Munich Re posts good Q2 result despite high losses from COVID-19

- Munich Re generated a profit of €579m in Q2
- COVID-19-related losses of around €700m (Q1-2: €1.5bn)
- July renewals show premium growth (+8.3%) and rising prices (+2.8%)
- Record-high premium income expected

"The world is far from defeating the coronavirus. That is why we have been doing everything in our power to protect staff and their families as well as clients and contractual partners from COVID-19. Munich Re will emerge from this crisis economically stronger. We are growing profitably, while taking steps to benefit from the significantly improved market conditions for reinsurers. In addition, we are utilising the capital originally earmarked for the 2020/2021 share buy-back programme – which we will not implement – to invest in profitable reinsurance growth. Prices have risen in nine consecutive renewal rounds, and premium income has grown correspondingly. With our high-quality portfolio, we expect to post a premium volume of €54bn in 2020 – which would set a new record in the 140-year history of Munich Re."

Joachim Wenning, Chairman of the Board of Management

Summary of Q2 figures

Munich Re generated a profit of €579m (993m) in Q2 2020, and €800m (1,626m) in Q1-2. Business development was encouraging, with the exception of the drag on profit due to COVID-19-related losses totalling around €700m in Q2 and some €1.5bn in Q1-2 2020. Of the €1.5bn in COVID-19-related losses incurred since the beginning of the year, approximately €1.4bn was attributable to property-casualty reinsurance and around €0.1bn to life and health reinsurance. In the ERGO field of business, pandemic-related losses were in the low double-digit million euro range.

The operating result fell year on year to €755m (1,419m), while the other non-operating result amounted to –€6m (–54m). The currency result totalled €23m (27m), and the effective tax rate

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was 19.3% (25.7%). Compared to Q2 2019, gross premiums written increased by 8.7% to €12,827m (11,799m); in Q1-2, they rose by 7.7% to €27,112m (25,175m).

Despite our dividend payment, equity was only slightly lower at the reporting date (€29,766m) than at the start of the year (€30,576m). Munich Re's solvency ratio remained stable at 211% in Q2 (31 March 2020: 212%).

In Q2 2020, annualised return on equity (RoE) amounted to 10.4%.

Reinsurance: Result of €407m

The reinsurance field of business contributed €407m (858m) to the consolidated result in Q2; the Q1-2 result was €555m (1,406m). The operating result amounted to €465m (1,162m) in Q2. Gross premiums written rose considerably to €8,856m (7,583m).

Life and health reinsurance business generated a profit of €59m (154m) in Q2. Premium income increased to €3,332m (2,740m). The quarterly result also reflects losses arising from COVID-19 deaths. The technical result, including business with non-significant risk transfer, was €48m (72m). From today's perspective – owing in particular to losses stemming from a mortality rate pushed up by COVID-19 – the annual target of €550m set for the technical result, including business with non-significant risk transfer, is no longer realistically attainable.

In Q2, property-casualty reinsurance business contributed €348m (704m) to the result. Premium volume rose to €5,524m (4,842m). The combined ratio was 99.9% (86.9%) of net earned premiums in Q2 and 103.0% in Q1-2.

Major losses of over €10m each totalled €799m (202m). These figures include gains and losses from the settlement of major losses from previous years. Major-loss expenditure corresponds to 14.8% (4.1%) of net earned premiums, and was thus above the long-term average of 12%. This was primarily attributable to major losses associated with the coronavirus pandemic. In this context, the most significant losses were incurred in connection with the cancellation or postponement of major events. On a smaller scale, there were also losses in other lines of property-casualty reinsurance, including business interruption. All in all, man-made major losses amounted to a considerable €632m (47m). Major losses from natural catastrophes were comparatively low, at €167m (155m).

In Q2, reserves for basic claims from prior years totalling around €217m were released; this corresponds to 4.0% of net earned premiums. Munich Re continues to seek 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.

In the reinsurance renewals as at 1 July 2020, Munich Re was able to increase the volume of business written to €3.8bn (+8.3%). It was possible to tap into growth opportunities, especially in North America and with global clients. The primary focus of the renewals was business in North America, South America, Australia, and with global clients.

Prices increased overall. Price trends varied among market segments in accordance with varying levels of capacity, claims experience, and demand. Prices rose – considerably in some instances – for reinsurance cover in regions and classes of business with high claims experience. This was true, for example, of natural catastrophe covers in North America and the Caribbean, where overall prices rose by high single-digit percentages. In some cases, price increases were even greater. Prices also went up slightly in regions and classes of business with low claims experience, due to a generally improving market environment for reinsurers.

Overall, prices across the Munich Re portfolio increased by 2.8%. 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 see further year-on-year improvement in the next large renewal round in January, as in previous renewals in the current year.

ERGO: Result of €173m

Munich Re generated a sizeable profit of €173m (135m) in its ERGO field of business in Q1 and €245m (220m) in Q1-2.

This pleasing result is attributable in particular to the ERGO International segment's higher result of €59m (8m). The increase is explained largely by improved operational performance and the fact that portfolio optimisation is no longer a burden. The ERGO Property-casualty Germany segment generated a solid result of €50m (55m). Insurance claims stemming from business interruptions and event cancellations were partly offset by stable premium development and lower losses in personal lines business. ERGO Life and Health Germany reported a lower result of €63m (72m) on account of the impact of COVID-19 on the capital market and in travel insurance.

The combined ratios remain at a very good level. In the Property-casualty Germany segment, the combined ratio was 92.5% (86.2%) in Q2, and 92.9% (91.9%) in Q1-2 2020. In the ERGO International segment, it improved to 90.1% (95.0%) in Q2 and to 92.7% (95.2%) in Q1-2; these improvements were fuelled by a lower claims frequency in motor insurance.

Total premium income across all segments in Q2 amounted to €4,228m (4,849m); gross premiums written totalled €3,971m (4,217m). The fall in total premium income is largely attributable to a one-off effect in 2019. This income was further impacted both by the sale of companies outside Germany in 2019 as part of portfolio optimisation and by a drop in premium volume in travel business owing to COVID-19.

Investments: Investment result of €1,697m

The Group's investment result (excluding insurance-related investments) decreased to €1,697m (1,919m) in Q2. The balance of gains and losses on disposals excluding derivatives increased to €1,189m (436m). This increase is partly due to the disposal of fixed-interest securities for financing the additional interest reserve and to higher gains on disposals in reinsurance that arise inevitably from the restructuring of portfolios of fixed-interest securities against a backdrop of falling interest rates. The net balance of derivatives amounted to –€906m (–97m). Upward trends in equity markets resulted in losses on derivatives for hedging the equity portfolio in primary insurance. These losses were partly offset by gains on the disposal of equities and by dividends, with a parallel increase in unrealised gains and losses on equities. Regular income from investments fell slightly to €1,721m (1,848m).

Overall, the Q2 investment result represents a return of 2.7% on the average market value of the portfolio. The running yield was 2.8% and the yield on reinvestment was 1.6%. The equity-backing ratio, including equity derivatives, was 4.5% as at 30 June 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 €230,080m (228,764m); the market value amounted to €249,858m (247,310m).

The Group’s asset manager is MEAG, whose assets under management as at 30 June 2020 included not only Group investments but also a volume of €65.8bn (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 not issue profit guidance for 2020. 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 and its forecast for the combined ratio in property-casualty reinsurance. In addition, Munich Re has now withdrawn its guidance for the technical result including business with non-significant risk transfer in life and health reinsurance (original target: €550m).

Owing to profitable growth, Munich Re now anticipates premium income of around €54bn (previously: around €52bn). Premium income of €36bn (previously: €34bn) is now expected in the reinsurance field of business.

All other sub-targets specified in the quarterly report for Q1 2020 remain unchanged. 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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