Munich Re posts strong Q2 result despite ongoing burden of pandemic

- Munich Re on track for 2021 target with profit of €1,106m in Q2
- COVID-19-related losses in Q2 total €241m
- ERGO contributes €155m to Group Q2 result
- July renewals confirm trend of rising prices (+2.0%) and premium growth (+11.1%)
- Expected overall claims expenditure from disastrous flooding in the mid-three-digit million euro range

"On track to meet our target of €2.8bn for the year, the Group is showing a very solid profit for the first half of the year. All areas of our operation are helping deliver on our strategic objectives: Munich Re is growing profitably. Our reliability and expertise are in demand, and we are making good use of the positive market environment – always balancing healthy growth and strict risk management. Munich Re is tapping and shaping tomorrow's new business: cyber, for example, shows how we can move from the role of pioneer to that of market leader. Munich Re assumes responsibility. We are more committed than ever to the sustainability of our business, from decarbonising our investments and treaty business to strengthening ESG governance at Board of Management level. Faced with challenges such as pandemics, floods and heatwaves, our aspiration as an insurer remains to contribute our part to the solutions of the future."

Joachim Wenning, Chairman of the Board of Management

Summary of Q2 figures

Munich Re generated a profit of €1,106m (579m) in Q2 2021, and a total of €1,695m (800m) for Q1–2. Below-average overall expenditure for major losses, which totalled 6.8% of net earned premiums, contributed to the Q2 result. The impact of COVID-19-related losses on reinsurance business came to €241m (700m) for the quarter and €505m (1,500m) since the beginning of the year. Of this, in the first half-year €203m (1,395m) was attributable to the property-casualty segment and €302m (105m) to life and health reinsurance. In the ERGO field of business, COVID-19-related effects had a negative impact of €6m on the Q2 result after the previous year had seen limited repercussions; there was a positive effect of €7m since the start of 2021.

The operating result in Q2 increased year on year to €1,554m (755m). In addition, the other non-operating result amounted to –€9m (–6m). The currency result totalled –€117m (23m), and the effective tax rate was 19.6% (19.3%). Compared with Q2 2020, gross premiums written moved up notably – by 14.2% to €14,642m (12,827m), and in Q1–2 by 7.7% to €29,193m (27,112m).

Equity was almost at the same level at the end of the reporting period (€29,920m) as at the start of the year (€29,994m). The solvency ratio was 225% (208% as at 31 December 2020), which is slightly above the optimum range (175–220%).

In Q2 2021, annualised return on equity (RoE) amounted to 19.2% (10.4%); the RoE for the half-year was 15.0% (7.1%).

Reinsurance: Result of €951m

The reinsurance field of business contributed €951m (407m) to the consolidated result in Q2 and €1,361m (555m) in the first half-year. In Q2, the operating result swelled to €1,274m (465m) and gross premiums written increased markedly to €10,299m (8,856m).

Life and health reinsurance business generated a profit of €93m (59m) in Q2. The technical result, including the result from reinsurance treaties with non-significant risk transfer, was €64m (48m). Premium income amounted to €3,144m (3,332m), with the decrease due primarily to negative currency translation effects.

COVID-19-related losses of €140m impacted the quarterly result, a higher amount than initially projected. These were dominated by the developments in India and South Africa and by the diminishing trend in anticipated expenses for mortality covers in the US. Apart from the impacts of COVID-19, Q2 went well overall, mainly owing to retroactive increases in premium for the Australian disability business and a positive one-off effect pertaining to a large North American reinsurance treaty.

Given the significant COVID-19 losses of €302m in HY1 2021, Munich Re is increasing its loss expectation from COVID-19 for life and health reinsurance business for 2021 as a whole to approx. €400m (previously approx. €200m) and thus for the reinsurance field of business overall to approx. €700m (previously approx. €500m). For property-casualty reinsurance, the COVID-19 loss expectation remains unchanged at approx. €300m.

Property-casualty reinsurance contributed €858m (348m) to the result in Q2. Premium volume surged to €7,155m (5,524m) – despite counter-effects from currency translation. The combined ratio improved considerably to 90.1% (99.9%) of net earned premiums and in Q1–2 to 94.3% (103.0%).

Major losses of over €10m each were down significantly in Q2 and totalled €432m (799m). These figures include gains and losses from the settlement of major losses from previous years. Major-loss expenditure corresponds to 6.8% (14.8%) of net earned premiums, and was thus below the long-term average expected value of 12% both for Q2 and for the half-year (11.0%). Man-made major losses including COVID-19-related losses of €101m (Q2 2020: €595m) sank to €229m (632m). Major-loss expenditure from natural catastrophes increased slightly to €203m (167m).

In Q2, loss reserves of €252m (217m) were released for basic losses from prior years, which corresponds to 4.0% (4.0%) of net earned premiums. Munich Re is still aiming to set the amount of provisions for newly emerging claims at the top end of the estimation range.

In the reinsurance renewals as at 1 July 2021, Munich Re exploited growth opportunities successfully and increased the volume of business written to €3.9bn (+11.1%). The primary focus of the renewals was business in North America, South America, Australia, and with global clients.

Prices continued to increase overall. The trend toward higher reinsurance prices persists, owing to claims in various markets and lines of business, including COVID-19-related claims. Primary insurance prices are also increasing in many markets.

Overall, prices across Munich Re's portfolio renewed as at 1 July 2021 were up by 2.0%. This figure is, as always, risk-adjusted. In other words, price increases are 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 continue to improve year on year in the next major renewal round in January – also in view of the current claims burden, e.g. from extreme weather events in America or Europe in Q3.

ERGO: Result of €155m

Munich Re generated a profit of €155m (173m) in its ERGO field of business in Q2 and €334m (245m) in Q1–2. The operating result for the ERGO field of business amounted to €281m (291m).

The high Q2 result was driven by the bottom line of ERGO Property-casualty Germany moving up to €81m (50m), to which a high investment result contributed in addition to profitable premium growth in particular. This, together with ongoing very good operational performance, largely offset the claims burden from natural disasters and man-made major losses. Having seen a very strong prior-year quarter, ERGO International's result shrank to €41m (59m). Major losses in the Baltic states, burdens from natural catastrophes in Austria and COVID-19-related losses in India were partially made up for by the continued strong development of operations in Poland and Spain.

The COVID-19-related losses in India are also material to the effect of the pandemic on results for 2021 as a whole. In view of the more favourable development overall in the first half-year, ERGO is now reckoning with a negative impact of €40–50m (formerly €90–100m) owing to COVID-19.

After a very good quarter in 2020, ERGO Life and Health Germany posted a result of €33m (63m) on account of a lower investment result in the field of life business. This was partially offset by ongoing good operational performance in health and lower losses in travel insurance.

Despite loss events, the combined ratios remain at a very good level. In Property-casualty Germany, the combined ratio was 92.6% (92.5%) in Q2, and 93.4% (92.9%) in Q1–2. In International, the ratio moved up in Q2 to 92.2% (90.1%), and in Q1–2 to 93.0% (92.7%).

Total premium income across all lines rose very significantly in Q2 to €4,616m (4,228m); gross premiums written increased to €4,343m (3,971m).

Investments: Investment result of €1,933m

The Group's investment result (excluding insurance-related investments) increased to €1,933m (1,697m) in Q2. Regular income from investments fell to €1,645m (1,721m), while the balance of gains and losses on disposal excluding derivatives amounted to €627m (1,189m). The net balance of derivatives was –€90m (–906m). The balance from write-ups and write-downs sank marginally to –€77m (–108m).

Overall, the Q2 investment result represents a return of 3.1% on the average market value of the portfolio. The running yield was 2.6% and the yield on reinvestment was 1.7%. By means of acquisitions in primary insurance and reinsurance – and aided by the positive market development – Munich Re increased its equity-backing ratio, including equity derivatives, to 7.5% as at 30 June 2021 (6.0% as at 31 December 2020).

The investment portfolio (excluding insurance-related investments) as at 30 June 2021 increased slightly compared with the 2020 year-end figure, with the carrying amount moving up somewhat to €233,961m (232,950m); the market values amounted to €250,597m (252,789m).

The Group's asset manager is MEAG. As at 30 June 2021 – in addition to managing the Group's own assets – MEAG managed third-party investments totalling €65.0bn (69.6bn).

Outlook for 2021: Annual target unchanged at €2.8bn

Munich Re anticipates advantageous business opportunities also in the second half of 2021 and is thus raising its gross premium forecasts: by €1bn to €40bn for reinsurance, and by €0.5bn to €18bn for the ERGO field of business. At Group level, gross premiums of €58bn are hence projected for 2021.

Given the raised loss expectation in life and health reinsurance due to COVID-19, it is now more likely that the isolated partial objective of a technical result of €400m, including the result from reinsurance treaties with non-significant risk transfer, will not be met.

In July, various regions in western and central Europe and especially in Germany suffered severe weather events and disastrous flooding (low pressure system "Bernd") that led to significant damage to public and private property. As there is still a very high degree of uncertainty at this stage, precise claims forecasts are not yet possible. Munich Re expects overall claims expenditure for reinsurance and ERGO to be in the mid-three-digit million euro range.

In its 2020 Annual Report, Munich Re forecast a combined ratio of around 92% for ERGO Property-casualty Germany. Owing to the flooding in July, there is increased uncertainty as to whether Munich Re will be able to reach that target.

Munich Re continues to aim for a consolidated profit of €2.8bn for the 2021 financial year. The other targets communicated for 2021 in Munich Re's Group Annual Report 2020 remain unchanged.

All forecasts are made more difficult by the pronounced volatility of the capital markets and exchange rates and by the increased uncertainty with regard to potential claims in connection with the coronavirus pandemic. 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 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 or cyberattacks. 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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