Q3 2020 Earnings Call

Company Participants

- Becker-Hussong, Investor Relations
- Christoph Jurecka, Chief Financial Officer

Other Participants

- Andrew Ritchie, Analyst
- Emmanuel Musil, Analyst
- Ivan Bokhmat, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard
- Vikram Gandhi, Equity Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good day and welcome to the Muenchener Rueckver Q3 results 2020 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Becker-Hussong. Please go ahead.

Becker-Hussong {BIO 19080254 <GO>}

Thank you, [ph] Sasco. Good morning, everyone. Thanks for joining us to Muenchener Rueckver Q3 2020 earnings call. I have the pleasure to be here in the room with Christoph Jurecka, our CFO and I will directly hand it over to him for his introductory remarks and then we can go into Q&A as always. Christoph, please.

Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Christian, and good morning from my side. The third quarter's financial development once again reflects good underlying performance in this very challenging times. As we've announced already further significant COVID-19-related losses as well as other major losses that were above expectations left their mark on our P&L. Our Q3 result amounts to EUR199 million, which you think is quite remarkable given the additional EUR800 million in COVID-19 related claims this quarter, and after 9 months, we achieved a net income of around EUR1 billion including accumulated COVID-19 claims of around EUR2.3 billion. Of these with around EUR2.1 billion P&C reinsurance accounts for the largest share. So far the insurance of large events is the most affected area and we still expect this to be the case once the pandemic has run its course. Beyond these losses, we have set up material provisions as point across other lines of business. These include in decreasing order of magnitude a property including BI, casualty and credit. Our reserves, which we have served in a consistently prudent way like we always do to a degree. They cover all claims incurred until the end of September, and as mentioned earlier already, reserving for claims not incurred by then. It's not possible according to our accounting standards. So far the claims actually paid a reported amount to EUR300 million and the large remainder of EUR1.8 billion is then IBNR. In Life and Health reinsurance COVID-19 related claims development in Q3 continued at about the same pace and that's what we saw in the previous quarter already, so the losses year to date amount to around EUR200 million, as in Q2 COVID-19 related claims dominated by US mortality. Claims reported from other regions and other lines of business have been very low.

Looking at ERGO COVID-19 related claims, ERGO continued to be insignificant also in Q3 from a co-perspective. In P&C Germany, we observed minor additional claims due to business closures and event cancellations. Travel insurance was affected by COVID-19 clearly part on the health side, we did not see an increased claims activity. Now let's move away from COVID-19 and let me just give you few comments on the development aside from COVID-19.

As usual, starting with the investment result, the ROI amounts to 2.7% for the quarter and 2.8% for the 9 months and supporting our guidance of approximately 3% for the year. Interestingly in Q3, we saw a difference in the investment return among our fields of business, in reinsurance the ROI of 3.7% was higher than the ERGO benefiting from disposal gains on the one hand portfolio turnover, but also from the disposal of some strategic equity investments. At ERGO by contrast the ROI was comparatively low at 2.1%, as we did not have any sense of our financing this quarter and therefore realized a very small amount of unrealized gains only and there was a negative contribution from equity impairments as well as from derivatives.

The regular income on Group level declined to 2.4% in Q3, given the lower dividend income compared to the previous quarter, a weaker US dollar and also, of course, the lower interest rates. Reinvestment yield of 1.3% was also affected of course by the low-interest rate, but maybe more importantly it also affected by the higher volume, a higher portion of short-term investments. Now, in life and health reinsurance, the technical result including fee income was EUR56 million and this is a similar level than the last quarter and again fall short of the pro-rata full-year ambition. This is almost exclusively owing to the impact of COVID-19 and in North America, we saw some excess mortality claims on top of that in the aggregate and we also saw some impact from lower interest rates. However, all of that was largely compensated by strong results in Europe and Asia and also by a better than expected experience in Australia. Organic business growth continues to be healthy across all geographies. In P&C reinsurance, our combined ratio stands at 112.2 for Q3. In addition to the already mentioned COVID-19 related claims, the explosion in Beirut contributed to the high man-made loss ratio of 18.4%.

In contrast, a Nat Cat loss ratio of 8.3% turned out to be only slightly above or largely in line with the expectations. Despite an accumulation of large losses centered in the US, in particular several hurricanes, thunderstorms, as well as wildfires. Our underlying performance remains sound, which I think is very pleasing including the reserve release of four percentage points, normalized combined ratio amounted to 97% which is fully in line with our ambition.

In primary insurance, ERGO once again posted a strong net result of EUR136 million in Q3 and all three segments contributed to this pleasing performance. In German Life and Health, the net result amounted to EUR31 million and in contrast to Q2, the Q3 technical result benefited from the intra-year volatility driven by COVID-19 into capital market effects. In German P&C, the segment delivered sound earnings of EUR48 million and here the combined ratio was exceptionally good, driven by the strong premium growth and also benign Nat Cat activity.

The combined ratio in the first nine months is fully in line with our full year guidance of 92%. In the international Ergo business, we also posted strong results of EUR57 million driven by an ongoing sound operating performance. The very pleasing combined ratio benefited from the reduced claims and also from lower large losses in P&C and then in health from seasonal effects rate increases and the favorable claims development. Combined ratio in the first nine months fully supports our full-year guidance of 94%.

The Group's economic position remains sound [ph]from the situation increased to 216% still being at the upper end of our optimal range. The literal only funds benefited also from the issue of the Queen bond, which accounted for 7 percentage points. While the economic earnings came in below our expectations of course due to the COVID-19 losses, the SCR remained stable. Now regarding the outlook for the remainder of the year, we kept our guidance unchanged for the investment return, which has proved quite resilient and also for the ERGO financials, despite an environment, which continues to be very challenging, also for ERGO and also for primary insurance in general I can say, given all the uncertainties we have on the capital market volatility and the second COVID-19 wave running across Europe right now.

As the uncertainties are even higher for reinsurance, we still refrain from providing a net result target. Despite all the in-additional insight we have at this point in time and also the experience gained so far, it's still difficult to predict the COVID-19 claims for the remainder of the year and beyond. It is a very wide range of possible path that the pandemic can still take. Assuming normalized large losses, we agree would have been very well on the way to achieve its EUR2.8 billion net income target. Over the last few years, we have accelerated growth and we have further strengthened the earnings power of our group and this together provides a very good basis going forward for the consistent execution of our strategy and new financial targets, which we will communicate at our Investor Day in December. With that, I'm looking forward to answering your questions, and now I hand it back to Christian.

Becker-Hussong {BIO 19080254 <GO>}

Thank you, Christoph. We can then go right into Q&A, and as always, I would like to ask you to limit the number of your questions to a maximum of two per person. Please [ph]Sasco go ahead.

Questions And Answers

Operator

Thank you. (Operator Instructions)

Our first question today comes from Emmanuel Musil from Morgan Stanley. Please go ahead.

Q - Emmanuel Musil

Good morning and thanks for taking my question. I have two questions. So the first one, could you please tell us what is your outlook on rates and how this might impact your growth prospects in 2021 and maybe in the same context, could you please give us some elements about your view on buybacks and dividends.

Secondly -- second question, in your press release in October when you anticipated COVID-19 losses of EUR800 million for the quarter, you referred to then cancellation [ph]penalty the mine line, so could you please give us your view on casualty post-COVID-19 or do you expect in terms of claims and how comfortable are you with current loss estimate in casualty? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Emmanuel. Thank you. First of all, outlook on rates, I think what we can say is that the environment continues to be very constructive for a number of reasons, including the elevated cat activity over the recent years, including also COVID-19 claims, including alternative capital behaving differently than maybe some years ago, including also reserving topics casualty developments in the US, so there is a number of reasons which makes us think that the environment continues to be very constructive and in that sense, we are looking pretty optimistic towards the renewal at year end.

Now, can I give you a number or something -- no I can't at this point in time, it's too early and then we'll talk about it obviously then in February when you will came in, but this is it -- the environment seems to be pretty constructive. On the buyback side, the dividend side, that's something we generally decide as you know in January, anyway only once the year-end has been reached. You know our capital management strategy, which is basically that the dividend is something really very important to us. We did not decrease the dividend for the last 50 years, the whole organization is very proud on that, so that's something which is extremely important to us, so we are going to fight with everything we have for that. On the buyback side, that always has been meant as a very flexible tool and that's the way how we look at it anyway, yeah.

Casualty, yeah I think you were referring to COVID-19 and casualty and we have some claims, we have set off some reserves for that, but looking at other lines of business, I would continue to say that casualty is not the most heavily affected line in that area.

Q - Emmanuel Musil

Okay, thank you.

Operator

Thank you. We now move on to our next question from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

This is Vikram, Societe and thank you for taking my questions. First, is really on the quantification of exposures and claims. I remember that the first half results presentation, the Group has flagged that contingency claims was the biggest risk and we see that coming through in the third quarter numbers, however, I think the market (technical difficulty) [ph]sort of depiction of the potential risk exposures going forward, since it's still a source of potential future claims. The other quantification that I was looking for was a (technical difficulty) EUR2.1 billion figure, where I would have a reasonably good picture of the lost drivers and the second question is more of a clarification, I have read in the press articles several of them saying Munich Re is going to stop offering pandemic coverage, however, I am not sure I understand whether that relates to the pandemic coverage for BI risks or for the event cancellations or Board, so would be to have that confirmation please. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, thank you Vikram. Yeah, first of all, contingency, how do we look at that? Obviously, we have an exposure which has been underwritten in the last couple of years, most of the policies are one-year policies, but there is exposure beyond that with some multi-year contracts which we also have. So, therefore, it's an exposure, which will also effect 2021. Now the way we look at it when we reserve for claims. as soon as we are aware of the claim, we reserve for it, so this means that either an event has happened already until Q3, then obviously we have to set up a reserve for even pay out the claim already, also if you look at our numbers paid out, pretty limited so far. But also if we are aware of a future event being canceled, then of course we set the reserve already in Q3 or in the future -- in Q4, we would be aware of an event next year to be canceled, we would set up the reserves in Q4, right? So that's the way we do it, but as long as we do not have any indication if a future event will happen or not, then we have no plans in setting up a reserve.

As soon as this indication that event is not happening, we are reserving for that and that's the way our numbers are being derived and I think by looking at these explanations, we will probably understand why there was another increase of reserves now in Q3 for contingency, because obviously there we became aware of events we've run that before events to be canceled or postponed or whatever happen to these events. So that's the way we look at it. Exclusion of pandemic, your second question, pretty much across all lines of business.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. If I can just come back on the first point. I appreciate what you say in terms of the approach towards reserving, but how do we get a sense of the scale of exposure that's there for the future -- potential future claims is really my question.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. First of all, as I said, I mean there are some multi-year contracts, but also many of the majority is one-year contract, so the exposure will decrease over time. That's something where I can give you assurance already. But as I said also it's not gone in 2021, it will still be there to some extent at least. The difficulty in measuring the exposures in these lines of business always is that it's not one of you -- if you have a claim or not, but there are many in between depending, if really an event is giving notice early on, then the claim is different than if you really get a notification of a cancellation very late, a postponement is different and then something being canceled quite away and so it's not about the exposure, but the question is what will really be the impact or the extra claim is and that's a lot of query areas between the zero and the one, that's what makes it little more difficult to assess.

So in that sense, I can only tell you, it will be shrinking over time the exposure, but as long as there is a second wave or potential third wave, we will continue to incur claims.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. And the breakdown of EUR2.1 billion figure for the nine months?

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, as I mentioned already in the beginning, I cannot give you detailed figures, but the biggest number is contingency. The second biggest is property, which is BI and then other lines are smaller.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thank you.

A - Becker-Hussong {BIO 19080254 <GO>}

Thank you.

Operator

Thank you. Kamran Hossain from RBC has our next question. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, good morning. The first question is just on I guess total COVID reserves. I guess you kind of 85% IBNR in P&C. At this stage, is that kind of relatively easier points about -- kind of how few case reserves or how many kind of advice losses for this stage or is that normal, I'm just trying to work out if we got normal mean decrease in services and kind of plus 4% reserve release on top of that or you've got Munich Re plus costs given the huge range of uncertainty?

And then the second question, coming back to kind of points on quantifying some of the losses, I'm sure you have brought this number out, but if you assume that all events canceled for this year, for 2020, that have not already been counted. What does the number look like? Is it smaller than Q3 or not? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. The first question, 85% IBNR supplies the normal. I think that's a very subjective question, so I can only -- I'll give you my personal thought and I cannot guarantee that there is not other people having other expectations and would be surprised by other things than I am. But the way I personally look at it, I would have maybe expected some more notifications already coming in now after three quarters, so in that sense, I am a little bit surprised. If you look at the business, I mean in this 85%, I mean we cover both primary as well as reinsurance because you know that out of the second reinsurance, we also got in the primary business and especially on the reinsurance part of the business, I would have expected more notifications to come in already. Finally, we are in close contact with our clients anyway, but on the reinsurance side, so we have re-talked to the primary insurance, I probably would have expected some more information or some more notifications already at this point in time.

Your second question was the exposure until year-end. I can only give you a structural answer and the structural answer is that for this year, as I said, we reserved for all the events. We are aware of already that they will be canceled this year. So structurally that should cover a lot of events happening in Q4 already. On the other hand, in Q4, we will have to make up our minds and look at the information we will be getting about events next year and this might then also increase the necessity to set up reserves in Q4, so that's a twofold answer to your question. For this single year, I would expect less in the fourth quarter, but then there will be the need to set up reserves for 2021 already and there I would expect also a quite significant number.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great, thanks very much.

Operator

Thank you. We now move on to Andrew Ritchie from Autonomous Research for our next question. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there, if I could change topics Christoph and take you back to your old job at ERGO, could you just give us a perspective on any impacts to earnings power and in particular, any sort of additional impact this year from increased said that are contributions at ERGO is Life and Health business and whether that will positive or negative, it could be a positive because of higher gains to be realized, but just -- I just would like an updated perspective given the low rate environment on ERGO Life and Health if possible. And the second question, do you have any sense as to the trajectory of the Munich Re AG distributable reserves this year, I guess you benefit from equalization reserves being drawn down, albeit there aren't as many of those backing contingency as same property. So I'm struggling to work out how resilient the AG profit should be this year relative to a sort of a heavy calendar year. Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Andrew, thank you for your questions. ERGO Life back book, first of all, I have to -- I think the headline would be that the life back book is profitable in the foreseeable future and largely immune to further distortions as we see from the low-interest rate phase. Why is that? A number of reasons for that. First of all, we have a big stock of [ph]set already. The increase this year is expected to be of the same order of magnitude as the last year, so not significantly bigger and the stock we had already end of last year was more than EUR6 billion, we would expect to be at the end of this year at around EUR7 billion.

So quite a significant number, which helps of course to drive down the average interest rate guarantee anyway. On top of that, we have been applying hedging measures, swaptions already for more than a decade or more than 15 years in the meantime, thereby mitigating the effect of the lower interest rates consistently over time. Reinsurance means reinsurance measures are applied very regularly there and there we are benefiting also from the knowledge and expertise we have it on the reinsurance side, which helps us to stabilize earnings and hedging the guarantees of our back book.

So, in that sense, I can -- I think I can (technical difficulty) some of the concerns you were raising just by the fact that this book is being stabilized very much and that's really how we look at also into the future. Distributable earnings, first of all, as you know, we have a stock of distributable earnings and the way we managed local GAAP anyways in a way that we are not overly -- do not look too much on the single year results as we can balance due to the stock of distributable earnings we have anyway. For the current year, you're right, the number of effects we mentioned first of all, yes, the equalization reserve will help in many lines of business, but there are other lines like contingency where there is not a big stock, so claims will also be visible in local GAAP, at least to some extent.

At the same time, I also remind you that also the investment (technical difficulty) is very much different in local GAAP to IFRS, so also there are some differences to be expected. Overall, I think it's too early to speak really about the year-end local GAAP result, but do I see anything holding us back from sticking to our capital management to achieve? No, not at all.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks.

Operator

Thank you. We'll now move on to Michael Haid from Commerzbank for our next question. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Hello, good morning to everyone. Two questions, both I think on ERGO, first of all the FX loss of around EUR100 million incurred, the majority of which is ERGO, can you explain where this FX loss has come from and the devaluation of the US dollar? And if I understood correctly, you also incurred derivative loss at ERGO, does this come from the lower interest rates? Second question, I did not see any figures regarding new business generation at ERGO Life in the third quarter? Can you tell us -- can you give us a little bit of sense of how new business generation even in the nine months, how it has worked?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Michael, thank you for the question. First of all, FX, overall wide EUR100 million loss, that the bigger share at ERGO and the ERGO FX development is indeed US dollar-driven. The Reinsurance FX development is not US dollar-driven. The ERGO piece is US dollar-driven. You have to be careful looking at our numbers. The ERGO FX result, as we show it in our IFRS P&L is a pre-policyholder share number, so only 10% of that is really affecting net income, just the way we present it in the IFRS P&L is a little bit misleading here.

Therefore, I would say it's not a big topic at ERGO, where does it come from? It comes from investments with us in the US dollar, so no liability impact or anything, it is really on the investment side and ERGO applies a core loss strategy in hedging the FX. So around a bit point, there is a certain range in that the FX effect is fully at risk, fully visible in the P&L and beyond that color then, it hedged and ERGO is doing that so to reduce hedging costs obviously and the volatility, as I said 10% of the demand only is affecting the P&L is something ERGO can digest and it's completely within the risk appetite at that area. On the reinsurance side, the FX loss has to do with emerging market currencies, not with the US dollar, which is maybe a little bit surprising given the fact that we have a lot of business in the United States. The point is that here I think the exposure management of our colleagues worked pretty well.

The second question, was I think new business at ERGO.

Q - Michael Haid {BIO 1971310 <GO>}

Yes, Ergo Life and Health.

A - Christoph Jurecka {BIO 17223019 <GO>}

Ergo Life and Health specifically, ho sorry. I think overall what I can say is that we are happy with new business at ERGO. I would say it's across all lines of business, it's pretty stable compared to prior year despite COVID-19 and then there are certain ups and downs between the different lines of business, where life insurance is probably falling a little bit behind P&C, but overall I think it's a very good result that ERGO was able to stabilize new business given the lockdown situations we have now for the second time already in Germany.

Okay, thank you very much.

Operator

Thank you.

(Operator Instructions)

We now move on to Vinit Malhotra from Mediobanca for our next question. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Thank you. And hope everybody is well. So my two questions, first one will be on the realized gains. I can see EUR321 million in fixed income in this quarter and I would assume that to the AFS fixed income move of around EUR306 million and then when I look at in context of sharp fall in reinvestment yield 1.3% now, also I note comment that you're increasing infrastructure private equity ABS, I mean the whole picture seems that how are you balancing realizations of gains and the reinvestment plus some re-risking? If you could comment a bit about this whole asset side it would be very helpful.

Second question is just on life mortality, I mean recent trends, at least last few weeks if you have any views -- I mean the thing is, I'm trying to understand if we know that the portfolio and the population are different things, but has the difference being increasing in your experience recently in October maybe or would you still say that it's sort of similar and one should keep expecting that and in that context of life, I could also ask your Australian positive comments was quite remarkable given we think some of your peers report how they were under pressure in Australia this quarter, if you could also comment that? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Vinit. Thank you for the questions. First of all, realized gains, I think the general remark is we don't realize gains for increasing our earnings, so we only do that if there is a need to do so, either because we have to have to fund something on the liability side, so this (inaudible) is the most famous example or we do so because it's unavoidable in case you want to restructure our asset portfolio. In that sense, the realized gains on fixed income instruments are more happening, in the essence, unavoidable, then they are really steered in order to achieve a certain result. Having said that, I think you mentioned a lot about investment activities, which are ongoing. We have been selling some German-covered bonds from Germany, in order to go into riskier assets and re-risking also on that side. We increased slightly our equity exposure again, that's something we did and, of course, continue to increase our engagement in illiquid assets and that's also an ongoing activity. Overall, I think it's still fair to say that the asset risks is overall stable, we rely a lot on diversification here and across all the various books we are having, but this increased diversification is particularly important given the low yield environment, you have also been mentioning.

Life mortality, your question was, if the difference between our book and the general population, if this has changed. I think that my answer would be no, pretty stable and it's put in line with what we expected in the first place and then your question on Australia, indeed this quarter was to be 91 in Australia, but I just remind you we also had already other quarters this year, so I would not extrapolate that too much, but enjoy with us, that we had a good quarter in Australia at this time.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

Thank you. We move on to Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good morning all. Two questions, the first one would be on Solvency II versus IFRS related to COVID-19 losses to the risk of restarted discussion of Q2, but could you refresh our mind on how your Solvency II ratio at Q3 is forward-looking in terms of taking into account some of the expectations for additional COVID-19 losses especially on the life side.

And the second question would be related as well to the outlook for life and has re-COVID-19 losses in your slide pike, your pointing to potential disability claims and some offset from UK longevity, so could you help us to put some numbers behind, especially for 2021 and how UK longevity could be an offset in the coming quarters. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Okay. First, Solvency II versus IFRS, I start with life. On the life side, we did not set up an additional for Solvency II if you compared with IFRS, also looking into the future why didn't we do that, we have on top reserve which anyway easily covers potential developments going forward and therefore we just didn't see any need to set up an additional reserve, so it's all fully covered. We have an additional pike reserve, that's how we call it anyway, for example, covering mortality risks of all. On the P&C side, the situation is quite similar I must say, there also we enjoy pike reserves, which we have and which are also easily covering adverse developments, by the way these reserves are not only booked in Solvency II, we also have them for IFRS purposes. So in that sense, we didn't see any need standing up additional reserves for Solvency II purposes, where theoretically you would need to look a little bit more into the future because we are so highly confident that the reserve level we are having is in any case more than sufficient.

Disability and mortality, wasn't that?

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah, longevity offset.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, so I think we -- what we have in our presentation, is that remark that at least so far in the UK we are enjoying diversification between longevity and mortality, which is more or less setting off each other, so no big impact in the UK business, at least until today and similar we mark on disability, so far we did not see any increased disability claims. Of course, you cannot hold that out. Also, the link is obviously a little bit more indirect than for mortality claims, because what's happening is usually that you have some economic downturn, higher unemployment rates, things like that, and then disability comes in, that's something we do not see yet, but obviously, that's a risk and that's why we wanted to mention that risk on our slide.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

Thank you. We'll take another question from Ivan Bokhmat from Barclays. Please go ahead, your line is open.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning, thank you. I've got two questions, the first one would be on the frequency benefits that many of the primary insurers have seen from the COVID and now that might continue with the second lockdown. Just wanted to see how you think about that, whether they are starting to weigh in some buffers on the balance sheet of weather due to the nature of the business you're right, it's not that applicable.

And secondly, just a follow up on those life mortality questions. Just trying to understand this run rate of EUR100 million of COVID provisions in the life and health book that follows the mortality experience. Is it therefore rational to expect it in the coming quarters until we have some form of resolution for the pandemic, either the vaccine or something else?

A - Christoph Jurecka {BIO 17223019 <GO>}

Sure. So let's start with the second question. I think what we can see is that the development of our claims is pretty much following the reporting. You can also read in newspaper, it is very much focused on the US. So to some extent, of course, it's not precise, but to some extent if you follow and what happened in the US so far and extrapolated in the future and then look at our claims numbers, I think you would not be completely misled by doing that. Yeah, that's what I can say on mortality.

Can you remind me of your first question, please?

Q - Ivan Bokhmat {BIO 15378004 <GO>}

It was on the frequency benefit in P&C.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, so frequency (multiple speakers)

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Where do you see it -- in ERGO, where do you see it and in reinsurance, how do you account that?

A - Christoph Jurecka {BIO 17223019 <GO>}

In reinsurance, we don't see a lot, reason is that we have -- in many of our proportionately sliding scales, which means that the benefit of frequency -- the frequency of benefits we mean with the primary insurer. On ERGO side, we see some of these, but then you have to look at them in the light of the COVID claims, ERGO also has -- so my overall commentary was COVID-19 insignificant at an ERGO level, which includes, on the one-hand side COVID claims, on the other hand some offsetting benefits, also from the frequency side.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thank you.

Operator

Thank you. And we take a follow-up question from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thank you for the opportunity. Just one from me, I'm much surprised that despite significant reserve buffers, the group never really utilizes them to smooth the P&L. I appreciate you don't want to really weaken, what is the essence of a strong balance sheet, but I guess it would be a good messaging to the market, the management is willing to dampen the volatility were necessary. So perhaps a word on that topic would be helpful.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, I mean -- I think we could have a long debate about that. I mean is it good to maintain a strong balance sheet or is it better to do use it sometimes. I think either way you could be in favor of either of the two ways, so I mean -- I'm glad we agree that we are having a very, very conservative and very reserve strong strong balance sheet in the first place, but would I easily use that, no I wouldn't because in case additional downside would occur, I would probably give up my options and I don't see any advantage in that.

So, we've been seeing many, many developments in the past, which you'd be easily able to digest based on that with our strength and all these discussions are on Solvency II, we don't have to have them because always we are strong enough anyway, so I think it's a very comfortable position and a very good place to be at.

Operator

Thank you. And we have a further follow-up from Andrew Ritchie from Autonomous Research. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Either I'm connected to COVID, you would be glad to know or maybe distantly connected. There's been a lot of talk about increased cyber losses across the industry over 2020 and especially Q3 front losses in particular, given your sizable market position in cyber, it doesn't appear to have affected your results, but can you give us any sense, so whether you've observed that or whether it's called any issues in the profitability of your cyber book, that would be helpful. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Well, thank you for the question. Yeah, I must say we hear that as well, but only in a sense, we hear it (inaudible) something, so we do not have any indication in our book of this development, neither on the primary side nor on the reinsurance side and you know we a write-off of cyber cover in both our primary as was on the reinsurance operations. On the primary side, we are also that close to the customers and clients, that we in any case should know it already if it would affect us. On the reinsurance side, there might be potentially delays, so maybe there is something we don't see yet, but even if there was something, I think the profitability of our book overall would be fully intact.

Q - Andrew Ritchie {BIO 18731996 <GO>}

All right, thank you.

Operator

Thank you. And that concludes today's question-and-answer session. I would now like to hand back over to Mr. Becker Hussong for any additional or closing remarks.

A - Becker-Hussong {BIO 19080254 <GO>}

Thank you very much. Nothing to add from my side. Thanks again for joining us. Happy to help with additional questions as always. Hope to see you or hear you at least all soon again at the latest at our Investor Day in early December, so very much looking forward to that. Until then please stay healthy. All the best and goodbye.

Operator

This concludes today's call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.