rose to €6,156m (5,484m). The combined ratio (CR) was 106.0% (97.3%) of net earned premiums.

Major losses of over €10m each totalled €1,181m (479m). These figures include gains and losses from the settlement of major losses from previous years. Major-loss expenditure corresponds to 21.1% (9.7%) of net earned premiums, and was thus well above the long-term average expected value of 12%. Man-made major losses amounted to a considerable €973m (283m), mostly due to losses stemming from the cancellation or postponement of major events on account of the coronavirus pandemic. Major losses from natural catastrophes amounted to €208m (195m).

In Q1, loss reserves of around €224m were released for basic claims from prior years, which corresponds to 4.0% of net earned premiums. Munich Re still aims to set the amount of provisions for newly emerging claims at the very top end of the suitable estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

In the renewals as at 1 April 2020, Munich Re was able to increase written business volume to €2.1bn (+25,7%). It was possible to tap into growth opportunities, especially in Asia and with our global clients. By contrast, Munich Re once again selectively discontinued business including third-party liability in the United States, which no longer met risk/return expectations. At 1 April, business with the regional focus on Asia, particularly Japan and India, was up for renewal.

Price trends varied among the different markets in line with different claims experience. For instance, prices rose – considerably in some instances – for reinsurance cover in regions and classes of business with high claims. One example is Japan, which experienced high losses from typhoons in the last two years. Conversely, prices remained mostly stable in regions and classes of business with low claims experience, such as Europe. All in all, prices for the Munich Re portfolio increased by 3.0%. This percentage is, as always, risk-adjusted. In other words, price increases will be offset if they are associated with increased risk and consequently elevated loss expectations. Similarly, changes are offset by the composition of different classes of business in the portfolio so as to make valid comparisons possible.

Munich Re anticipates that the market environment will improve year on year in the next renewal round in July, as was the case with previous renewals in the current year.

ERGO: result of €72m

ERGO posted a profit of €72m (85m) for Munich Re in Q1. ERGO's operating result amounted to €99m (138m).

The ERGO Property-casualty Germany segment generated a profit of €21m (14m). Operative improvements more than offset losses from volatile equity markets in Q1. ERGO International increased its result to €46m (8m), thanks to ongoing good operational performance and the fact that portfolio optimisation is no longer a burden. ERGO Life and Health Germany reported a result of €5m (63m). Charges from write-downs on equities were not wholly compensated for by gains from hedging derivatives.

The combined ratios are at a very pleasing level. The Property-casualty Germany segment improved significantly year on year to 93.4% (98.1%). This is attributable to an encouraging rise in earned premiums and positive loss experience with lower major-loss expenditure. ERGO International's combined ratio remained at a good level of 95.2% (95.4%). COVID-19 did not have any appreciable effects on underwriting in the first quarter.

Overall premium income across all lines rose by 1.7% to €5,253m (5,165m); gross premiums written likewise rose slightly, to €5,050m (4,995m).

Investments: Investment result of €1,920m

The Group's investments (excluding insurance-related investments) performed well, with the investment result increasing to €1,920m (1,757m) in Q1 despite turmoil in the capital markets. The balance of gains and losses on disposal excluding derivatives decreased to €377m (602m). Regular income from investments fell to €1,544m (1,611m). The net balance of derivatives rose to €1,600m (–231m). This very good net balance of derivatives is the result of hedging against interest-bearing investments and equities, which gained significantly in value due to developments in the capital markets. It was thus possible to largely compensate for write-downs and losses on the disposal of equities. Our prudent risk management and wide-ranging hedging strategies proved themselves in recent weeks, as they were truly tested by capital market developments.

Overall, the Q1 investment result represents a return of 3.1% on the average market value of the portfolio. The running yield was 2.5% and the yield on reinvestment was 1.9%. For purposes of risk mitigation, Munich Re reduced its equity-backing ratio, including equity derivatives, to 3.5% as at 31 March 2020 (6.4% as at 31 December 2019).

Our investment portfolio (excluding insurance-related investments) as at 31 March 2020 decreased compared with the 2019 year-end figure, with the carrying amount falling slightly to €227,949m (228,764m); the market values amounted to €247,196m (247,310m).

The Group's asset manager is MEAG. As at 31 March 2020 – in addition to managing the Group's own assets – MEAG managed third-party investments totalling €64.0bn (38.2bn). The significant year-on-year increase is largely due to a new mandate from an institutional client.

Outlook

On 31 March 2020, Munich Re announced that owing to COVID-19-related losses from the cancellation or postponement of major events and owing to the great uncertainty concerning the macroeconomic and financial impacts of COVID-19, Munich Re will – assuming a burden from major man-made and natural-catastrophe losses that is otherwise in line with expectations – not attain its profit guidance of €2.8bn for 2020 as a whole.

In view of ongoing uncertainties, Munich Re will not specify a new profit target for 2020 at this time (previously: around €2.8bn). The Company has likewise withdrawn its profit guidance for the reinsurance field of business (previously: around €2.3bn) and the combined ratio for property-casualty reinsurance (previously: around 97%)[1].

The other subtargets announced in the Annual report 2019 remain unchanged. However, given the considerable uncertainty pertaining to further developments in the coronavirus pandemic and its economic impact, Munich Re faces a significantly higher risk of all its target figures not being attained.

[1] …as well as the target for the Economic Earnings

As always, the projections are subject to major losses being within normal bounds, our income statement not being impacted by severe fluctuations in the currency or capital markets, significant changes in the tax environment, or other one-off effects.

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Munich Re

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 asset manager 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 2019 Pacific typhoon season. Munich Re possesses outstanding innovative strength, which enables it to also provide coverage for extraordinary risks such as rocket launches, renewable energies, cyber attacks or pandemics. The Group 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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