Media information

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Munich RE

Munich Re on track to achieve annual target with a Group net result of €1,154m in Q2

- Annual guidance unchanged at €4.0bn thanks to sustained profitability
- Low combined ratio in property-casualty reinsurance (Q2: 80.5%); strong total technical result of €325m in life and health reinsurance in Q2
- ERGO makes a big contribution of €250m to Group Q2 result
- July renewals highlight focus on profitability: price increase of 5.1% and a volume decrease of 1.9%

"Munich Re posted a profit of €2.4bn during the first six months of 2023 – considerably greater than half of our full-year forecast. All areas of our operation are contributing to our success. Munich Re continues to grow profitably because our clients value our strength, consistency and expertise. And we'll keep on resolutely tapping into the encouraging market environment. In addition, we're systematically making progress on decarbonisation in investments and insurance business and on fostering women leaders. Halfway through our Ambition 2025 strategy programme, it's clear that Munich Re is fully on track to meet its targets."

Joachim Wenning, Chair of the Board of Management

Summary of Q2 figures

Effective 1 January 2023, Munich Re has been preparing and communicating financial data in accordance with two new financial reporting standards: IFRS 9 and IFRS 17.[1]

[1] Comparative figures from the previous year for the insurance business are already presented on the basis of the new standard (IFRS 17). The previous year's figures for financial instruments are predominantly still based on IAS 39, the standard applicable up to 31 December 2022. For that reason, they are only comparable to a limited extent with the figures for the first half of 2023 disclosed in accordance with IFRS 9. However, transitional effects have already been anticipated in some cases. Notably, the classification overlay approach applied to business with direct participation features in ERGO life and health insurance.

Munich Re generated a profit of €1,154m (1,585m) in the second quarter of 2023, and €2,425m (3,066m) in the first six months of the year. The higher result during the first half of 2022 was attributable to lower unwinding-of-discount effects and lower major-loss expenditure. Against the backdrop of a mixed macroeconomic environment, the second quarter featured strong business performance both at ERGO and in the reinsurance segment. Insurance revenue from insurance contracts issued rose year on year to €14,175m (13,772m) in Q2; in Q1–2, the figure increased to €28,448m (27,033m). The total technical result in Q2 amounted to €2,159m (2,574m) and the investment result rose to €596m (317m). The currency result fell to €44m (634m), as there had been currency gains against the US dollar in the same quarter last year. The operating result was €1,573m (2,250m) and the effective tax rate was 24.6% (28.1%).

Equity was slightly higher at the reporting date (€27,436m) than at the start of the year (€27,245m). The solvency ratio was approximately 273% (260% as at 31 December 2022), which is above the optimum range (175–220%).

In Q2 2023, annualised return on equity (RoE) amounted to 15.5% (24.2%); the RoE for the first half-year was 16.9% (24.3%) – with both figures at the upper end of the RoE target range of 14 to 16% specified in the Ambition 2025 strategy programme.

Reinsurance: Result of €904m

The reinsurance field of business contributed €904m (1,439m) to the Group's net result in Q2; the Q1–2 result was €1,955m (2,763m). The decrease in Q2 was due in part to intentionally incurred losses from the disposal of fixed-interest securities in property-casualty reinsurance. Insurance revenue from insurance contracts issued rose to €9,300m (9,019m) in Q2. The total technical result was €1,560m (2,014m) and the operating result totalled €1,222m (2,007m).

Life and health reinsurance generated a very strong total technical result of €325m (302m) in Q2. The contribution to net result from release of the contractual service margin was in line with expectations. Strong growth in new business more than offset the amount released.

The net result for life and health reinsurance totalled €326m (561m). Insurance revenue from insurance contracts issued came to €2,606m (2,666m).

Property-casualty reinsurance generated a net result of €578m (878m) in Q2. Insurance revenue from insurance contracts issued rose to €6,695m (6,353m). On account of higher year-on-year expenditure for major losses, the combined ratio amounted to 80.5% (72.3%) of net insurance revenue for Q2, and 83.5% (74.5%) for Q1–2. The normalised combined ratio was 86.2%.

Major-loss expenditure[2] increased year on year to €600m (464m) in Q2. These figures include gains and losses from the run-off of major losses from previous years. Major-loss expenditure corresponded to 9.3% (7.6%) of net insurance revenue, and was thus below the long-term average expected value of 14%, both for Q2 and for the half-year (12.8%). Although man-made major losses fell to €155m (308m), this was more than offset by major-loss expenditure from natural catastrophes increasing to €445m (156m). The major loss figures above take account of the effects from discounting and risk adjustment. The costliest natural catastrophe for Munich Re in Q2 was flooding in Italy, with losses amounting to some €200m (nominal value).

In Q2, reserves of €322m (323m) were released for basic losses from prior years; this figure corresponded to 5.0% (5.3%) of net insurance revenue. 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 can be generated at a later stage.

In the reinsurance renewals as at 1 July 2023, the volume of business decreased slightly to €3.6bn (–1.9%), as Munich Re selectively discontinued business that no longer met expectations with respect to prices, terms and conditions. The primary focus of the July renewals was business in North America, South America, Australia, and with global clients.

Prices were up overall in the sectional markets, with different trends dependent upon claims experience, future loss expectations and the situation in each individual market. Prices for reinsurance cover rose considerably in some markets, including the US, Latin America and Australia. These price increases were sufficient overall to offset elevated loss expectations owing to inflation or other developing trends.

Overall, prices across the Munich Re portfolio increased considerably in the July renewals (+5.1%). 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. Particularly in light of higher inflation, Munich Re was deliberately cautious in calculating future loss expectations.

For the next round of renewals in January, Munich Re expects that the market environment will remain favourable and offer attractive business opportunities.

[2] The figures are only comparable to a limited extent with the same period last year, as the major-loss threshold was raised to €30m with effect from 1 January 2023 (previous years: €10m).

ERGO: Result of €250m

Munich Re generated a very good result of €250m (147m) in its ERGO field of business in Q2 and €470m (303m) in Q1–2. ERGO grew considerably, with insurance revenue from insurance contracts issued climbing to €4,875m (4,752m) in Q2; in Q1–2, it rose to €9,916m (9,357m).

ERGO International generated a very good net result of €116m (27m) in Q2. The main drivers of this result were favourable basic loss experience; a lack of major losses in Poland, Greece and elsewhere; and the contribution made by the health business in Belgium.

ERGO Life and Health Germany generated a net result of €72m (–30m) in Q2, largely driven by the anticipated amounts released from the contractual service margin in life insurance and long-term health business. In addition, short-term health business likewise boosted the result thanks to strong growth and favourable claims development.

The ERGO Property-casualty Germany segment made a good contribution of €62m (149m) to the Q2 net result. Q2 2023 was underpinned by low major losses, strong operational performance, a good investment result and seasonally low expenses in acquisition cash flows. One-off effects in Q2 2022 had positively influenced the result. The segment's net result of €229m for the first half-year was significantly higher than the forecast net result for the second half-year of 2023. The result in Q4 will be considerably impacted by the seasonally high expenses in acquisition cash flows.

The total technical result for the ERGO field of business in Q2 increased to €599m (560m) and the operating result rose substantially to €350m (243m). In Property-casualty Germany, the combined ratio was 88.1% (77.5%) in Q2 and decreased to 84.7% (90.5%) in Q1–2. The same half-year in 2022 had been impacted by major losses. In the ERGO International segment, the ratio fell to 88.1% (93.3%) in Q2 thanks to favourable claims development and low major losses. The ratio for Q1–2 was 91.6% (91.0%).

Investments: Investment result of €596m

Munich Re's investment result increased to €596m (317m) in Q2, with regular income from investments climbing to €1,763m (1,752m). While the balance from write-ups and write-downs was –€11m (–775m), the balance from gains and losses on disposal came to –€396m (725m). The fair-value change was –€610m (–1,230m). Impairment losses resulting from both lower stock markets and higher interest rates were the main causes of the lower investment result in the same quarter last year. Munich Re intentionally incurred losses in this quarter that had been realised due to the disposal of investments, primarily fixed-interest bonds. This was done with an eye to investing anew at higher interest rates, in turn more quickly profiting from higher-yield bonds.

Overall, the Q2 investment result represents a return of 1.1% on the average market value of the portfolio. The running yield was 3.3% and the yield on reinvestment was 4.3%. As at 30 June 2023, the equity-backing ratio including equity-linked derivatives amounted to 3.4% (2.0% as at 31 December 2022). The investment portfolio totalled €209,699m (207,965m) as at 30 June 2023.

Outlook for 2023: Annual guidance unchanged at €4.0bn

At the end of the first six months, Munich Re remains confident in its outlook for further positive business opportunities in the second half of 2023. The targets communicated for 2023 in Munich Re's Group Annual Report 2022 and in the Quarterly Statement for Q1/2023 are thus unchanged. Accordingly, Munich Re is still aiming for a net result of €4.0bn for the 2023 financial year. The probability of surpassing this target has increased given the strong half-year result.

All forecasts and targets face considerable uncertainty owing to fragile macroeconomic developments and volatile capital markets. In particular, there continues to be considerable uncertainty regarding the financial impact of the Russian war of aggression in Ukraine. As always, the projections are subject to major losses remaining 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.

Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München
Group Media Relations
Königinstrasse 107, 80802 Munich, Germany

www.munichre.com
LinkedIn: https://de.linkedin.com/company/munich-re
Twitter: @MunichRe

For Media inquiries please contact

Group Media Relations
Stefan Straub
Tel.: +49 89 3891 9896
Mobile: +49 151 64 93 30 48
sstraub@munichre.com

Financial Communications
Axel Rakette
Tel.: +49 89 3891 3141
Mobile: +49 151 20 46 21 32
arakette@munichre.com

Group Media Relations
Irmgard Joas
Tel.: +49 89 3891 6188
Mobile: +49 151 52 81 70 24
ijoas@munichre.com

Media Relations Asia-Pacific
Faith Thoms
Tel.: +65 63180762
Mobile: +65 83390125
fthoms@munichre.com

Media Relations North America
Ashleigh Lockhart
Tel.: +1 609 275-2110
Mobile: +1 980 395 2979
alockhart@munichre.com

Media Relations London Market
Lillian Ng
Tel.: +44 207 8863952
Mobile: +44 7809 495299
lilliang@munichre.com

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 Hurricane Ian in 2022. 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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