

Quarterly Statement: Munich Re with solid profit for the quarter, considering high losses

- Munich Re generated a profit of around €1bn in the first three quarters of 2020 – despite COVID-19-related losses of €2.3bn.
- In Q3, profits amounted to €199m (COVID-19-related losses in Q3: approx. €800m)
- Substantial increase in premium income: growth continues
- ERGO posts good results again



“In reinsurance, the third quarter is often characterised by above-average losses – and that was again the case this year. On top of man-made major losses and natural catastrophes in the USA, ongoing high COVID-19 claims affected the result. A gratifying aspect is that ERGO once again delivered a strong quarter. Given Munich Re’s dynamic growth and the recent considerable price increases for reinsurance cover, we can look to the future with confidence.”

Christoph Jurecka, CFO

Summary of Q3 figures

Munich Re generated a profit of €199m (865m) in Q3 2020, with €999m (2,490m) in Q1–3. The operating result fell to €353m, compared with €844m for the same quarter last year. In addition, the other non-operating result amounted to –€31m (–10m). The currency result totalled –€100m (228m), and the effective tax rate was –19.4% (14.2%), the pre-tax loss in the reinsurance field of business led to tax income. Compared with Q3 2019, gross premiums written increased by 3.0% to €14,150m (13,743m), and by 6.0% to €41,261m (38,917m) in Q1–3.

Equity was only slightly lower at the reporting date (€29,641m) than at the start of the year (€30,576m). Thanks in part to the green bond with a volume of €1.25bn issued in September, the solvency ratio improved to 216% in Q3 (30 June 2020: 211%).

In Q3 2020, annualised return on equity (RoE) amounted to 3.6%.

Reinsurance: Result of €63m

The reinsurance field of business contributed €63m (746m) to the consolidated result in Q3 and €619m (2,151m) in Q1–3. The operating result amounted to €55m (690m), while gross premiums written rose to just under €10bn (€9,926m; Q3 2019: €9,582m).

Life and health reinsurance business generated a profit of €86m (282m) in Q3. Premium income increased to €3,127m (2,989m). The quarterly result also reflects losses arising from COVID-19-related deaths, especially in the USA, totalling around €100m. The technical result, including business with non-significant risk transfer, was €56m (226m).

Property-casualty reinsurance contributed –€23m (464m) to the result in Q3. Premium volume climbed to €6,798m (6,593m). The combined ratio was 112.2% (103.9%) of net earned premiums.

Major losses of over €10m each totalled €1,518m (981m). These figures include gains and losses from the settlement of major losses from previous years. Major-loss expenditure corresponds to 26.7% (18.4%) of net earned premiums, and was thus more than double the long-term average (12%). This was primarily attributable to man-made major losses, which came to over €1bn (€1,045m; Q3 2019: €404m). Of this, around €700m related to losses connected to the COVID-19 pandemic. In this context, the third quarter again saw losses incurred in connection with the cancellation or postponement of major events, as well as losses in other lines of property-casualty reinsurance, such as business interruption. Added to this, Munich Re sustained non-COVID-19-related man-made losses, for example the Beirut harbour explosion. Major-loss expenditure from natural catastrophes amounted to €474m (577m), especially as a consequence of windstorm and wildfire losses in the USA.

In Q3, reserves for basic claims from prior years totalling around €226m were released; this corresponds to 4.0% of net earned premiums. Munich Re continually seeks 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.

ERGO: Result of €136m

Munich Re generated a profit of €136m (119m) in its ERGO field of business in Q3 and €381m (339m) in Q1–3.

The good Q3 result is attributable in particular to the segments International and Property-casualty Germany. ERGO International reported a result of €57m (76m) on account of very strong operative performance. The ERGO Property-casualty Germany segment generated a profit of €48m (36m). The small additional losses in business closure and event insurance were more than compensated for by lower losses from natural catastrophes. ERGO Life and Health

Germany reported a result of €31m (8m), still influenced by the impact of COVID-19 on the capital market and in travel insurance. ERGO Group's operating result amounted to €297m (154m).

The combined ratios remain at a very good level. In the Property-casualty Germany segment, the ratio improved to 90.9% (92.1%) in Q3, and amounted to 92.2% (92.0%) in Q1–3. In the ERGO International segment, the ratio increased slightly to 92.5% (91.8%) in Q3 and dropped to 92.6% (94.1%) in Q1–3, benefiting from a lower claims frequency, especially in the context of the COVID-19 pandemic.

Total premium income across all segments amounted to €4,418m (4,344m) in Q3; gross premiums written totalled €4,224m (4,161m), the increase being essentially due to higher premium income in the Property-casualty Germany segment.

Investments: Investment result of €1,691m

The Group's investment result (excluding insurance-related investments) decreased to €1,691m (2,150m) in Q3. Regular income from investments fell to €1,536m (1,674m), largely due to lower interest income. The balance from write-ups and write-downs was –€265 (–104m), while net gains on disposal excluding derivatives amounted to €644m (633m). The drop in net balance of derivatives to –€65m (121m) results in particular from a higher yield from ERGO's interest-rate hedging programme in the previous year.

Overall, the Q3 investment result represents a return of 2.7% on the average market value of the portfolio. The running yield was 2.4% and the yield on reinvestment was 1.3%. The equity-backing ratio was 4.8% as at 30 September 2020 (31 December 2019: 6.4%).

Munich Re's investment portfolio (excluding insurance-related investments) increased compared with the 2019 year-end figure, with the carrying amount rising slightly to €232,252m (228,764m); the market value amounted to €251,928m (247,310m).

The Group's asset manager is MEAG, whose assets under management as at 30 September 2020 included not only Group investments but also a volume of €67.4bn (38.2bn) for third parties. The significant year-on-year increase is largely due to a new mandate from an institutional client.

Outlook 2020

Given the ongoing high level of uncertainty regarding the further economic and financial consequences of COVID-19, Munich Re will again not issue profit guidance for 2020 with its Q3 statement. As with its annual profit target, Munich Re remains committed to the retractions of its sub-targets for annual profit in the reinsurance field of business, its forecast for the

combined ratio in property-casualty reinsurance, and for the technical result including business with non-significant risk transfer in life and health reinsurance.

All other sub-targets specified in the half-year financial report (2/2020) are unchanged, even if the environment remains extremely challenging and uncertain in view of the volatile capital markets and unclear impact of a prospective second wave of COVID-19. As always, the projections are subject to major losses being within normal bounds, and to the 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 management 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 through 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, 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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