

“We are venturing into new areas”

Munich Re sees itself as an innovation leader in the insurance industry, says Nikolaus von Bomhard in an interview with the Frankfurter Allgemeine Zeitung (FAZ).

Mr. Bomhard, nine months ago you surprised the public with Desertec, the “power from the desert” initiative. Is this eco-project only good for your image or also good for business?

The Desertec Industrial Initiative is a striking example of the way in which, for some years now, we have been specifically making our knowledge publicly available. We have been concerning ourselves with global warming and its consequences for many years, so it was logical for us to become involved in such a project. We see it as our duty to share our knowledge and to support such groundbreaking ventures. This results in interrelationships from which we benefit.

What does that mean in specific terms?

As a company, everything you do should generally be relevant to your business in some way. Climate change affects us in our core business. Desertec will not have any direct impact on that. But in Desertec we are partnering – as a knowledge purveyor, moderator and capital provider – a project that is highly relevant both technologically and politically for curbing future global warming.

How is Munich Re responding to climate change?

In a whole variety of ways. Especially in the business field of reinsurance, we are ready to partner technological innovations connected with renewable energies right from the start. We thus make developments possible that could not otherwise be realised: this is the “developer” function of insurance. We take on risk, thereby facilitating investment, and we also invest in projects ourselves.

Are you having to move away from your traditional area of business because you have failed to increase your premium income from that source?

Innovation is important for our business because it is difficult to say how much traditional reinsurance will continue to grow. We want to determine our fate ourselves. Therefore it is important for our Group to be at the forefront of the insurance industry’s development, venturing with new products into areas that others avoid. This applies to all three field of our business, namely primary insurance, reinsurance and our latest addition, international health. An example of our product innovation is insurance for the service life of photovoltaic systems. For decades we have partnered technological innovations with insurance solutions that have often been essential for their broad market breakthrough.

So you have to expand your market?

We have the chance to create an expanded market for ourselves. That’s nothing new for us, by the way. Industrialisation was accompanied by machinery insurance. This new type of cover, for which a need had come into being, was devised back then by one of Munich Re’s engineers. Other waves of development followed: erection all risks insurance, electronic equipment insurance, contractors’ all risks. We were continually called upon to find solutions for the risks connected with progress.

Such solutions can quickly be copied, can’t they?

Not that quickly if they presuppose knowledge of engineering and a thorough understanding of the industry concerned. That is the case with our photovoltaic guarantee insurance, for example. But it is true that there is no effective patent protection for such products. When we develop this type of new business, we run the classic developer risk, but we earn higher margins at the start. And we set standards, which is also of considerable significance in our industry.

The insurance market seems to be pretty drowsy. Can innovation trigger growth potential for the industry?

The industry is not as bad as its image, although that does not mean it could not do more. Insurance means security. What we stand for is preserving and protecting assets. Combining this image with being at the forefront of innovation is an extremely hard act in terms of external communication. But the insurance industry would not be in such a stable position if it had not always identified and addressed new needs.

Where do you see opportunities at present?

Technological advances alone provide a host of opportunities. Innovations can change the risk profile of human behaviour and require adjusted insurance cover. We analyse the possible consequences of new technologies and think them through from the risk point of view. The structure of our society is altering as well, triggered by demographic change, for example. An ageing population needs other forms of cover. At the same time, fundamental attitudes of large sections of the population are changing – with regard to health, for instance. We are therefore increasingly asking ourselves: Are we just cost reimbursers or do we also encourage our clients to take preventive action? As a consequence, our health insurer – DKV – calls itself a “healthcare company”.

This idea is not new, and DKV's premium grew less strongly than the market as a whole last year.

That leads to the question of how far politics makes it possible for people to take out comprehensive health insurance. A three-year waiting period for switching to private health insurance is not helpful ...

... but affects your competitors just as much.

You need to take account of our client profile, which encompasses all social groups. Compared with providers that focus on, say, civil servants, we pursue a different business model. But the crucial question is whether you correctly estimate the changing demand. We are seeing a situation in which illnesses tend to be repaired rather than health maintained. In Chinese medicine, doctors only used to be paid for as long as their patients were healthy. Unfortunately, large areas of German medicine work exactly the other way round. But this will change.

DKV is to remain a brand in the ERGO Group, but you are giving up the strong Hamburg-Mannheimer and Victoria brands. Why?

As Chairman of ERGO's Supervisory Board, I can explain the logic of this step, which is connected with the strategy of the different business segments. DKV is a specialty brand for health insurance, just as D.A.S. is for legal expenses insurance. These companies work together with many cooperation partners. We have to be careful not to create any conflicts. After all, we could scarcely ask a competitor to act as an intermediary for our main brand. That is why the specialty brands have been maintained. By contrast, Hamburg-Mannheimer and Victoria are strong across a broad range, in life and property-casualty insurance. In these business segments, our primary insurers will combine forces under the ERGO brand in future, as is already the case to a large extent internationally. This is a clearer situation for our clients. They come to our products via very different access channels and have hitherto been confronted with different brands depending on the mode of access. The way clients buy insurance today, it makes more sense to guide them to one brand.

And why does that have to be ERGO?

ERGO is a succinct brand, used successfully by our business field of primary insurance in many countries. Making it familiar in Germany is expensive to start with, of course. But it also entails potential synergies. Everything that ERGO does to build up and strengthen the brand pays off for a whole range of sales channels and markets. Even though the Arcandor crisis was the trigger for this decision (because we could no longer use the KarsadtQuelle Versicherung brand), I am convinced that the time was ripe anyway.

Munich Re is pursuing a very conservative investment policy. Can you afford to miss out on the benefits of a bull market?

Certainly. Protecting the capital entrusted to us, from which we must meet commitments to our clients in the long term, rules out any form of speculation. We do not believe that it is possible to go on correctly predicting all the ups and downs on the stock exchange. We base our investments on the principle of sustainability, a strategy that does not permit investing according to market moods. Given these parameters, our investment performance is very respectable. In 2009, we achieved a return of 4.3%.

Won't you have to reckon with opposition to this strategy at the next AGM?

Communication with our shareholders is not restricted to the AGM. Our approach is understood and supported. Higher returns are only possible with higher risks – that became abundantly clear during the financial crisis. We are extremely consistent and do not alter our strategy every time the wind changes. The fact that our consolidated result for 2010 will probably not reach the same level as 2009, because the interest-rate level has fallen and we continue to protect our balance sheet against risks, is just stating the obvious. This business policy is well known to our investors.

Including Warren Buffett?

He understands our business very well.

So he doesn't interfere?

Exactly.

At the very time there are few opportunities on the capital markets, you take €5bn to buy back shares ...

We happen to have sufficient capital. As long as we cannot deploy it in line with our return expectations, we give it back to the people it belongs to: the shareholders. Of course, we always maintain a big enough financial buffer to deal with any further consequences of the financial crisis.

But when it comes to thinking about innovation, couldn't you use find a better use for the capital?

You should not forget that our capital is added to by profits every quarter. In other words, we have natural capital growth, which in the past year totalled some €2.5bn. We are paying out a large amount of this: a good billion in dividends and one billion for the share buy-back. And we are well diversified. Organic growth generally does not require much capital in our case. Acquisitions would be a different matter.

Are you in talks?

We are always in the market.

Don't you need more clout for your Munich Health business than you have with Sterling Life?

Munich Health has done a great deal of "building work" recently. Now we have to give the organisation the chance to grow with the structures. So our colleagues at Munich Health are currently in a one- to two-year consolidation phase. Only after that do further major steps in its development make sense. These could be additional acquisitions.

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