Y 2017 Earnings Call

Company Participants

- Andreas Lampersbach, Head of Group Communications
- Joachim Wenning, Chief Executive Officer
- Jorg Schneider, Chief Financial Officer
- Markus Riess, Chief Executive Officer, ERGO
- Torsten Jeworrek, Chairman, Reinsurance Committee

Other Participants

- Alexander Huebner, Journalist
- Unidentified Participant

Presentation

Andreas Lampersbach {BIO 15017603 <GO>}

Good morning, ladies and gentlemen, and welcome to the Annual Press Conference of Munich Re here in Munich. Conference will be broadcast live on the Internet. So I welcome everybody listening in online. And press conference will also be available for inspection afterwards. We've got simultaneous interpretation into English. So if you wish, you can also follow in the English language.

Your contact for today, Joa Wenning, CEO of Munich RE; Dr. Jorg Schneider, CFO; Markus Riess, Member of the Board of Management and CEO of ERGO; and Dr. Torsten Jeworrek, also member of the Board of Management and responsible for the reinsurance business.

And we start straightaway with Mr. Wenning. Over to you. The floor is yours.

Joachim Wenning {BIO 16273429 <GO>}

Thank you for these words of introduction. Dear colleagues, here on the site from the press, but also you out there listening through the Internet, welcome on behalf of the Board of Management to today's annual press conference. I'd like to start straightaway.

And I'd like to start with this slide here. As you can see, the fiscal year 2017 was closed out with EUR0.4 billion in net income. Now, under normal circumstances, with a normal net cap development, this year would have closed out at EUR2.2 billion in income. I think this is noteworthy, because it will then be exactly within the bandwidth that we had projected at the start of the last fiscal year. So it's a confirmation of our earnings forecast, going forward.

Gratifying, nonetheless, is despite the fact that we had enormous net capital losses, according to HGB, the German Commercial Code, we have EUR4 billion in distributable earnings, which allows us to pay out an appealing dividend to the shareholders also, going forward. And we can assure that attractive dividend policy. Equally gratifying is, as you take a look at it -- there's obviously two ratio -- that despite the burdens from the nat cats in 2017, the solvency ratio has remained practically unchanged and is extremely high. Why am I saying practically unchanged? Well, Jorg Schneider will tell you more when he comes to talk about Solvency II.

Now, for many years already, we have been reporting about our equity ratio that you can see here on the left hand side and on the right hand side. We, of course, compare ourselves with a number of competitors. Seven peers here from both reinsurance and primary insurance industries. And as you can see, indeed on the left, you can see, in 2017, the equity return -- return on equity is, of course, drawn deeply down. But at about 10%, it is still, as you can see here, well above the capital cost of 8%. And Munich Re, thus, is still ongoing and creating value.

Looking at our competitor situation, you will find not a single competitor who with the same risk portfolio over the same volatility or higher volatility can achieve higher or equally high return or was able to achieve that equal return. However, there's five in that peer group of seven who, more or less, significantly have actually fared substantially worse. (inaudible) (3:55) two competitors who at a higher risk and had a higher volatility have also managed to generate substantially higher returns than Munich Re.

Since last year, we have been pursuing the three strategic priorities. The first means measures to stabilizing our earnings; on that basis, then step-by-step to increase our earning power within the Group. Then we look at the digital transformation within the Group and to drive that forward and further development. And thirdly, we want to streamline our company, make us leaner, and reduce complexity. And you can see a few bullet points underneath these headings, how we explain this or talk to our employees. And at this point, I'm not going to address them in due detail. But on the following slides, for your better understanding, I will try to elucidate what these priorities actually mean.

First and foremost, the stabilizing of earnings and the increase of earnings power, I will come back to talk about that when I give you my outlook on the fiscal year 2018. Now, on this slide, slide six, you can see what, first and foremost, the three strategic priorities as we announced them at the last press conference for the interim report for the half year. We talked about the strategic house. And you may recall, we've had three strategic thrusts -- improving and growing, investing and divesting, and according to strategy and performance criteria, but also the transformation and new business models. And on the right hand side, we wanted to give you an overview on how the many different forms are comprehensive. These various measures then are on the Group level, on the level of the ERGO, and on the level of the reinsurance, which are directly paying into these strategic priorities.

But first, I'll speak about the Group. And if you see, Munich Health has been disbanded and in 2017 integrated into the business divisions, ERGO and reinsurance. Then, as you can see, it's just a line here. But I can tell you that is quite a substantial transformation in the business divisions, which are trigger to substantial, as I say, and major initiatives that has now been successfully completed.

On the ERGO level, I could also mention, for example, that we've made really significant inroads in 2017 when it came to optimizing the portfolio in the international business. That means, for example, ERGO has been highly successful in the first wave of those marginal or strategic investments and operations and has divested these shared company with them, but instead has invested in a digital player. This is just an exemplary case, because then if you take that further, looking at the reinsurance side, you can see there is number of growth initiatives. But of course, I don't want to here preclude. Torsten Jeworrek will tell you more.

So the ultimate bullet point on the right, we plan and we are ambitious enough to say that with less expenditure, we can drive more business. And for that, let's move on to the next slide because, of course, you will find that a number of locations and sites of the Group here in Munich, but also internationally, you will have heard reports about what we've done. And if you just take a look here on the right hand side of this slide, we have now for a number of years already been restructuring our organization. We've planned it and also implemented that restructuring, all of which are geared towards making sure that we bundle skills, specialties, and competencies at our various sites. But by the same token to make sure that our organization in the front and organization is as close as possible to the target markets and the target customers, which means, if you read about regional hubs, if you read the new structure and claims, that's what actually is at the back of this.

What's more? We are now focusing on business developments, which means, throughout the Group, we said business development is focal point of our efforts. But of course, on everything that's business, but by the same token, what we call smart governance, that business needs to be intelligently, competently managed and cast into due government forms. And that's what we at the moment focus on. But that means, of course, by the same token, that the works that no longer serve these priorities adequately are being tested, are being reviewed, and will allow us and enable us to take work out from the Group, out from the Reinsurance division without them having an adverse effect on our business. Which means with less expenditure, we will generate more business in future. And not independent thereof, but concurrently, we are investing in building up new competencies. We are investing in new business models. And that's what you see on the left hand side of this slide, which is then of course also via a transition to the presentation by Torsten Jeworrek, but I will therefore leave it at this for the moment. The concurrent nature is when I think myself this is remarkable how we are coping with this digital transformation without disrupting the operative items of our data operations without burning them too much. Organization, by the way, I would like to mention briefly here, I can tell you our organization is working flat out and achieving quite remarkable results.

Now before I handover over to Jorg Schneider just one last slide, you can see it here. It's an image that I would describe, it shows you the strategic overview of the value creation process of reinsurance. And this aims to show you what we actually mean when we speak about digital transformation. How the group will in this image move forward. What you can see on far left, you can see the end clients. And then in the typical classical sequence you've got the various elements there, primary insurance in the further to right, the risk carriers of that reinsurance and then in the far right you can see the capital markets, that's the classic situation.

Now, as you can see, at the very top, you see, the Company's business divisions and business models, which are very much driven by underwriting, which means, if you can't do underwriting at the very top, then you will be no -- in no way successful on a market. But then, if you could go further down, you can see down at the bottom, those businesses, those companies that have business models that without a material sales competency would equally not be successful on a market. So these are quite different business models. If you see on the right, between these two, you could see all the other companies and business models, which we have been in last 20 years been adding to the Group of the Munich Re, both inorganically and organically through our gross.

So what I would like you to take home from this slide, there's two major trends, no matter whether I look at the classic re -- primary insurance, push sales or from reinsurance. There is one clear trend of specialization, which means we are all focused on going towards the center. And the second trend is the focus on the client on the end customer, which means in the timetable we are moving simply further to the left. And if you look at these arrows pointing towards left, then each one of these units has a specific strategy, has a specific duty to integrate digitalization into its operations to make sure that they really specialize their focus on the front end and to set ourselves apart in our competitive field. That's the general movement. And the sum total of these movements is what we call digital transformation within the Group.

So thank you very much for my first overview and I now hand over to you, Jorg and I will be back later with the outlook. Thank you very much.

Jorg Schneider

Thank you very much and good morning, ladies and gentlemen. It is quite evident net cash [ph] dominate Munich Re's 2017 financial year. And this in particular, when it comes to property casualty reinsurance, here we have seen a large accumulation of major losses and we had to deal with them. Now, on top of that, we should not forget that in life reinsurance despite some of the burdens, which we found in our portfolio like in Australia or in Israel, we have had very good result, 600 million excess and we also benefit from tax earnings and when looking at the situation and despite this huge number of natural catastrophes, we can say that we can look back at a satisfying -- satisfactory year. 273 annual profit is the number for ERGO, they exceeded their target, their projection and they are really well on track with what they want to achieve.

We just have to take into account, and this is by looking at the public and looking at the regulators, we have to take into account certain aspects and have to report accordingly. IFRS, this is something which we talk about, but also Solvency II figures, which were touched on just now, and the HGB result is also important. Why? Because our dividend and our share buybacks will be paid out based on the reserves of provisions from the parent company. And here, we had EUR2.2 billion. And I can say that this is a good and typical result because under HGB, there is a huge equalization provision, which will cushion or buffer other effects. Now these earnings are very important say, item for us and again, it was influenced or impacted by the huge number of net cash. But nevertheless, they benefit from the good results ERGO and life insurance.

Now business units, Mr. Jurecka and Mr. Jeworrek are going to talk about those aspects. I just would like to touch on this other aspect, but very briefly. Now, any reserves, loss reserves of Munich Re are very well planned and this is my firm conviction. And maybe they are as good as in the previous years. And I think, this might strike you as something special. We really resisted the urge to get back to our shelves and get something out in order to reduce any negative impacts or not getting anything out of the reserves. You see our loss reserves or can handle or deal with an increase of inflation, 1.1 million of these provisions were released and 63 for major losses and others for basic losses. And if you take into account that our reinsurance customers that is the primary insurers benefited from that, if they had a specific say commission agreements with us then the net advantage was 870 million before tax. This refers to the 5.2% of the gross premiums earned. According to all indications with the reserves are very well planned and the amounts are always appropriate.

Now, the capital result, the yield was 3.2% in reference or in relation to the market value of these items. And this is something, which is remarkable. And I believe you can see it on this chart. The declining yields have come to a standstill. This means for the entire Group, in ERGO, we have a very long duration of capital investments and this means, we've got high coupons in our portfolio. And there is a small return, which we noticed and in 2018, we will see a sideways movement only. Now reinsurance shorter durations and higher proportion of outside investments, particularly in US dollars, we have seen the trough or the lowest point of the development in 2017.

Now, when looking at the investment in property, in infrastructure and shares and private equity are taken into account, that you see that will extend it, our business in this respect moderately. But if you look at the illiquidity of liabilities, these are long-term liabilities, there is no run on the insurance companies like -- unlike these runs on banks, we haven't got this development. And we can benefit from this aspect by maintaining or keeping long-term investments. So reserves are in the amount of 11% of the market value of our capital expenditure amount to EUR25 billion.

Now, about the situation of the parent company, according to the German accounting principles, the most important aspect was mentioned already, the ability to distribute funds is maintained despite the high burdens, which we experienced in 2017. And if you look at the development of the HPC -- HGB result between 2016 and 2017, the technical results remain stable, more or less. Because these equalization provisions were released according to the burden and as long as the burden was below the, say, annual average. So 15 years after the World Trade Center attack, the respective burdens are no longer reflected in our calculations. So this was a very good, say, relief for us, particularly looking at the equalization provisions.

Now, here on this chart, you see the current status of equalization provisions. And I believe this is the largest provision, which any other company -- which -- in comparison with other companies we have made. So I can only say that this is a very strong balance sheet. On the one hand, the measured indicators, that is the way we show them, according to HGB, Solvency II or IFRS. So we can say -- Joachim Wenning mentioned it already --

our situation is quite stable. Because if you calculate the previous year using the same method i.e., deducting all the announced share buybacks and dividends and other buybacks, then the Solvency rate increased from 240% to 242% of what is required. In addition, we have a very low -- or extremely low indebtedness. And this is reflected in the balance sheet. And if you look at the property reserves, then when assessing, evaluating this, we have used a risk-oriented approach and also slightly costs are prudent. And of course, this opens up options, meaning we continue our attractive distribution policy, highly attractive dividend and, as we are going to announce today, these share buybacks. But this is also beneficial for growth additions. This means the Company is moving forward. Having said that, I'd like to hand over to Markus Riess. And he's going to talk about the facts and figures as strategy of ERGO.

Markus Riess {BIO 1835270 <GO>}

Progress report on ERGO strategy program leans essentially as all on track as planned. Maybe even a tick better than projected. That's why you see me here quite optimistic and satisfied with the preceding 12 months. I'm just going to talk you very briefly through the slides that you have in front of you.

I'll start with number 16 -- slide number 16. And we'll also have this superimposed here to my right or left. What you see are essentially looking at the figures. I'm not going to address every single figure. But you can see a very nice net result, net profit, solid and healthy combined ratio for P and C in Germany, although this is very much still burdened by expenses for our strategy. But in a nutshell, we've delivered what we've promised. So what is at the back of this? Well, all-in-all, you can see we've been able to achieve great progress with cost reductions. The sales overheads, as you know, have been the past peer's obsession. Now, they've already been reduced by 36% once more. Almost the entire product landscape has been reformed and revamped. We've got a lot more modular products in the property and casualty area in Germany. We've got certain new products in life insurances on the market since the 1st of January, 2018. And we've got three new fund-saving concepts, unit-linked concepts so that our brokers, when it comes to old age provisions and pensions, we can provide them with very appealing insurance and fund index-linked products.

We've also made a few very interesting initiatives. I think the start of nexible is, from my perspective, the most interesting one. Then, as you may recall, we started it in the end of September 2017 and had a very intensive phase until the 31st of December, 2017, and managed to have slightly more than 20,000 vehicles that we won over with 35,000 risk units and are now approaching the EUR10 million barrier in premiums written, which I personally deem to be a very successful start of our pure digital player, the nexible, which of course also allows us to develop what we would deem a critical mass. In the course of

2018, all the digital processes that we really have in the market, which we're of course, permanently improving, that we will also conduct a practical test on their liability.

We also opened up noticeable strategic partnerships. For example, amongst other, with Deutsche Telekom, where we developed what we call the Safe Home, a new innovative product, which is a sensor-based protection means for a property, for a building. And with that, of course, assisted insurance and services, which also proved to be highly successful and popular. And as you can see, it won the Insurance Innovation of the Year award, which I think is a good start for this smart and safe home industry.

Then also when you look at mobility, we opened up a strategic partnership with Ford Germany. Well, I believe we're also looking forward to analyze that sort of partnership, going forward. When you look at digital transformation, we also can see good startup success. A number of the portal architectures have been amalgamated into one ERGO portal, which looks sassy and good, I can tell you. We've got a great number of user figures -- real users actually, which is above average. Because, of course, with our market-leading health insurance, we have a product that's very transactionally active. So the 700,000 -- roughly 700,000 users are actually really active on that portal alone.

Then we can see progress with digitalization or, what we call, the B operation. We have substantial increases in what we call the direct and indirect processing of insurance covers and policies. And those of you who know this market know this is still a leeway on room at the top. So going forward, it will remain a source of efficiency gains, but already now has seen a substantial progress made from what we started when we launched a strategy program.

And when you look at Digital IT, we now have bundled our resources. We've got about a 120 experts at locations in Berlin and Warsaw that oversee all our digital innovations with a very high time to market fidelity and with very agile methods. So that means this is no longer simply theory, but this is already working out there in the field and is flying.

The following slide is what we call -- well, it's a report on measures, which I'm just going to leave over at this point. Because that's something for you to read up if you want later on, just to indicate that in all the dimensions of our strategic program, we are as it's called, Fit, Digital, and Successful, we have achieved on past important milestones in 2017 and have, of course, defined similar milestones for 2018. But then, let's break it down to the innovative units and segments, as Mr. Schneider already said, it's going to give you the Group-wide picture.

So that here on slide 18, you've got the figures for Life and Health in Germany. All-in-all, gross premiums written are EUR9.2 billion, with a net result of EUR175 million, which means that's healthy. That's a solid result and confirms to us that this segment is forward-looking. More important then the figures, however, just a word about the Life, the classic product, which in last few months received substantial public attention, I may say. And just briefly recap our strategic approach here. The classic Life insurance business stays with ERGO. We've looked at potential disinvestment, but we decided to keep it and to process it ourself. And as you can see, with IBM, we've opened and entered into a contract with --

for migrating our Life systems. And I'm quite optimistic that this cooperation will mean we will succeed in having a modern performance and mandate a client-enabled system for the future, which allows us then also to assume and take over inventory in the sense of administration, not in the sense of acquiring them. But that also opens up a perspective of administrating here or professionalizing our administration. But, however, the pride of place, I must say this, of course, is also the cost efficient and efficient management of our own stock of inventories on contracts. So it's online. And since the 1st of January, 2018, we've got fully operational separation that's being completed. So that we now also have a corresponding management structure forward. And we are committed quite clearly to the new Life business with the new products, which no longer carry a classic guarantee. But the hybrid products, they are unit-linked products, which through our gross premium guarantee should go further than this. So that we now have a situation that we are very modern. We are very well saving on our capital. But at the same time, for the customers, we provide them with a decent participation in the developments on the capital market. And these products are just like new biometric products now available from the market, which moves us on to the property-casualty ratio.

We can see good developments here. Gross premiums written, you can see, nicely up and also the result nicely up. All-in-all, as you can see, the combined ratio now at 97.5%, which however with 2.7% is burdened or to say slightly rolled down by strategic investments. And without the strategic investments, you would have to add 2.7% and deduct before the 97.5%, which means operative in the P&C area, we are really doing very well. This is now the highest combined ratio that we are reporting, according to our plan. Because as of now, the operative strength will increase. And investments in the P&C area are set to drop, which you can see on the following slide here in that graph. And at the moment, we are performing better than planned. All-in-all, with the new modular products, we now also have created the precondition to make sure that our sales organizations, I mean all the agencies, now work under one unified concept and setup, that they will now fit with products that you can also use and utilize in the business with private customers. And of course, for 2018, we are looking mainly at the -- on an offline integration, which we do under the term, hybrid customer, which means we want to have the full integration of on and offline sales organizations under the name of ERGO. But of course, the brokers still are center-stage. But we've also got product investments also in liability and in the personal accident that we will mop up in 2018, which brings me to the third and last segment, the International Segment.

And here, I also have good news to communicate. As you can see, we've got a substantial uptake in the gross premiums written in the property and casualty of 2.8 billion, which is both driven by internal as well as external factors. The internal effect is mainly driven in India and Poland, where our P and C companies have seen really very nice progress made on the premium side and also on the profitability side. In Life, we are withdrawing further from the classic business which, of course, we're also doing in Germany. So EUR300 million less in gross premiums written or should we say ordered. And here, for the first time, as you can see, we have also reported for the first time that gross premiums written on the Health unit. That's mainly what we've assumed from Munich Health, from Munich Re that is. And that is growth above all in Spain and Belgium. Combined ratio also very gratifying, 95.3%. And here, we also have to point out the very healthy development in Poland.

And we've got a very nice result of EUR40 million net result in total. Another important aspect is, of course, what are we going to do going forward in the International portfolio management . Well, again, that's a repetition of what I showed you a year ago. So I'm going to be very brief here. Well, we've laid a good platform with our three pillar strategy that you are familiar with. And furthermore -- and I just want to express this briefly here -- we've got a strong cost-cutting program in place of EUR40 million cost savings. On the international front and portfolio optimization already being mentioned by Dr. Wenning, we will clearly look at further disinvestment opportunities, analyze them. And we'll try to bring them to the market in 2018. Please bear in mind and bear with me, I'm not going to tell you exactly in detail where this might happen. But this is a strategic attention. We want to be very focused going forward with our international portfolio. And the efficiency gains will be created and raised. The cost-saving program and nexible with its successful start in Germany shall be panned out to Austria. And the mid-term targets are, of course, to have nexible with all other technological innovations, where we can see a further development, like in India, China, Poland, or Greece, where we think we want to improve our competency and, thus, to achieve further profitability gains.

And, with that, I hand over to Mr. Jeworrek.

Torsten Jeworrek {BIO 5724439 <GO>}

Thank you very much, Markus. I would like to talk about reinsurance. And I'll start with the result. 120 million overall result is clearly far below the expectations. But this is due to the big events that happened last year. And if you can see on the top left, it shows you the Non-Life reinsurance. Here, the development was negative. The losses incurred here, no changes. And this is the figure which we announced, EUR2.7 billion net. So here, a number of events have been included, which we've seen in the past. Particularly in 2005, we had a similar series of disasters and, also, the insurance amounts involved were more or less the same.

Now, for 2017, I can say that this is below-average hurricane season, although we have the effects of El Nino. Well, I don't want to elaborate on that. Here, the experts gave their opinions and the outlook on perspective for 2018 haven't been, say, determined, but we are going to elaborate on that, the profit. The combined ratio also like this. Then you have to also take into account that companies like Munich Re surely -- and this is the nature of this business -- in relation to their size buy less and can buy less in comparison with other companies. So this means we have a growth equal to net underwriting policy. This is the reason why we followed and pursued this policy. And Mr. Schneider also mentioned that we are on, say, a good level. And I believe this is satisfying.

Life. The result which we measure and against which we are measured, that is a technical result, is shown in the middle, EUR428 million. But this is slightly below the 450 million which we planned. But nevertheless, this result, in my words too, is a great result. Now, why is it a great result? If it is below 450 million, then the chances and the situations we harnessed during 2017, i.e., we had two major contracts in North America. That is, we recaptured these contracts, that is we try to get in touch and negotiate things with a customer and do things early. So EUR170 million is the figure in overall. So this is the positive effect, EUR170 million. And of those, we handle losses in the following years. So at the end of the day, I can say that this is really a good result which we achieved.

Now onto the next chart here. So here, the renewal results, Mr. Schneider communicated them several weeks ago. I would like to touch on some market environment observations. And I would like to elaborate on how we see these developments. I'm really happy that we are operating in the market and have very good, say, business growth in a market, which is highly volatile. And my opinion hasn't changed over the years. You see, you should not place all of your bets on growth whenever there is a chance. You always have to take a cautious view. I can say the market conditions surely -- or the market conditions worldwide have increased. We have seen stabilization of the rates. The loss-affected segments of our contracts, in particular in the Caribbean and the United States, here we've seen an improvement. But also the US casualty business here, we've seen price increases. So I can say that this means that the environment has improved.

Now, the available capital or the capacity of traditional reinsurance business worldwide, but also referring to the alternative capital here, there is the catastrophe or disaster claims. We can say that the situation has not changed dramatically. I can say there is sufficient capacity available also in comparison with our competitors. And no effects have happened which we can measure, meaning the lock-in effects, i.e., the alternative capital will have to be withdrawn -- had to be withdrawn because of the developments at the marketplace. Now, then we had some increase in the marketplace in the number of these burdens. If you compare all this with 2005 then last year things were so less say evident. We had good answers at the time, but I can say that the market environment has improved and this is good news I think.

The second item, this refers to our growth, the 19 point something percent. Really just if I -- the growth -- what I want to say is the market environment does not justify this growth. Now what I want to say is the 70% or more than 70% of this growth due to structured, and capital relieving developments, because in this case, we have had a long run up phase, got support from the market environment and this meant we were able to win these contracts. This means we share the holdings, which reinsurance had, different from what we had in the past. And one is very well known. We talked about the IAG in Australia, and the others haven't been published so far, so the AIG is numb.

So I'm happy about this development. About daft, stupid growth, I am not really happy. But about this, I am happy about this great. Group premium increased 0.8%. This sounds positive, well, it is positive, but we should have expected more and we have to see one aspect. We report this premium increase in a technical sense, so how much is reflected say in the combined ratio. Other increases, the economic increase, well, here we can say the effect is higher, but in the past we didn't report on that. But on the other hand, we can also say that our competitors report on an economic rate or premium increase looking at the United States and if you look at the development there, a lot of the great growth was generated there. Then, of course, the economic premium increase is 1.6% for us. Now I think this sounds quite well, doesn't it. And it is clearly, clearly higher result, when looking at others.

Now the next item, here we're looking forward -- we're looking ahead on the next chart, I would like to show you our three segments, important for our business development and our growth in the future. And these are the ones which we want to focus our efforts on the future. Okay, so you see a risk solutions. Now we have traditional reinsurance on the left and risk solutions. And Steamboat and other companies are involved here. And then we've got digitalization and new strategic options. Now these are the ones, which we want to translate into new business models and monetarize them.

The next slide describes the traditional reinsurance and risk solutions. So this is not digitalization, that you see reflected on this chart. Here we've got comprehensive strategy projects going, and we have highly identified strategic initiatives put in place. And up until 2020, they will generate substantial profitability and growth by 2020. Now here everything's been described in generic terms. Item one on the left side, we are firmly convinced that in particular when looking at the mature markets, that is the developed markets of this world, we will see enormous growth potential, people talk about emerging markets only, but we talk about the mature markets. And when I'm talking about mature markets, the number one is the United States, United States is a great market, if you do things correctly, we had a traditional approach, we're looking at it, we have a very good say participation structured, a very good market structure, which will enable us to generate profitable, sustainable growth.

And then the other markets like China, India, Australia, and special business so-called, agro-business in China, and the capital market solutions, these are structured major transactions, which we've seen reflected in our renewals. Next chart, this is the other part, now this is the part, which you know is expressed by digitalization, here we want to develop new business models. I'm sure you are more or less familiar with this chart, because we have shown this chart several times, particularly during the Investor Day last year. I just want to single out a few aspect and not, you now, elaborate on each and every, you see, cyber insurance, this is what you can see in the middle of this chart. No changes there and we see new growth fields. There is a new demand coming from the marketplace, particularly in the United States. But this will also spill over to Europe and others. The growth which we've shown last year, if you remember the old figures is 100 million more premiums from $300 million to $350 million.

So this means 40% more, this is an annual rate increase from a moderate level. So I can say for a reinsurance company, this is quite a lot, 10% world or global market share. Looking at losses and claims, so I can say there were some developments, which you are familiar with, you know, here we've seen marginal losses only. Our business in this respect is going very well, but the major loss potential is high and we are not underwriting blindly business like this. So when it comes to infrastructure and accumulated risks you see an attack of a hacker, you know, it can cripple entire industries or even countries, they are very high on our agenda, I can say. We try to counteract all that with appropriate risk exposures, or risk management. So we are not innocent in this respect, certainly not.

Second item and here I would like to draw your attention to something which is not listed here. In reinsurance, we've got a very well function IT, we've got a wonderful back office, we've got a wonderful underwriting system and other systems in place. We've got a very well equipped IT in place, nevertheless, you may have heard, that we are restructuring our

IT. We are now developing a global IT system. We would like to take an except like bimodal is the term they used in the Anglo-Saxon countries. So we want to have a structure [ph] in order to run all this, in a very say cost efficient way. And at the same time, invest flexibility and by doing so, generating agility in our operations, which I believe is very important in our business.

Next chart from me, this is an overview of our positions and an outlook or perspective, about the life reinsurance business size. And the result is absolutely great, it caused us to modify the outlook or the projections for 2018, and the following years. We raise it to 450 million that is technical result, the flagship for life insurances Canada, it is our largest but most profitable market, which we see. And I must -- I'm very, very positive when talking about the United States, because there were some issues in the past, the development of the reserves, et cetera. Now we'd like to focus on growth, and this refers to the finance motivated reinsurance, now the only say child, which causes us worries, but we still can handle it or manage it is Australia. Australia or the Australian market is not moving or developing along a level particularly in the disability business, it removes -- or it moves in the marketplace where we believe we cannot really generate growth. And this means we cannot underwrite new business in this area.

Having said that, I'd like to hand over back to you, Joachim, for the outlook. Thank you.

Joachim Wenning {BIO 16273429 <GO>}

Well, thank you, Torsten. I want to share the outlook with you and I'll start with this slide on the far left with the year 2018, you can see. 2018 is not actually shown, but what you can note and what you should interpret into 2018 is that with the 2.3 billion expected well, mid-point mission of anywhere between 2.1 to 2.5, with that we will have gone up by EUR100 million than what we had expected or projected for 2017. But we don't stop there, given the ongoing strategic initiatives and the substance that Markus Riess and Torsten Jeworrek have outlined in more detail just now, we expect that both the ERGO as well as the Reinsurance division will create, in the next two years, '19 and '20 that they will increase group earnings each by EUR250 million net, which means in total EUR0.5 billion more in net earnings so that in two years' time, we will go up to EUR2.8 billion. That is the expected average earning level.

Now, with that figure, we are quantifying what we have said and outlined with our strategic priorities and called earning stabilization and step by step improving the profitability in the group and which we may have not been adequately precise in detailing. That's what we are quantifying with this three-year horizon. Now, what's important for us to note is, you can be assured that this figure of EUR2.8 billion, we have a substantial business to back it up. So this is not us, well, opening up a drawer and going for the family silver. All of this is business operative.

On the contrary, I could say that 2.8 billion here that we assume is a highly robust figure, especially with the two important positions of the expected earning reserve, as you can see it. Here, we expect that's a prudent assumption as regards to reserves. About 4%, we are not saying this will worsen, but we are very cautious here of a 4% reserve release.

And the same holds true with our assumptions regarding the realization of realized reserves.

On the last slide of our presentation, you can see how that ambition translates into 2018 and the ongoing fiscal year on to the various KPIs of the group, respectively the divisions Reinsurance and ERGO, that is reinsurance and primary issuance, and I think I don't have to go into the details of these figures because they speak for themselves.

And with that, I would wrap it up. That's the report of the management. I'd ask you now Andreas to open up the question-and-answer session.

Questions And Answers

A - Andreas Lampersbach {BIO 15017603 <GO>}

Now, we look forward to your questions. And as a service to the listeners on the web, just give also your name. First one for Mr. Huebner. Please, floor is yours.

Q - Alexander Huebner {BIO 15063318 <GO>}

This is Alexander Huebner from Reuters. Mr. Wenning, my question would be directly to you. How much of these increases and increased rates for the next few years is driven by the cost savings that you are doing right now? We heard from the Internet, all that made the round, the rumor that 10% of the jobs in Munich and in the United States will be shed. Can you substantiate that, give us a few figures and facts what you are planning and over which timeline? My second question would go to Mr. Riess regarding IBM. Maybe you can tell us how is that joint venture with IBM actually working? Who actually is carrying the risks and who is making the profit and who pays what to whom, you and IBM?

A - Joachim Wenning {BIO 16273429 <GO>}

Thank you, Mr. Huebner, for your question. Regarding the cost effect, in fact, the transformation program relates to the Reinsurance business worldwide and to the group functions. It is not in any way related to ERGO. So ERGO is not undergoing another cost program, nor is it related to any businesses where we've just made investments in innovative digital data equipment alike. I'm not going to drill this down any further.

Now, in these target segments, and with the focus that I've mentioned at the start of my presentation, we will make somewhere in the region of EUR200 million in fewer expenses on EUR200 million gross fewer expenses, and 90% of these savings will be attributed to the Reinsurance division. Now how does that translate to the KPIs of the Reinsurance division? Well, if by 2020, we will have a stronger earning contribution by Reinsurance of maybe then, well, with the combined ratio 97%, then one-third of that improvement will be due to lower uptake of resources and two-thirds of that will be due to the growth initiatives that Torsten Jeworrek outlined. For the sake of completeness and to substantiate this, I can also tell you how many potential jobs these EUR200 million of cost savings are associated. We are talking here about 900 jobs worldwide, of which half, and I'm just rounding this out, whereby half of them will be affected in the international organizations while the other half will be here at headquarters in Munich, and to be even more specific in Munich, because the German press might be most interested in that regard, in the headquarters in Munich, half of those -- quarter of 900 will be achieved by natural fluctuations and the use of part-time retirement schemes. So the remaining quarter of this 900 will be released by using a voluntary personal reduction program, which has been actually ongoing for three weeks and was running for a total of six months.

A - Markus Riess {BIO 1835270 <GO>}

Who pays what to whom? Please bear with me. I can't give you that in detail here. I'll explain to you by all means the framework of the agreement that we have with IBM. We have a situation whereby we are about to migrate our systems for our life insurance, and for that migration, we're talking about about 6 million contracts. Here we wanted to find a technology partner and we decided to go with IBM as the technology partner for that migration.

And now, first of all, what we are doing is a classic migration, which means we are building a new life system, standardized system, which we then will use in order to transfer our policies and migrate them on to that new system. Then parallel to that new IT system, of course, the processes and procedures will also be optimized because with new IT, well, you are afforded new possibilities for process optimization, which of course we will be utilizing.

And then at a given time, just to give an idea where that could roughly be, time period of about four years, we will then have a system where with modern IT and newly defined procedures and processes, our stock of inventory contracts will be very positively valued and then they will be advantageously dissociated. This is something that will allow us to have others -- run administration rights on them, and what form this might take in three or four, five years' time, we will see. Whether there will be any third-party is interested, and then of course we will be able to answer the follow-up questions namely how the partners will then agree in three or four years' time, but at the moment, we are very much focused on migrating the portfolio on the contracts and I want to make this quite clear, we always said that the third-party administration is an option that we might use and put, but just to make sure that this doesn't really get misrepresented, for us, it's vital, important to have a modern IT system for our contract portfolio, which is both cost advantageous and qualitatively top-notch. That's the focus for the next few years.

Q - Alexander Huebner {BIO 15063318 <GO>}

Thank you very much.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Next is Mr. (inaudible).

Q - Unidentified Participant

Question to you Mr. Wenning from Mr. (inaudible). AXA is buying XL, SoftBank wants to partly buy Swiss Re and maybe even more. The pressure seems as if the landscape out there is changing or something new is building up because SoftBank and Re could also mean that Re then has access to big digital providers in Asia. Now, with all -- in all that landscape, Munich Re is left out. Are you a bit old-school here? I mean, if you say strategy has now well been defined up until 2020 to make extra earnings. It sounds like always before, Munich Re seems to come up with nothing else, but to make more in earnings and to distribute as much as possible to the shareholders, but not to really go for any new strategic steps. Everything you mentioned at the start was all, I should say, shallow, wasn't it? When you started a year ago, I would expect cost-cutting program -- well, you've done this. And then, you would go for an acquisition or take over something courageous in the way of strategy. But I'm missing that, can't see that. So how come that the mood in your two companies, both in Reinsurance and ERGO, (inaudible) (1:00:25) terribly bad. I mean, the 225 volunteers and thousands of people were applying for this voluntary work, job reductions, and the mood in ERGO seems to be catastrophic. I mean, if you speak to these employees, then I think you will score minus 100.

A - Joachim Wenning {BIO 16273429 <GO>}

This is Mr. Wenning. Mr. (inaudible) (1:00:57), the question regarding AXA and SoftBank was one I had expected and awaited. It's a good question by all means. But please, bear with me, I mean, your expectation is equally realistic that you also would have assumed that I will not comment these acquisition or the potential acquisitions, i.e., in AXA and potential of share of SoftBank. I cannot and will not state anything or comment on this. So, I can't address this.

But you addressed acquisitions or mergers, big M&As, that's what you would have expected or (inaudible) (1:01:32) from something strategically different. Well, as far as acquisitions are concerned, acquisitions that we think of ourselves -- please, I mean, come on, Mr. (inaudible) (1:01:43), bear with us, we will not, well, disclose that here. We would damage ourselves if we were to do that. But we've said, and I repeat this at this juncture once more, that also inorganic growth is something that is absolutely within the window of possibilities for us. And as Dr. Schneider said, we can afford to do so. He referred you to the strong balance sheet, the strong equity base that we have. And I said the strategic fight, the strategic thirst is there. But please, bear with us, what that would mean concretely, well, we can't scratch this out in detail here.

Then you've mentioned the mood within the companies. Yes, it's important. That's something I really want to comment on. The mood is excellent, Mr. (inaudible). Maybe on the wall, it says, Mr. (inaudible). The mood on the Board of Management is excellent. But I can tell you also within our company.

You mentioned the voluntary programs, the program to voluntarily depart the Company with cooperation. It has been well understood that voluntary program, it is receiving the support both from the executives, as well as from the workforce. The figures you have listed, I cannot comment them, I cannot confirm them. But I can tell you, things are proceeding very sober, very quietly, very much according to plan. So as of today, I would say, well, the voluntary program has been well received, well communicated, and is likely to be well received. We will be able to, well, draw a line after six months and tell you how many have accepted that voluntary departure program. And, well, we will then be able to say whether we strengthen or weakened our position.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Thank you. Mr. (inaudible) (1:03:34), next floor question.

Q - Unidentified Participant

Well, there is one thing I haven't understood. I think we all agree that things are changing on a large scale, digitalization for instance. Now, I don't understand Munich Re's answer. Because what I've seen so far strategy, et cetera is not an answer. You say we are going to increase the payout of our shareholders because of the higher earnings or rather result. This might be good in the short term, but it is not really, say, a sustainable development.

A - Joachim Wenning {BIO 16273429 <GO>}

Well, I would like to answer. The 2.8 billion do not occur in an area in a vacuum where nothing happens. Now, let me sum up what Markus Riess said. This is a massive strategic restructuring process happening at ERGO worldwide. And this has to do with disinvestment, with investment. And looking at the result which ERGO is biased to is that ERGO is a strong brand in its domestic market. And in those countries where it is still active in times of operations, it's still expanding, extending its market position. Now, all this allows us to increase the earnings, which will or will contribute to achieving this figure of 2.8 billion. And this refers to reinsurance as well.

Now, without the initiatives mentioned by Mr. Jeworrek, this increase would be -- would not be possible. And it cannot simply be, say, imitated or replicated. Because I'm sure you understand that this involves competencies, which are getting away from this commodity-based business. Now, the other things you mentioned, I can't really answer that. I'm sorry.

A - Andreas Lampersbach {BIO 15017603 <GO>}

All right. Please.

Q - Unidentified Participant

Mr. Wenning, I've just a follow-up question. And you mentioned responsibility of M&A. Now, the combination based upon (inaudible) (1:06:04) and Mr. Schneider, this was highly defensive approach, and that has changed here. And organic growth, has it become more likely, not where and how. But has it become more likely? This is one question.

And I would like to know, Mr. Jeworrek, to what extent, do these data you refer to, Mr. Jeworrek, the knowledge and the information -- the loss -- the expected losses, you are really off the mark, like it happened last year. So in this case, you want to generate business based on figures like this. So I would like to ask you, Mr. Jeworrek, can you say that how much -- based on all these digital initiatives, how much business do you generate here and how much have you invested in these new fields? I think it will be interesting to know. And of course, you could also give a wider answer.

And last question, Mr. Wenning. 200 million cost reductions, will that be enough? The industry says that Munich Re has an excess of costs of 30%. And this is then explained with additional costs or additional services. But what will happen?

A - Joachim Wenning {BIO 16273429 <GO>}

Mr. (inaudible) (1:07:45), let me start with your last question. Will the 200 million be sufficient? Well, actually, zero would have been sufficient. Now, what do I want to say? There was no, say, need for action in the reinsurance field of business. Well, we are -- we wouldn't be competitive without these cost reductions. Now, if you compare with our competitors, get a sideways comparison, that is what the cost position of Munich Re is, then I can say that before the transformation process, we are just in the healthy middle position, 200 million. Well, the 200 million, say, dealt with, because of the firm conviction, that the focus of our business is the right thing to do. And we believe if we use these means, then this cost reduction is the right approach.

At the end, after this streamlining process -- and if you look at the bandwidth of the costs of efficient reinsurer and less efficient reinsurers, here, we can say that Munich Re is, say, on a trailblazing path. Because now there is always a business mix, which influences this 1 percentage point of administrative costs less or more than that you might say we might even -- depending on the view you take, you might even end up with 5%. Now, this is an extraordinary figure. Whether this will be sufficient, that's something to -- which remains to be seen.

And organic growth, another catchword you see M&A, reports have been made. M&A reports to me, in this case. Otherwise, the organization wouldn't work out very well. And there are people who have also assumed responsibility in the past, when decisions were taken, including me, although I haven't been this year. So I wouldn't interpret too much into this. But you should interpret M&A and strategy are now handled or managed by one, say, management or one management team. So we want to say if the field of strategies are right, then we want to go for it. We do not want to say we have got some cheap thing somewhere and we want to include it in our operations.

Now, the reinsurance questions, which were touched on. The first one referred to, what is the use of data if you are so far off the mark like last year?

I think you have to distinguish between two things, Big Data and data. This has got nothing to do with the ability to forecast major losses, particularly the natural catastrophes. Here, we are always off the mark every year. We've always been off the mark during the last few years. These events, they contribute volatility to our portfolio, can be measured over a longer period of time. And you must have good risk management. You develop models. And each and every year, we'll be off the mark. So this is simply, say, the nature of this side of our business. Weather, that's a chaotic system. It's not like an equation. And you cannot calculate this equation and find the result. Well, that's in the nature of this matter.

Now, digitalization. Here, we have Big data and data pattern evaluation. The target here is different. They are supposed to tell us, how can we get more information about the premiums, about losses or claims, and renewals; how can we use these data and analyze kind of behavior for our customers. Meaning that based on this, you might come up with new contracts with new ways forward. These early vibrations of windmills, how can --

based on this information that this, I don't know, windmill will, say, break down or fail in two, three months. And of course, you know this is a bit difficult. So we get -- in this case, we get out of the classical way of handling the things and offer this new approach, things which hadn't been included in the national contracts or with performance data of facilities. This is something which is now increasingly included in our contracts -- everything that has to do with early detection or health or things like this are risk of course.

Now, talking about these windmills. If you're off the mark, i.e., a windmill might be repaired too early, although it is not yet defective. And if you do not identify early, if you do not implement early warnings properly, then you might run into problems. I'd like to refer you to acatech, the German Association for Technology and Sciences. And they tried to demonstrate the disruptions. What does it mean? Autonomous driving for our, say, car insurances. I'm sure business models will change. And here, we have to question our customers and together with partners develop new business models. Classical insurance will look completely different from what -- in 10 years time from what you see today.

Now, you also asked about our investments and which results we generate. We invest triple-digit million amount every year. And we do not really measure it because we see it (inaudible) (1:14:40) in Australia that is in those business units, which we do not see when taking the centralized view. We invest in abilities and competencies in IT very much so and also in partnerships and prototypes, which we would like to build with partners. Just one point and this brings me back to what Mr. (inaudible) (1:15:10) said. It is not necessary to buy things whenever you want to digitalize things. No, sometimes you just have to form the right partnerships. And I must say that I see these partnerships outside our traditional business. Okay, I will not elaborate on that. So as I said, a low triple-digit million amount and then of course other investments. What are the yields? I can say, it was not --

it is not easy to measure also a triple-digit million amount. Many of the digitalization initiatives create classical products like in the cyber sector. And they will generate deals. But if you look at the service models like these windmills, then of course there are some things which are in the future. So as I said, a low triple million euro amount.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Mr. Ryan, please. You are next.

Q - Unidentified Participant

Martin Ryan from (inaudible) (1:16:15). I've got a question about -- so I'd like to put to Mr. Riess. Allianz Germany in Life, they have business occurring again and again. ERGO, Generali, and others, their business seems to be stagnating. Now, when do you think ERGO will stand up and counteract this development in the market? At present, I don't think that something along this line is being done, at least the figures tell me that and show confidence or trust. Life is something which is really based on confidence. Now, I'd like to know how would you or how will you win back confidence.

And something else, cooperation with IBM. Now, do you believe that this is, say, a serious alternative in comparison with other business in Frankfurt or (inaudible) (1:17:19). So if I understand things correctly, the capital requirements at the company, which is going to manage or administer these contracts, this has to be taken into account. Do you think that this will be possible? Have you got any ideas that I mentioned the size, the magnitudes?

A - Markus Riess {BIO 1835270 <GO>}

Thank you very much, Mr. Ryan. You know the motto is not insurance is trust, but insurance equals understanding. I hope you understand that. But nevertheless, you see we do not really compare ourselves with competitors' reinsurance. This is something which I know from you. Therefore, I would like to answer your question without presenting a direct comparison. We have to see where we stand, we ERGO. We decided for Victoria Leben and as part of the strategy product for ERGO Leben as well. We decided -- and this refers to the classical insurance business. And as you know that this accounts for the majority of the market. The development is no longer off-net. And we were quite radical in our approach, because we are convinced that this is not the right solution for our Group. And I can say that I personally am convinced of this.

Now, by reducing our classical business, this is a result. And of course, it is a matter, of course, if there is no business from the existing business, then, of course, we have a downturn in our business. And this means all this is kind of ordered in view of this decision, it is only a logical consequence of our deliberations. But we've got a large stock, 6 million policies -- 6 billions of volumes. Based on that against this backdrop, I suggest to look at the headline figure. And then, it becomes very clear that we will not be able to turn this figure into a growth figure, at least not in the foreseeable future. So this means this will not compensate the successful start or kick off our new products. So the answer could be very easy one. All this is not our ambition. But nevertheless, I would like to give you a differentiated answer, because I believe that the products which we launched -- and here, to ERGO perspective, these products account for substantial progress. These are products easy to understand, highly competitive in this segment of life insurance. And we believe we also have a very good and successful sales team. Now, if we tell them do not sell the classical products any longer, then of course then they will orient themselves differently. But now, these products are on the shelf as well. But it also means that there must be trainings. The sales reps have to undergo trainings. The processes have to be adjusted and so on and so forth. So in this case, the mediators or the sales rep, they do no longer sell the previous products from day one.

Now, we have to see all this in context. And in this segment, I believe that for our products and for our sales rep, there is a significant potential when it comes to old age provisions or insurances. This is what we going to see in the near future. It is also taking it account in our strategy program by 2020. Next year, we will know more. The products have just been launched. It was a gratifying start. But we cannot use it as a standard or a yardstick against which you measure what will happen, say, in two years time. But, yes -- and of course, if things happen, then I'm happy to report on this. But talking about life insurance, we would like to be present in this marketplace. And we would like to capture back terrain lost, brand.

Here, I can say the image values of ERGO, when looking at the average brand images of German companies, then it does not correspond to the average. But I haven't done research in this respect. I can say our brand is still building confidence and trust and is supposed to be successful in the segments mentioned. And this is my impression when taking to different stakeholders. This is number one.

Then the second question. I believe it is conceivable that when it comes to administration or management of contracts on hand, which we do not own. We just are the management platform for those. In these areas, we certainly have a chance to win third-party, say, contracts. And this is not absolutely new. Negotiations, talks, in this case no. Business plan, no. Have we got a dimension in this respect? No. The reason is, my primary objective is to manage our own contracts and give it a structure and a platform, which will enable us to handle our customers, that is the 6 billion is the amount, better. So it is all about first things first. So we do our homework and (inaudible)

(1:23:33) in this sector. But I believe that we stand a chance. And whether or not this will be completed, whether it will be as attractive so that people will approach us or that they will get in touch with our sales reps, well, this is a -- it's a bit too early to talk about this today. But there are chances.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Thank you very much. Mr. (inaudible) (1:24:00).

Q - Unidentified Participant

(inaudible) (1:24:04). One question to Mr. Jeworrek. It's about the hurricane season. And a few questions to you, Mr. Wenning. It is about restructuring and similar aspects. Mr. Jeworrek, I found it very interesting that you said that scientists are sometimes wrong and in particular in relation to the hurricanes. This might happen this year as well. And of course, this leads me to the question. The hurricane claims, something happens in one year, might something like this not happen in the following year. Are you listening to the meteorologist, not your own, but also those from the American universities? It's the first question.

Second question, this is about restructuring. You talk about the savings potential, the EUR200 million. But also, Acts and Jobs are reducing the headcount. This costs money. What are the provisions, the reserves which you made? Have you known or has this been included in your balance sheet already?

And then, categorising your situation or interpreting your position. I believe things are being pushed upwards and this on account of the transformation process in historical terms, Munich Re is over than 100 years. So there have been similar actions in the core business. But these actions or activities on account of the conservative communication policy have never been made widely known. So what about it? What has happened or occurred in the field of reinsurance over the last few decades?

And I've got another question. Looking at the balance sheet, looking not only at the income statement, the profit and loss account, that is looking at headcount, I can say this headcount has been reduced by 1,000 people. Now, has that to do with the restructuring of ERGO alone?

A - Torsten Jeworrek {BIO 5724439 <GO>}

I will start with the hurricanes, allow me to correct this. I did not say that the experts were wrong or are wrong. Repeat it, I only said that they're wrong last year. No, I said that the expectation for damages, we were mistaken, and the likeliness of them occuring. I mean, the hurricanes don't know what our damage expectation is, so we are always wrong with that. But when you only say this if there is no damage occurrence. But we'll talk about this after 2018 better maybe.

Last year, our forecast for 2,000 -- the damage was really wrong. And you start to begin your forecast in, well, May, April for the current season. And last year, we -- well, the expert said an El Nino phenomenon would occur, which means you can't get a hurricane. But there is likeliness that there will be less chances for hurricane and strong hurricanes. But it didn't work out that way. But as you know, as in middle of June, July, we realized that the El Nino is not going to materialize, is not going to happen. And we stated that neutral phase. So that means you do have a weakened hurricane activity to be expected, which then also happened. The fact that these three hurricanes, more or less, had the same trajectory has little to do with this. I mean if they follow one after the other, they have similar meteorological pressures that are triggered by -- and I mean if the one followed --

one happens, the other one is likely to follow the same trajectory.

And then, of course, the question, what happens this year? Or can we draw any conclusions from last year for this year? No, it's very poor to do so. The quality of forecast for the current year or for upcoming years is pretty poor. It's wrong -- I'm not going to say wrong though, but to draw that is pretty poor. And it begins to get better once you pass a meteorological threshold as of moving from winter to spring and then into summer. So as of May, we have the first reliable forecast. At the moment, we don't have that. We are now in spring. We don't know what happened in the summer. And the current status is not in anyway conducive to tell us what will happen. Sometimes, you can have very (inaudible) (1:28:52) focus to say that after El Nino, the likeliness is that an El Nino will materialize. But that's hard to draw from the last year's event for the event of this year. I wouldn't go so far.

A - Joachim Wenning {BIO 16273429 <GO>}

So it's Mr. Wenning. Regarding the development of our workforce this year over last year, you were right to assume that the drop is about 1,000 employees. That is roughly 80% due to staff reductions at ERGO and the remaining 20% should we say rather unobtrusively allocated to various units.

Then your assumption is equally right when you said that also in the past, the reinsurance divisions over the last decades had disinvestments from regions, from individual business segments under Life, which as a consequence also meant that the headcount was reduced or that resources were lowered, which, well, also often was concurrent with the buildup of new regions and businesses. So this constant breeze again I'm breathing out in our business is something that we can observe and is in all the process in reinsurance for decades and never really caused much of a stir. That's true. And, well, the current breathing in and out is not really causing us any trepidation at the moment either. The only difference that I can objectively see right now is that, here at headquarters of Munich, we are using a personal tool, that's this voluntary program, which in the past we did not need for that breathing process.

Now, the third question you had to me whether the expenses for the -- we're streamlining for the leaner structures is already allocated in the balance sheet or not. Well, in fact, you will find most of that already included in the annual financial statements for 2017.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Thank you. Mr. (inaudible) (1:31:00).

Q - Unidentified Participant

Good day. I would have two questions. One, I heard that you're not going to say anything about SoftBank. But I would like to know, in the fall of last year, you said that Munich Re would want to reach the peak of the digitalization in this industry. Do you see that target in anyway endangered now by this impending alliance? And do you think that the combination of SoftBank and Swiss Re will shake up your market?

Second question, really first to USA. Because another re just recently said they will shift capital to the Bermuda Islands and will have pretty strong structural changes in their organization. Can you say what -- how the US tax reform will affect Munich Re? I think you mentioned the one-time effect that we saw. But of course, there will also be effects on the current year. Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Thank you, Mr. (inaudible). It is our claim to be right at the very top of the peak of digitalization. Is that affected by the, well, terms that you mentioned? No, in no way whatsoever. That claim is still alive and kicking. That's driving us. And that's everything that we strategically try to, well, give you us much detail to as possible in our presentation. Secondly, you then asked a bit more concretely, what about SoftBank and Swiss Re? Please, Mr. (inaudible), I cannot comment that. If I could, I would've not either.

The Bermuda activities that you mentioned, that is something that in reinsurance and amongst reinsurance companies is not, should we say, an unusual or one-off step. It's an answer to the US tax reform. It is a fact that with that, you are better positioned. If you operate out of Bermuda as an admitted reinsurer and then do your business in USA as an admitted reinsurer, how much are we are affected by the US tax reform? Will it stay with a one-time effect? At the moment, there's two effects there. Tax rate reduction of 35% to 21% in the United States, of course, has encumbered our earnings less. So that's a positive effect that going forward with an expected earning figure of 0.5 million will, of course, have a positive effect on us and also will do so in future. So it's not going to be a one-time effect, a non-recurrent effect.

On the other hand, the so-called BEAT base erosion something taxation of 5% this year, 5% to 10% next year, all the way up to 2026 or 2027 when it goes all the way up to 12.5% would in the status quo affect all the Group internal cessations that -- which we do for a couple of reasons and it would burn us, that's true. And therefore, we adjust our repossession programs by -- in order not to carry that burden.

Q - Unidentified Participant

Just very briefly a follow-up question. Could you just give us a figure on that effect?

A - Jorg Schneider

This is Mr. Schneider. Well, in the region of EUR60 million to EUR70 million in extra earnings per year and slightly higher complexity, given that the repossessions need to be re-sorted.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Mr. (inaudible).

Q - Unidentified Participant

(inaudible) (1:35:00). I just wanted to ask briefly whether Brexit in anyway affects Munich Re? And a side question. How would you invest in your capital assets? Another REIT has lowered its share proportion on its (inaudible) (1:35:09) assets. So what are you doing there?

A - Joachim Wenning {BIO 16273429 <GO>}

Mr. (inaudible), Brexit affects us not in our operations. The business we're doing today in the UK or out of the UK worldwide, these business transactions won't to our best assessment be affected neither positively nor negatively by the Brexit. They will stay. Brexit, however, affects us, that's true. Because with the departure of the United Kingdom from the European Union, the licensing procedures and registrations will have to be renewed. And we are preparing ourselves that our UK business will require so-called third-country licenses. Therefore, it's an administrative effort. Work to the amount of lower double-digit million euros. But strategically, it's not affecting us. But allow me to just mention briefly. You didn't ask this, but I will say this on any case that the result of the Brexit, which could affect free trade that we are used to today, although Brexit if it would burden free trade, it's something that we would exceptionally -- well, we'll regret this very much not just from the perspective of Munich Re, but also of course from the perspective of Germany.

Sorry, there was another question by Mr. (inaudible). You also asked about the capital assets.

Q - Unidentified Participant

Do we have any plans going forward to switch our capital asset structure, de-risking, for example, or to take on additional risks?

A - Joachim Wenning {BIO 16273429 <GO>}

No, going forward, and including the Group earning expectations of EUR2.8 billion, we expect to see more offers sideways development in our investments. Apart from that, we're always interested, of course, if investments, for example, in infrastructure projects or in energy or the likes, if we can of course open up so-called liquid investment opportunities.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Mr. (inaudible).

Q - Unidentified Participant

(inaudible) (1:37:29). And what about the strategic situation to you, Mr. Wenning, Mr. Jeworrek. 10 years ago, Katrina, the hurricane that you mentioned, the damage was roughly in the same amount as today. And there were enormous price increases and five new foundations and the likes. All of this is not happening now. Now, you've always counted on saying, we know how the cycle works. And we know that prices will go back up again. That's not happening right now. So strategically, this must have long-term and very profound effects, which means the old model of sitting through the cycle and waiting for things to improve again as of today seems to have failed.

Second question, Mrs. Albo has left your company. Who will you recruit for that post, or will you restructure? Third question, the improvement in earnings, is there also one-time gains included there from lower mortality in the UK? And maybe you can say a word about lower mortality expectations for reinsurance. Because we heard in the UK, life expectancy is dropping. What's the effect for reinsurance? And can we also see this in Germany and other European markets?

A - Joachim Wenning {BIO 16273429 <GO>}

So I will start first and you would -- and I would be grateful if you didn't take over the first question about the Katrina effects and the premiums. The question about Mrs. Albo. Will there be a reorganizational plan, or do we have plans to replace Mrs. Albo? Please bear with us, Mr. (inaudible). We will not make any statements on either. But up until the moment, Peter Roder is managing her brief. And nothing much will change in that way.

As far as the life expectancy in UK is concerned or maybe even in other regions, yes, we confirm that in the UK, we are indeed seeing that in the most recent past, there is statistical evidence, also in our own inventory, that there's an improvement -- an improvement in the sense that the longevity does not continue to accelerate, but that it seems to be delayed, which of course in the longevity business then is advantageous for the one who carries the risks. We'll monitor this. We'll observe this. And in the year and in the annual financial statement of 2017, we have -- did not in any way see any material effects of this. But it affected earnings positively. How and to what extent that will affect our Group earnings of 2.8 billion -- the expected EUR2.8 billion? Have we planned for this? No, nothing has been earmarked here from the longevity.

Cycle of -- you're right. There were substantial price increases in 2005 after Katrina. I mean, it's also noteworthy to say it for a good reason at the time. Because it wasn't just a hurricane season. But the industry and including us, we of course came out of a situation that we had huge problems with our reserves because the buffer for profitability in the balance sheets had been completely eaten away and even had been, well, capitalized into negative. So the need for action was massive at the time. But this is not by way of justification. How we're going forward? I don't want to correct you. I'll do so very hesitantly. But I will try to do so in any case. My position -- and mine and other's positions is that we wait for that event that will turn the cycle. That's something that I once had in 2008. With the long persistent perpetuation of the Central Bank policy to go for low interest rate policies, that's something that let me to trigger that expectation. And you ask me every year (inaudible) (1:41:37), you need EUR100 million, EUR100 billion to turn the market, I know the answer (inaudible) (1:41:45) confirm this.

But at the moment, I'm convinced that the low interest rate phase has affected remuneration of risks quite principally. Has nothing to do with our own industry. Has something to do with M&A prices that you see on the market. That are completely totally apart. And it simply doesn't affect what risks can be gotten for what price on the asset side. Risk is at the moment not well remunerated. And that has to do with glut of capital worldwide. And therefore, I, well, do believe in a world-changing event. But, however, the market is showing us this cycle, but not the cycle we know from the past. So what's our answer? We're not going to sit this out. No, concretely no. That's done by those who are capacity generators and who take capacities in and out. We do exactly the opposite. We've got -- I showed 90% growth by not sitting it through because we looked at longstanding capital transaction, realized them. That are not subject to commodification. We invested in digitalization, because we believe that the peer capacity as this business model is simply not sufficient, but that for your customers, for the additional customers, as well as for your primary customers for MJ8 [ph] or with technology companies, you have to develop new services and new business models. And that's, of course, the reason. But we're investing in that right now. And, well, I think here we are market leader. I mean, do take a look. Go on the web, go for a customer survey conducted by (inaudible) (1:43:16), who is number one when it comes to digitalization? It's Munich Re and Lemonade. It's not even Lemonade in the fight. It is Munich Re that's fighting the way. We're even ahead of Lemonade if you look at the percentage points. That's a great success story. And that's the answer we need from our employees.

A - Andreas Lampersbach {BIO 15017603 <GO>}

The last contribution comes from Mr. Huebner.

Q - Alexander Huebner {BIO 15063318 <GO>}

Just a simple follow-up question that just came to my mind when we heard about Brexit. Yesterday evening, there was a report that you are at the moment about to buy a property in the city of London for a high-rise, which you might then use for your British headquarters or your British branch. Could you tell us a little more how concrete is that project?

A - Joachim Wenning {BIO 16273429 <GO>}

I did not want to speak about this publicly, says Mr. Wenning. But if you address it, I'm not going to, well, shy about around it. We have for many years planned and intended to have our units active in London that are really very disbursed, not just across the city of London, but also outside of the city that we really bring them together under one Munich Re roof. And you -- it's hard to do so by way of process, if you don't have your own building and property that has the space where one after the other of these units then kind of gradually move in once these contracts expire. Because we say, okay, we will have to bundle them together now one time, then of course somebody else has a lease contract running for nine years, the other one for five years, and the likes. So, yes, we are interested, but no more can be said about this right now.

A - Andreas Lampersbach {BIO 15017603 <GO>}

Thank you very much. I don't have any further contributions. I say thank you for your interest in Munich Re. I say goodbye to the viewers on the Internet. You are cordially invited to stay a little longer. We've got a bit of a lunch available for you. However, that doesn't apply for the visitors on the Internet. I wish all of you a pleasant day. And do come back and visit us again. Thank you very much.