

## Munich Re's "Ambition 2025" sets new growth and results targets

- Return on equity to increase to 12–14% by 2025
- Earnings per share to increase annually by  $\geq 5\%$  on average by 2025
- Dividend per share to increase annually by  $\geq 5\%$  on average
- Solvency ratio to remain in the ideal corridor of 175–220%
- Extensive decarbonisation strategy: Shifting away from coal, oil and natural gas



“With our Munich Re Group Ambition 2025, we’ve created a strategy that is uniform across the Group – spanning reinsurance, primary insurance and asset management. We have committed ourselves to ambitious financial targets, and we will continue adding value for our shareholders, clients, staff and communities. The Munich Re Group Ambition 2025 will help us to elevate Munich Re to a new level of success.”

Joachim Wenning, Chairman of the Board of Management

### Munich Re Group Ambition 2025

Munich Re has achieved its financial objectives year after year – including 2020, if one adjusts for COVID-19 losses. And Munich Re has become more flexible, more digital and more profitable in recent years. As the ERGO Strategy Programme concludes, the primary insurer is once again performing well. In reinsurance, the Grow, Excel, Invent Ambition has been realised resolutely. And in asset management, a Chief Investment Officer has been appointed to the Board of Management to generate satisfactory returns on investment as low interest rates persist.

With its Group Ambition 2025, Munich Re has specified a series of bold targets for the next five years. The Group will retain and bolster its core business model, while advancing its transformation towards new business models. The Munich Re Group Ambition 2025 will unfurl in accordance with the three guiding principles of Scale, Shape, and Succeed.

Scale, the first pillar in the triad, represents growth in the Group's core business. There are opportunities for organic growth in reinsurance in particular owing to recent, significant improvements in market conditions. Munich Re will also grow profitably over the coming years in its Risk Solutions operating field, including in MR Specialty Insurance, HSB, and Munich Re Facultative & Corporate. In life and health reinsurance, there will be expansion in both traditional business, and the offerings for financial markets and longevity business. ERGO will further enhance its market position in Germany, while also achieving profitable growth – particularly beyond Germany, in B2B and through direct offers. In addition, ERGO prioritises the ongoing modernisation of its IT infrastructure. As for asset management, performance will be improved – thus mitigating the negative trends in bond yields caused by low interest rates.

Shape stands for Munich Re's mission to develop new business models that span the entire value chain, in turn shaping markets. In this environment, innovative and digital solutions will give rise to additional business opportunities. This pillar also entails the continual scrutiny of innovative ideas and their scalability. Mature innovations such as cyber covers are already contributing to profits achieved as part of the Munich Re Group Ambition; other innovations, such as business models for the Internet of Things (IoT), will conversely play a role in the longer term. At ERGO, Shape will take the form of greater alignment with the hybrid customer business model; the transnational use of technological solutions at ERGO International; the development of new mobility and travel ecosystems; and the ongoing digitalisation of customer-driven and back-office processes.

Succeed symbolises the added value that Munich Re generates for all its stakeholders. For shareholders, this means the sustained financial success of their investments in Munich Re. Clients benefit from bespoke products. For staff, Succeed connotes appealing long-term employment and good career prospects. A particular priority concerns women in management: by 2025, 40% of managers below the Board of Management are to be women. Last but not least, the third pillar of Scale, Shape, Succeed refers to communities benefitting from, in particular, the Group's ambitious climate protection targets in its asset management, (re)insurance business and in its own business operations.

The success of the Munich Re Group Ambition 2025 will be measured using the following financial targets:

Munich Re aims to generate a high return on equity (RoE) between 12 and 14% by 2025. That would establish Munich Re as one of the best in its peer group. RoE increases will be fuelled by higher profitability, growth, and an RoI performance that will counteract the erosion of regular investment income caused by low interest rates.

Continued earnings growth will translate into higher earnings per share, which are set to increase annually by  $\geq 5\%$  on average by 2025.

The implicit dividend commitment of recent decades is now an explicit target of the Munich Re Group Ambition 2025. In “normal” years, the dividend per share is to rise by  $\geq 5\%$  on average, similarly to the increase in earnings per share. In years with unusually high claims expenditure, it is expected that the dividend per share will at least remain the same. As a result, the dividend per share will rise at a higher rate over the next five years than in the past five years, which saw an increase of 4.7% on average.

The solvency ratio is to remain in the ideal corridor of 175–220%.

As an environmentally conscientious business, Munich Re will play its part in meeting the targets of the Paris Climate Agreement. The Group has therefore set itself ambitious climate protection targets for its investments, its (re)insurance transactions and its own business operations. More specifically, net greenhouse gas emissions in its investment portfolio will first be reduced by 25–29% between now and 2025, before achieving net-zero emissions by 2050. Munich Re has already ceased to invest in companies that generate more than 30% of their earnings from coal or by extracting oil from oil sands. As for the exploration and production of oil and natural gas (direct and facultative business), Munich Re will be reducing its climate-related industry exposure in such a way that there will be no attributable net CO<sub>2</sub> emissions by 2050. In an initial phase, Munich Re will seek to reduce greenhouse gas emissions by 5% between now and 2025. At the same time, Munich Re will reduce its coal-related exposure in its direct and facultative insurance business by 35% worldwide, before eliminating this exposure altogether by 2040. Munich Re has already stopped insuring new coal-fired power plants, new coal mines, and oil sands mines. In addition, in-house business operations have been climate-neutral since 2015; Munich Re has already cut its CO<sub>2</sub> emissions per staff member by 44% since 2009. Current CO<sub>2</sub> emissions are to be reduced by a further 12% per employee by 2025. Five years thereafter, in 2030, the Group expects to achieve net-zero CO<sub>2</sub> emissions from its business operations. In practice, this means that any CO<sub>2</sub> emitted by the Group from 2030 onwards would need to be offset by capturing CO<sub>2</sub> in the atmosphere.

## Reinsurance

Munich Re is committed to being one of the world’s leading providers of reinsurance solutions in the property-casualty and life and health segments. At the same time, Munich Re intends to further expand its specialty business pursuits.

The reinsurance field of business will play a key role in achieving the financial targets of the Munich Re Group Ambition 2025 by delivering a return on equity (RoE) of 12–14% by 2025.

In addition, Munich Re will sustain its profitable growth in reinsurance. For example, premiums in property-casualty reinsurance are expected to rise to approx. €31.5bn by 2025 (forecast of approx. €24bn for 2020) – with traditional reinsurance business accounting for approx. €22bn (forecast of approx. €18bn for 2020) and the Risk Solutions operating field for approx. €9.5bn (forecast of approx. €6bn for 2020). This equates to an average annual growth rate of 4% in

traditional property-casualty reinsurance and 10% in Risk Solutions. The percentage of premium income in property-casualty reinsurance generated by Risk Solutions will grow from 25% now to 30% by the end of 2025. The comparatively greater role of Risk Solutions means that Munich Re's entire portfolio will be less cyclical in general. In the life and health reinsurance segment, premium income is anticipated to grow by approx. 4% per year on average, reaching approx. €15bn by 2025 (forecast of approx. €12.5bn for 2020).

Munich Re is targeting a combined ratio of approx. 95% each year through 2025 in property-casualty reinsurance. In life and health reinsurance, the technical result – including the result from business with non-significant risk transfer (fee income) – is to increase to approx. €850m in 2025.

## ERGO

Munich Re has set its ERGO field of business the ambitious goals of boosting profitability to match its best peers and further consolidating its presence in Germany. Its international portfolio will contribute more and more to profits; the primary insurer will also assume a leading role in digitalisation.

By 2025, the ERGO field of business is set to contribute a return on equity of 12–14% to the financial objectives of the Munich Re Group Ambition 2025.

Munich Re will also seek profitable growth in primary insurance, with ERGO expected to boost its premium income by about 2.5% per year on average.

ERGO anticipates that its combined ratios will fall further over the next five years. Looking ahead to 2025, ERGO is targeting a combined ratio of approx. 90% for property-casualty insurance in Germany (target for 2020: approx. 92%) and a ratio of approx. 91% for ERGO International (target for 2020: 94%).

## Investment and Asset Management

Munich Re will counteract the erosion of returns caused by low interest rates by modifying its organisational set-up for investments, providing tactical stimuli, and by making additional investments in alternative investments and corporate credits.

The investment side, headed by the Group CIO, will contribute to the return on equity target of the Munich Re Group Ambition 2025 by improving performance counteract the interest rate-related decline in the return on investment of otherwise over 10 basis points per year.

The primary change is a clear separation of investment management, i.e. asset owner activities, which focus on strategic asset allocation, tactical asset allocation and asset manager selection, from pure asset management activities (MEAG and third-party asset managers).

This change will ensure that operations are close to the business, while guaranteeing access to the markets and to the best asset managers for our investments. This new set-up pools expertise, utilises synergies and Group diversification effects, thus making higher returns possible.

In addition, Munich Re has committed to transitioning its entire investment portfolio to net-zero greenhouse gas emissions by 2050, in accordance with its ESG investment strategy and membership of the UN Net-Zero Asset Owner Alliance. The above-mentioned ESG and CO<sub>2</sub> reduction targets go hand in hand with a doubling of investments in renewable energies to €3bn.

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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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