Q4 2014 Earnings Call

Company Participants

- Johanna Weber, Head-Media Relations
- Jörg Schneider, Chief Financial Officer & Member-Management Board

Other Participants

- Jonathan Gould, Analyst
- Manuela Dollinger
- Oliver Suess, Analyst

MANAGEMENT DISCUSSION SECTION

Johanna Weber {BIO 16192902 <GO>}

[abrupt start] Good morning from Munich. This is Johanna Weber speaking. Welcome to our telephone conference. As usual, the conference will be broadcast live from munichre.com.de and will be available later on. And as an audio webcast, you will also get the English simultaneous interpretation.

Jörg Schneider, CFO of the group, will now present the figures and the report on the renewals, and afterwards, we're looking forward to these figures. Mr. Schneider?

Jörg Schneider

Thank you very much, Ms. Weber. Ladies and gentlemen, it was a good result for 2014. €3.2 billion is a good annual profit, a high profit, and therefore, we can increase our dividend significantly. The fourth quarter was influenced by countervailing one-off effects, and amongst them a goodwill write-off in the one end to the negative direction and the high tax credits that was positive – unusually high tax credits.

Our shareholders' equity in 2014 rose significantly by more than €4 billion to €30.3 billion. This strong capital position is also under all the points of view that we can take. If we look at the economic capital position, for example, we're very solid. When we look at the rating, we're above AA rating level. And we also have to look for our local accounting situation and especially the situation of the parent company of the group, the Münchener Rückversicherungs-Gesellschaft, which will be responsible for the large payouts. And if you take all these points of view, the capital base under – capital position under all these points of view is very solid.

Let me now come to the investment result on page 3 of our presentation. The regular income decreased slightly than or has decreased slightly. This is a trend that will continue because the reinvestment of any available funds will be taken at the lower average yield than the ones in our portfolio. Therefore, the regular income at 3.2% or at €7.2 billion was quite satisfying, but nevertheless lower than in the previous year. In addition to this, we had significant income from this total gains and losses and from the derivative result, which led to an overall investment result of €8 billion, which amounts to yield on our investment of 3.6%.

Now, let me talk about the different segments, our fields of business, first of all ERGO on page 4. You can see that the gross premiums written have remained pretty much unchanged. The net result in the segment was halved, but only at the group level because, at the group level, we have a higher write-off on goodwill impairment which we've taken due to a new segmentation of the individual fields of business of ERGO. And for technical reasons, we were then forced to test the goodwill and to enter into a new allocation of goodwill, and that led to a burden on ERGO internationally of around €450 million.

On the other hand, ERGO had high positive effects from a new evaluation of tax reserves for the past. And after the policyholder participation, that led to a positive impact of €150 million net. And adjusted for both these factors, ERGO has achieved its annual target of around €400 million with €450 million. They've reached the target comfortably. And on the group level, the segment result of ERGO is at around €600 million. That was driven in part by a slight decrease and the decrease in this case, of course, is positive of the combined ratio both in Germany and on an international level.

On slide 4, there is also some additional information about our new business in primary insurance and life insurance. And here, there is unfortunately an error that we're talking here about the decrease, but that is a decrease that does exist in Germany where we have difficult situation because of the low interest rate environment. But this is more than set up by positive growth in other countries, especially in Poland. And therefore, the right figures on slide 4 at the bottom right should read new business in life €2.3 billion.

And all the other points mentioned here are right and that the absolute figures fit. But there should be – but instead of an increase, there should be a decrease and the other way around. So, overall, we had a positive result growth of 17% overall, so not minus but plus 17%. Sorry about this mistake, but nobody is perfect.

Now, Munich Health on the next page. Munich Health has reached its target, but had a strong decrease of gross premiums written that was due to currency effects, due to a reduced share of large-volume deals, and this is also due to the effect of the sale of Windsor Health Group, our primary health insurer in the United States.

Now, talking about reinsurance, there were some mixed results. First of all, we had a slight decrease of the gross premiums written for several reasons, currency effects amongst them, because at the beginning of the year, the euro – beginning of the year 2014, the euro had been quite strong before it collapsed towards the end of the year or went down. The net result was fantastic again with €2.9 billion, and the combined ratio in P&C

developed positively overall in the fourth quarter especially and was pretty much on the level of the previous year.

Now, large losses. Large losses were lower than we had expected, only 7.2 percentage points referring to the gross premiums earned instead of 12% which we had expected. And that, of course, supports our results and it also led to the release of reserves for earlier underwriting years to the tune of around 7%. And if you take into account that a part of this effect is then reflected in higher commissions for the primary insurance companies who brought the business to us, then the effect that we adjusted for this, the effect is around 5.3% of net premiums earned. In life reinsurance, we have some burdens from the Australian feasibility business.

And that leads me to the renewal, the renewal of reinsurance contracts for the year 2015. And we're talking about the January renewals, so the 1st of January. And this renewal makes up - out of our property-casualty book, so including the business that we are underwriting for specialized units and the specialized primary insurers which are being led on the reinsurance. So, out of this, it makes up 57% of our property-casualty business. That is a broad mixture around the globe basically taken - except for some Asian markets where the 1st of April is the most important renewal date. And what's important, the amount of net cat coverage is relatively low with only 11% of the premium volume.

Now, how has the volume developed? Well, we talked about a renewal volume of close to €9.5 billion, out of which 13% were not renewed for several reasons, either because the business was withdrawn by the customer from the market or because we didn't come up with an agreement price-wise that was - the effect of that was €1.2 billion. We had a renewal of 86% or 87% and that was a reduction of close to €500 million in new business and we also had - of renewed business rather. And we had new business of around €900 million. And all that adds up to volume for 2015 of €8.5 billion. That is a decrease of around €900 million or 9.5% of the business up for renewal.

Out of these 9.5%, the price movement is responsible for around 1.3%. So, to sum that up, the result of that is - to sum up the result of the renewal round, and in view of the difficult market situation and the strong competition we have there, the low interest rate environment and the fact that new competitors coming to the market are being driven into the market against the spectrum, we're quite satisfied with the renewal round because we've shown once again that we're taking a consistent cycle management, that we're at the side of our customers, but not at any price, and that overall we've had a price change of minus 1.3%. That is something we'll live with.

And now, looking forward, we can expect that our strict cycle management, our strict profit orientation will be kept because the quality of our portfolio is the most important point for us and we're not just looking at larger volumes.

With this, I would like to hand back to Ms. Weber, and I'm looking forward to your questions.

Johanna Weber {BIO 16192902 <GO>}

Okay then, we'll get started with the question round now.

Q&A

Operator

We'll now take our first question. Sir, please go ahead. (12:04). Go ahead. Your line is open.

Q - Johanna Weber {BIO 16192902 <GO>}

Sorry. Good morning. I didn't hear my name. Good morning, everybody. Mr. Schneider, could you maybe tell us about the different quarters? Can you compare it to the previous years' quarters, to the €700 million? I wasn't quite sure about that, about the plus/minus factors which have to be taken into account. Can you give us some further explanation about that?

A - Jörg Schneider

Well, if you compare to the previous years, a bit difficult, but the most important influential factors, I can stress them for you. That was a result, like we would have expected for a quarter, €2.8 billion times four. And that's where we stand right now roughly. However, as you have said, there were some major influences there.

Well, starting with the fact that at ERGO, we had a quite pronounced goodwill impairment amounting to €450 million. There's no tax effect here. So, that means this is now real money here. This was not paid in cash. So then we had the positive tax effects amounting to €900 million. This was the effect of a re-evaluation of the previous years. However, what you have to subtract here is €350 million for the insurance holders of ERGO because a substantial part of the $900 million amounted at ERGO. And in the operating results, this is included for the insurance holders with RFP, so that the net effect is only about €550 million in the fourth quarter, yes, in the fourth quarter.

Q - Johanna Weber {BIO 16192902 <GO>}

And in the previous year's quarter, did you also have a positive tax effect? I'm not quite sure about that.

A - Jörg Schneider

Okay. First of all, let me take a look at the last quarter of 2014. Let me take an isolated view at that and then it will be easier to understand. And then we have the life reinsurance. We have the major influence of the disability insurance in Australia that amounted to €100 million. And then in PC Re, we had also some reserves which amounted to about €100 million – reserve releases of about €100 million. So, if you add all of these effects, then you will receive more or less the result which we have been showing at the end.

Q - Johanna Weber {BIO 16192902 <GO>}

Okay. Thank you.

A - Jörg Schneider

Well, thank you, (14:59)

Operator

And the next question is by Andreas Grüner (15:05)

Q - Johanna Weber {BIO 16192902 <GO>}

Yes. I have three questions. Hello. Well, first of all, in the Analyst Call this morning, you said that the earnings this year will be lower than in 2014. Maybe you can give us the central reasons or main reasons for that. And also maybe give us some idea what the future will hold. You said €3 billion will not be achievable. Should we assume it will be around €2 billion?

And then the second question about the share buyback. Well, the last share buyback program runs until the AGM. Most analysts expect a new share buyback program. Maybe if you could elaborate on that. Currently, you have a lot of money which you don't know what to do with in this market.

And last but not least, I have an additional question about ERGO. The write-offs, is that a technical thing or is ERGO worth less than it used to be in the books at least?

A - Jörg Schneider

Well, Mr. Grüner (16:11) let's get started with the last part of your question. Well, ERGO is suffering because of the lower interest rate environment like the whole insurance industry. So, that means under more normal circumstances then, of course, their business would be more profitable in the long run. However, something has changed in our reality. However, this write-off is for technical reasons.

We had a common goodwill for the whole of ERGO in the past, which was allocated on the parent company. That really has to do with the accounting details. And we now are allocating the goodwill to the individual segments. And the smaller the unit you use to look at a goodwill, of course, the more you're likely to have write-offs. Because, here at ERGO, and it gets me back to the overall view about the sustainability of the value of ERGO, of course, we have had a lot of reserves in the property-casualty business which is showing a good performance. And then we have some burdens because of the low interest rate environment in life insurance.

In Health, things are looking brighter again. And ERGO International, these were purchases which were done shortly before the financial crisis back in 2008, 2009. And here, we had some problems, especially in Turkey, also in Italy as well as in other markets. And we have that – we're managing that quite well. And, of course, when you look at it from today's point of view, the prices we paid at the time are seen differently.

However, let's go back to the share buyback. We haven't decided that yet. However, we have a very solid capital basis. And for many years, we have been able to show and we have said that the share buyback, apart from a high dividend, is a normal means of doing business. And you can draw your conclusions from that, but I cannot give you anything substantial at this point.

And then your question about the profits for 2015. Well, the profits for 2014 was influenced by very many different one-off effects which went in two directions. But adjusted for all of that, we're slightly below €3 billion, depending on what you would take into account – what you think you need to take into account in terms of adjustments.

Well, now, looking forward, we have a slight decrease for our investments, and that has to do with the fact that every new investment means we are getting lower interest rates compared to the amount of money we invested 10 years, 15 years ago. So, that means, per year, we're losing about 0.2 percentage points in yield, and that's what we're losing.

And now, since we have sinking interest rates, nevertheless – despite sinking interest rates, we have earnings from shares which we have sold. What the effect will be in 2015? I cannot say. But that will compensate for that, that we can actually earn money from divestments.

And then, we have the – and then each percentage point in the combined ratio has an effect of €120 million, each single point. And then, we have also a very strong balance sheet. We have also made provisions for years in the past. And now, when you go through the balance sheet, sometimes it leads to dissolving some reserves. The same might be true for tax reserves.

So it's a huge potpourri of different aspects. And adjusted for each effect of the previous year, we're seeing a slight decrease and that is partially but, however, not fully compensated by positive effects because of divestments. And then, you mentioned the figure €2 billion, which is definitely too low from my point of view. €2 billion is definitely too low.

Thank you, Mr. Grüner (20:46).

Operator

And we have the next question by Mr. (20:51).

Q - Johanna Weber {BIO 16192902 <GO>}

Good morning. The split-up of the ERGO segments, if you could tell us more about that? Why you are splitting that up? Do you want to sell off some parts? And then, high dividend despite – the earnings are not so great. Is that necessary in order to keep your shareholders interested? Do you want to keep the share price high?

And then, something about the 1.3%, you also mentioned another figure, the risk exposure where you said minus 8%. So does that have to do that you have taken more risks for the same money or does that mean you have, well, fewer risks in the books?

And then the last question, your investment results, €2.6 billion, it was €1.7 billion the year before, and was in 2012 €600 million. So, you quadrupled that in the course of three years. So it doesn't you will agree live up its substance?

A - Jörg Schneider

So, thank you, Mr. (22:06). Good morning. Well, first of all, about goodwill. Well, the splitting up the goodwill into the individual parts of ERGO, we have done that because of the new segmentation, and that again we have done because ERGO International has become increasingly a sustainable card. We have waited for quite some time and we have then adjusted it to our internal accounting because ERGO International did not have an easy start, as I said earlier.

Currently, or in the meantime, we're on a good path and ERGO International is actually gaining weight within the ERGO group. And that's why we have said we're now going to look at it as its own segment. In the past, the foreign life insurance was part of our life ERGO and that property-casualty from abroad was also part of property-casualty. And now, we have now a clear segmentation and we don't have any plans to sell anything off here.

Well, increasing the dividend despite our overall earnings getting under pressure. Well, we have looked at what we have earned during the course of the past year. And here, we are paying out – based on our IFRS results, we're only paying out 41%. So, that is not something you could call aggressive. And then, looking back at the business year 2010 for example, let's take a look at the last four years, and then the dividend have increased by about 5 percentage points per year, whereas our earnings have increased by about 7% per year during the same timeframe of the past four years. So we're actually just trying to keep up with that.

And then, as you know, we don't increase the dividend so that we cannot maintain it if the markets were to develop in a negative fashion. We're actually quite confident that we will be able to pay that out in the future as well. And we have a very sound capital basis. So why should we keep more of our earnings, if the growth opportunities due to the bad price level, organic growth is not really possible and also we don't have very many opportunities in terms of M&A?

So there's a bundle of reasons why we're saying, well, let's have our shareholders participate to a great extent and let's do what we have done in the previous years as well, meaning we're paying out substantial dividend.

About the price changes, 1.3% minus and the risk exposure, what we're trying to do is a very difficult task for ourselves. What we're trying to do is we're trying to measure how much do we take on in terms of risks in order to then split up the decrease in volume in a price element and in an exposure element. Because in some cases, the conditions of a treaty change or the rules change for the (25:30). But we just want to give you some idea. This is not absolutely correct down to the smallest detail. But we just wanted to explain how much was the decrease in terms of price and in terms risk, and significantly less decrease in risk.

And then you asked about the divestment results. Of course, they have increased. But actually, our evaluation reserves have actually gone through the roof. Through the absurd low interest rate environment, the market values of our fixed interest rates, capital investments and everything you touched leads to great divestment results, which we don't always like.

Sometimes, even if we just want to make some changes, we don't want to see these results, but it is a side effect of the lower interest rate environment. And despite the increase which you have mentioned, it is not part of our targeted policy. And it's not that we live off of our results of the past because our (26:51) and that is something we can show also in March when we look at our currency reserves.

Q - Johanna Weber {BIO 16192902 <GO>}

And I have an additional question. The property-casualty rate in reinsurance of 92.7% here because of the interest rate environment. What did you get in terms of divestments here?

A - Jörg Schneider

Well, inflation plays an important role here, because when you look at the reserves time and again and re-evaluate them, then inflation is an important input parameter. We're looking at 6.9% of the earned net premiums, and then you have to subtract 1.6 percentage points for the commissions which we have to pay to the (27:47), the insurance companies which brought this business to us. That is included here. So, net, we're talking about 5.3% effect in net terms.

And in the previous year, I think it was slightly more – hang on a second. No, it was 5.2% and the effect of the commission was 0.8%. So it amounted to 4.4% in the previous year. So it was slightly more. And let me stress, at this point, we have still a very strong confidence level. So, that means we're maintaining the conservative level and that has stayed the same as in the previous years. So we're not taking things off the shelf here.

Q - Johanna Weber {BIO 16192902 <GO>}

Thank you.

Operator

We'll take the next question by (28:47).

Q - Johanna Weber {BIO 16192902 <GO>}

Good morning. First of all, I have a question of understanding the dividend raise. Historically speaking, is that a record dividend of Munich Re? And then I would like to know how high is the surplus economic capital at the – or how high was it at the end of the year 2014 and then your profit outlook for 2015? I didn't fully understand that because you were talking about the adjustments, the effect adjusted for everything. And if you take this out, then the result should remain more or less unchanged at €3 billion if you adjust for all this. I didn't fully understand that.

And then another point regarding profit pressure. It was mentioned in the nine-month figures regarding the net CAD risks for 2015 that they might increase. So I haven't heard anything about this from you, Mr. Schneider. Has that been reduced again, your risk models? Or what does it look like?

A - Jörg Schneider

Thank you very much, Mr. (30:03). It is indeed record dividends. And then the economic surplus capital, we'll report this in March. But to give you a ballpark figure, we had 150% in our capital base regarding the economic risk capital. That is the Munich Re figure, which is about 75% higher than the solvency minimum. That's a little complicated.

But to give you a ballpark figure, €10 billion, that was the surplus size and we're still at approximately that level. So, quite a bit of leeway from an economic point of view, but it gives us the opportunity to grow and it also explains why we can do what we do with the dividend.

Now the profit for 2015 will decrease. Well, I can't promise that to you because, of course, there can be positive one-off effects, but it is highly likely that we will see a profit decrease. If you just look at the premium decrease in reinsurance plus the lower reinvestment yields, those are major factors that you can't easily balance out and it would be unrealistic to assume that we can fully replace that. So, the €3 billion I think we can only reach due to one-off effects, but there will not be any kind of dramatic decrease.

Now, natural catastrophe risks for 2015, our exposure hasn't really changed. Over the long-term, the number of natural catastrophes will grow due to climate change. That is something we're seeing, which is good in a way for insurance and reinsurance companies because it increases the volume that can be increased and then you have the high value concentration in some areas, especially in the developing world. So we have a lot of growth potential without even going into cyber risks, but it needs to be mobilized more than in the past.

Thank you very much, Mr. (32:29).

Q - Johanna Weber {BIO 16192902 <GO>}

I have one follow-up, if you permit.

A - Jörg Schneider

Please go ahead.

Q - Johanna Weber {BIO 16192902 <GO>}

And that is the price decrease. So you mentioned minus 1.3% in the renewal round at the beginning of the year and you said you could, well, live with that. So which kind of a price decrease would be difficult for Munich Re, from which figure on?

A - Jörg Schneider

Well, as the CFO, as the financial head of the group, I can only say that this is the absolute maximum. I'm not being serious. But, nevertheless, we have capital costs and we have some minimum earnings on the capital that we invest, that we want to see, and in many areas, we're close to the limit. So there is not much leeway there.

And then we would have to decrease our volume again and also we need to create new business. That's the most important point. That is what everyone is looking for in the company, and we're mobilizing anything to generate business in areas that haven't been insured at all or are underinsured that we improve our offer there so that we don't have more of the same, but really enter into new business potentials.

Thank you very much, Mr. (33:56).

Operator

Our next question is by (34:02).

Q - Johanna Weber {BIO 16192902 <GO>}

Good morning. My colleagues have basically asked all the questions I wanted to ask, so there's nothing left here. All the best to you.

A - Jörg Schneider

Oh. Thank you. And you can get praise if you want to.

Q - Johanna Weber {BIO 16192902 <GO>}

Thanks.

A - Jörg Schneider

Okay. Then we can ask the next question.

Operator

The next question is by Oliver Suess of Bloomberg.

Q - Oliver Suess {BIO 6259296 <GO>}

Good morning. Two questions. Still without me having to go into giving you praise, but first question about ERGO, can you say something about the new life insurance product? How they've developed over the course of the year and what amount they make up of the overall new business?

And the second question regarding derivatives for inflation hedging, they were quite expensive over the course of the last year. Now, assuming that there won't be any major change in the basic data, can we expect something of the same nature for next year?

A - Jörg Schneider

Yeah. Thank you very much, Mr. Suess. First of all, regarding ERGO, we have a share of approximately two-thirds of the supported old-age provision with the new product offer. And we're highly satisfied with this because we think it is a product that offers the customers opportunities and also offers a better risk and opportunity profile for the company. That is why we want to support these kinds of products and want to also introduce them for occupational old-age provision.

And the second point then, indeed inflation has been worth quite expensive and we'll continue to do that because we have an economic control in our business. So we tried to measure the inflation sensitivity of our reserve portfolio and, therefore – I mean, we cannot fully use the derivative but to a certain degree just as real assets as a kind of hedging tool. And if inflation is as low as it currently is, then the room for any downward movement is quite restricted.

I mean, we've seen significant losses of value. But for the overall portfolio, that is well balanced through positive income effects for our loss reserves which were not fully recognized. That is to say, the economic control with the balance following accounting rules that is quite a challenge to a certain degree.

Thank you very much, Mr. Suess.

Operator

Now our next question by (37:09).

Q - Johanna Weber {BIO 16192902 <GO>}

Good morning. I have some questions left. The first one being pretty (37:20) the Malaysian Airline flight that led to certain loss, actually flood, €500 million and could you say how you're affected by this? And then...

A - Jörg Schneider

Mr. (37:41), sorry, did you say flight or flood?

Q - Johanna Weber {BIO 16192902 <GO>}

I said flood.

A - Jörg Schneider

Okay. Now, you see me confused, to be honest. We don't know the Malaysian flood as a major loss.

Q - Johanna Weber {BIO 16192902 <GO>}

Okay. That's good. I heard it was a major loss for you. Anyway. Then the net value – the adjusted value of the net result for 2014 so that we can see from which point on it will go up and down or rather down, probably, regarding profit. And then the next question, regarding the high amount of shareholders' equity went up significantly compared to the previous year. So you could come up with a much larger share buyback or an even larger dividend increase. So, if it continues that way, where do you see – how can you save yourself from the large flood of money coming in?

A - Jörg Schneider

Well, first of all, about the adjusted result, I don't want to give any official version because the question what needs to be adjusted and what doesn't, that is, well, a ballpark figure of €3 billion, maybe a little less I'd say. So, that is at least something I could well justify.

And then shareholder equity or strength in shareholders' equity, that's right, we are strong, but we don't have a huge problem with this. I mean, we have a very solid capital position, which is what our customers are expecting from us. We can pay out a dividend. We increased our dividend in a managed way over time.

And in addition, we have this second option of share buybacks to have the shareholders participate even more and to reduce our capital position. So you can rely on the fact that we'll only do this to an extent that reflects the special quality strength of Munich Re and that's our capital – our strong capital position. Therefore, we will always take a prudent approach here and have a certain kind of balance.

So I can't give you any more precise statements at this point and we're also in a large change regarding regulatory requirements. And we'll all have to learn to live with the new instruments, with new tools. We've come far in our preparations, but the first official round, we'll only have them on the 31 of December, 2015. And up to this point, I think we will have to monitor all this, and in our case, increase the payouts.

Q - Johanna Weber {BIO 16192902 <GO>}

Okay then, one follow-up question. Now looking at the business volume, if you want to reduce this towards the end of the year because there's not enough profitable business in P&C? And then, surplus capital, so the capital you don't really need and that you can't use that much should grow even more so that you will have even more room to maneuver?

A - Jörg Schneider

Well, regarding the renewal round, if you take an isolated view of that, that's right. But on the other hand, we, for example, have a very weak euro currently. That is to say, that our foreign currency risks have increased and we have the low interest rate environment, which also increases our risk, and that more than compensates the result of the renewal round.

Q - Johanna Weber {BIO 16192902 <GO>}

Okay. Thank you very much.

Operator

Now, our next question is by Manuela Dollinger (41:47) of Münchner Merkur.

Q - Manuela Dollinger

Good morning, Mr. Schneider. There is one question that's remained for me regarding ERGO. You mentioned that the life insurance business in Germany, which had decreased but was more than balanced by foreign countries. Could you tell me which countries you have with especially good business?

A - Jörg Schneider

Well, Ms. Dollinger, that was, first of all, Poland; and to a lower extent, Belgium; and significantly lower also, Italy.

Q - Manuela Dollinger

Thank you.

Operator

We'll take our next question by (42:30)

Q - Johanna Weber {BIO 16192902 <GO>}

I have some follow-up questions, and it's good that my colleagues just asked the page 4 where you had the correction. I didn't fully understand it. It says new business in life €1.9 billion minus 17%. What does it have to say here, correctly?

A - Jörg Schneider

Well, okay, I'll read this out to you. We have the – we confused two columns. Sorry about that. And €2.3 billion – new business in life should read €2.3 billion, and then in brackets, plus 17% versus 2013. Then increased single premiums, plus 22.8%, so not declining, but increasing single premiums, plus 22.8%. That's especially Poland where we have a lot of single premium business. And then decrease of regular premiums minus 2.6%.

Q - Johanna Weber {BIO 16192902 <GO>}

And could you tell me how much of that went to Germany? What about the business in Germany?

A - Jörg Schneider

Well, I have that looked up. Let me see whether we can get the answer immediately. Let me check this. So, 4.6% decrease. I don't have the absolute figure, so these are all preliminary figures, but we can hand them over to you later on.

Q - Johanna Weber {BIO 16192902 <GO>}

And two additional follow-ups. You mentioned the value for the new products in the unsupported old-age provision business. If you take into account all the other business occupational old-age provision and the one supported by the state, what's the amount of the new policies compared to this?

A - Jörg Schneider

I don't have the figure with me, Mr. (44:31). It's significantly lower, of course, because now there is a product and not company pensions, but we'll have this back to you as soon as we get the figure.

Q - Johanna Weber {BIO 16192902 <GO>}

Okay. My last question is the renewal in April. It's a large expense due to net cap business and the new capital is especially present in this field. So do you expect the lower price decrease in the 1.3% that we have?

A - Jörg Schneider

Well, last year, the prices went down quite significantly in Japan and Korea, which is important for the April renewal. So personally I wouldn't believe that we will see a repetition of the decreases of last year. And the alternative capacities by the way are still located above all in the United States because the risks there are have been highly transparently modeled and I mean it has an effect on other markets but far enough with the same intensity. So I don't believe the pressure will be that large, but that remains to be seen in the end and it's too early now.

Q - Johanna Weber {BIO 16192902 <GO>}

Thank you.

A - Jörg Schneider

Thank you, (45:41).

Operator

And the next question is by Jonathan Gould from Thomson Reuters.

Q - Jonathan Gould {BIO 20134933 <GO>}

Good morning, everybody. I have a follow-up question about the shareholders' equity and also your payout ratio, which I have calculated, which amounts to about 42%, if I corrected it – if I calculated it correctly.

A - Jörg Schneider

Yes, that's about right, Mr. Gould.

Q - Jonathan Gould {BIO 20134933 <GO>}

Yes. Thank you. Well, the question is how do you see the market? Do you expect this to be a temporary situation? You're paying out a lot of capital through dividends or share buybacks. And when do you expect the market to change, where you would be paying less to the shareholders so that means you could increase your business again, or do you – or when – is that going to be a lasting change for the market, or are you saying, well, maybe we need to adjust our business model just so it makes sense? I don't know whether my question is very clear.

A - Jörg Schneider

Well, I can hear what you're saying. Well, we don't hope for anything first of all. Well, to sit and wait and hope is not our policy. We're trying to design things. We expect that we will be able to work a lot of innovative solutions. We're hoping that we can increase the range of the insured risks which then will provide a growth impetus for the whole insurance industry.

The negative effect of the low interest rate environment, we don't speculate on anything here. But our capital investments were in such a position that in every scenario, we're not going to be the major winners. However, there's also no other scenario where we're going to experience major troubles. So we have a very balanced mixture between real capital investments and also fixed interest rate investments, and actually it proved its worth just recently.

Well, about our capital needs. What we're doing right now is the money which we're earning to a substantial amount we're paying that to our shareholders, when you look at the dividend payments as well as the share buybacks. But we're not weakening our equity and our equity is definitely significantly above what we need. So, taking into account the current equity, including the effects of the payouts, that still leaves us with enough money for potential growth. And we will not regret that any day. We're earning a lot of money and we're paying that out to our shareholders. That's the simple formula right now.

And while the analysts, they keep saying time and again, they expect you that you should increase this ratio and you could be doing that without endangering your business model. Well, what we could be doing is we could pay out more in terms of dividend and then decrease our share buyback program. And that is true to the fact that the Munich Re AG is paying out. The Munich Re AG also has to have large provisions and can only pay out a certain amount which we're making use of mostly.

So there is a certain limit here because of the fluctuation reserves and these fluctuation reserves that also means stabilization for the future. That means when we are going through a bad year or a year with very many natural catastrophes like back in 2011, then these nat cats are balanced out by the fluctuation reserves in our local accounting. But that is the restrictions we have for the amount of money we pay out in terms of dividend.

Q - Jonathan Gould {BIO 20134933 <GO>}

Okay. Thank you so much.

A - Jörg Schneider

Thank you, Mr. Gould.

Operator

The next question is by (50:46).

Q - Johanna Weber {BIO 16192902 <GO>}

Good morning. I have a question about a huge player in the capital market. And isn't there a huge bomb ticking right now which might blow up in a few years because of the low interest rate environment policy? I mean, when we look at the figures and what also we have heard what you said before, I mean, you have some – you can make some adjustments through certain facts. I mean, you have a lower average interest rate and also divestments you cannot do endlessly. So what are the scenarios for the years to come in order to face these dangers, in order – actually, I have to imagine – I have to say, I like imagination here.

A - Jörg Schneider

Well, Mr. (51:50), we share your worries. First of all, about (51:53). Well, since we have not consistently turned around our capital investments, we have high valuation reserves. Even if the interest rate stays where it is or continues to stay where it is, we still have a huge buffer of reserves which will become smaller over the course of time, obviously. And then, on the other hand, we have a strong operating business where we are active in markets where our competitors are being confronted with the same phenomenon.

So, where no interest rate can be earned anymore on capital investments, it has to be the technical result, and that means the prices will change, too. However, if we think it's huge plan, the capital market or large investor, well, we are also in the same situation with the people who have savings. They're all affected by the same phenomenon.

The old-age provisions are substantially jeopardized because the markets are being flooded with liquidity and the interest rate is close to zero. It gives us a lot of reason to worry. And for the insurance industry, let me just add. Also, when you look at the governmental regulations, which we have to adhere to, additional elements have been put into place which are giving the wrong impetus or incentives, mainly that the investments and government funds are not being supported by risk capital.

Here, the insurance industry and also therefore the insurance holders, they're being forced to buy government bonds, despite the huge risks. So there are major wrong decisions and we try to stay away from that to a certain extent and we try to pursue our own risk policy and internally within our internal model, government bonds do have risks in our internal models.

Q - Johanna Weber {BIO 16192902 <GO>}

Let me go back to – let me just ask how much time do you have until there will be a culmination?

A - Jörg Schneider

Well, that is hard to say. Well, today's problems are being solved by pushing it on towards tomorrow. That gives us a lot of reason to worry. There is some hope that with the drug of the low interest rates and the quantitative easing, it will lead to a stimulation of the economy and then it can be carefully readjusted. However, we don't believe that the right incentives are being given because that would call for structural reforms which would allow again for economic growth. And we don't see that, at least not to the extent they would be necessary.

Q - Johanna Weber {BIO 16192902 <GO>}

Well, Thank you.

A - Jörg Schneider

Well, thank you, Mr. (55:08). Do we have any further questions?

Operator

We do not have any further questions at this point.

A - Jörg Schneider

Okay. That means I'd like to thank you. I'd like to thank all of you and pass on to Ms. Weber.

A - Johanna Weber {BIO 16192902 <GO>}

I would also like to thank you. That was the end. And the next date is the Financial Press Conference on March 11. Thank you so much. Have a nice day.