Q1 2020 Earnings Call

Company Participants

- Christian Becker-Hussong, Head of Investor Relations
- Christoph Jurecka, Chief Financial Officer, Member of the Management Board
- Joachim Wenning, Chairman of the Management Board, Chief Executive Officer

Other Participants

- Andrew Ritchie
- Anthony Penel
- Darius Satkauskas
- Edward Morris
- Ivan Bokhmat
- Jonathan Irwin
- Kamran Hossain
- Michael Head
- Thomas Fossard
- Vikram Gandhi
- Vinit Malhotra

Presentation

Operator

Good day, and welcome to the Muenchener Quarterly Statement One 2020 Call Annual Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr.Becker Hussong. Please go ahead.

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Good morning, ladies and gentlemen, the analysts and investors. Thanks for joining us to our Q1 earnings call. It's a pleasure, as always, to welcome you to discuss the most important results and trends. And I have the pleasure to introduce to you, Christoph Jurecka, our CFO, who will host this call this morning, and I will directly hand it over to him.

Christoph, please.

Christoph Jurecka {BIO 17223019 <GO>}

Christian, thank you very much. Good morning also from my side. I'm very pleased to be able to present you the Q1 figures today. And in this first quarter, it was clearly dominated by the COVID-19 pandemic. Our top priority in these times is clearly protecting our staff and business partners, and with many infected people and fatalities worldwide, please allow me to express my deep sympathy. Our thoughts are particular with all those directly affected by the virus. The pandemic and the unprecedented lockdowns had a severe macroeconomic and financial impact.

In these unusual and very special circumstances, we posted net earnings of EUR221 million in Q1, which is completely in line with our pre-release a couple of weeks ago. The big number of cancellations and postponements of large events led to large losses that were significantly above average. Our investment result, however, proved to be quite resilient despite the extreme market turbulences we also saw in Q1. The tax ratio of 53.5% was exceptionally high as equity impairments and disposal losses on equities are nontax deductible, while we had currency gains which amounted to EUR144 million. The ROE stands at 3.9% at Q1.

Now as usually, I will go through the major part of this investment -- of this result together with you in my quick introduction before we then go into the Q&A. Well then, let's start having a closer look at our investments. The annualized ROI was 3.9% and met our full year guidance, while we had a running yield which decreased only slightly to 2.5%. The reinvestment yield remained unchanged at 1.9%. As part of our conservative positioning of our investment portfolio, we went into the crisis already equities underweight. We then took measures to further reduce the exposure in March. And additionally, our hedges proved to be very effective in reducing the earnings volatility.

Accordingly, the equity impairments, disposal losses could be largely offset by derivative gains. Furthermore, we had some disposal gains on fixed income and real estate investments, which also had a stabilizing impact, even though they were never meant or intended for this purpose. I'm very pleased that our prudent risk management approach helped us to protect our investment result in this really very challenging capital market environment.

Now, turning to reinsurance, first of all, the underwriting result in both segments was clearly below our expectations. In life and health reinsurance, the technical result, including fee income of EUR56 million fell short of pro rata full year ambition, which was driven by a disappointing result of our North American business. After several quarters with good claims experience in the U.S., we, in this quarter, experienced a higher-than-expected mortality and the catch-up from late reported claims. In Canada, the decrease of interest rates required a strengthening of the claims reserves. The performance outside of North America was in aggregate, in line with our expectations.

It's -- I think, important to notice that the Q1 result does not include any notable impact for COVID-19-related claims in life and health reinsurance. Now by contrast, the Q1 result in P&C reinsurance already includes substantial COVID-19 related claims of roughly EUR800 million, with contingency losses accounting for the largest share of it. Overall, the large losses amounted then to 21.1 percentage points, lifting the combined ratio up to 106%.

Excluding the impact of this coronavirus-related claims, Q1 was a relatively benign quarter for us in terms of large loss events.

If we then do the usual schematic calculation, so the normalization, which includes reserve releases of 4 percentage points, we get to a normalized combined ratio of 96.8%, which is completely in line with our full year guidance of 97%. The basic loss ratio in it reflects the usual prudent reserving approach in a context of ongoingly elevated reported names in U.S. casualty. While in basic losses, we do not see any COVID-19-related losses in Q1. The expense ratio improved due to the cost reductions, also due to premium growth. And just to remind you of the change in cost allocation method we did for the first time now in Q1, the effect was 0.3 percentage points and we restated also all prior year figures, I think that's important to notice.

In the April renewals, trends observed in January continued albeit overall very favorable renewal. The price level for our portfolio pleasingly increased by 3% and at the same time, we were able to substantially grow our premium volume by around 26%. We did saw exploiting growth opportunities, especially in Asia and with global clients.

Coming to ERGO. In primary insurance, we posted a Q1 net result of EUR72 million, which was impacted by a somewhat lower investment result compared with last year, despite the fact that we also have effective hedging measures there. COVID-19-related claims have been insignificant at ERGO, so far. Overall, in my view, these results are very pleasing given the challenging environment also for ERGO. In that regard, I think it's important to highlight the once again strong technical performance of the P&C segment. Germany Life and Health of ERGO, posting a net result of EUR5 million. And this was largely driven by lower investment result, while the technical result was slightly higher even than last year.

German P&C segment, first of all, showed a strong premium growth of 6.7% versus previous year. And nicely, this is driven by almost all lines of business. The combined ratio was good at 93.4%. And if you take into account the usual seasonal fluctuations, we see at ERGO and which are typical for the first quarter, then the underlying combined ratio completely supports the 2020 full year guidance of 92%. In ERGO International, we posted strong profits of EUR46 million, driven by good development in the core markets, while the prior year was burdened by portfolio streamlining. Combined ratio remained largely stable at the good level of 95.2%.

Now looking at the group's economic position. The economic position remains very strong despite the current difficult environment. The Solvency II ratio decreased to 212% in Q1, and please note that this number still contains the discontinued 2020/'21 share buyback. Compared with the year-end 2019, the Solvency II ratio means a reduction of 25 percentage points, which is, of course, mainly a consequence of the stressed capital markets. But as you can see, the risk mitigating measures we have in place, diversification and then also the volatility adjustment partially mitigated the impact and helped us keep the Solvency II ratio very comfortably within our optimal range.

Overall, we continue to be very solidly capitalized. I'd like to also emphasize that our leverage continues to be very low. And our strong balance sheet, according to all metrics, allows them also to be a reliable partner for all our clients going forward and also make use of opportunities, either organic or inorganic.

Now coming to the outlook of 2020 -- for 2020. The usual uncertainties about the future developments in major losses and capital markets are naturally much more pronounced than usually. The range of possible outcomes will thereby not only depend on the still dynamic development of the COVID-19 pandemic itself, but also on the effectiveness of the containment measures as well as on the impact on the economy.

As already mentioned in our pre-release, we will not attain our group profit guidance of EUR2.8 billion, and we are also reporting it for the reinsurance field of business, including the combined ratio. Despite the disappointing start to the year, we continue to assume that achieving a technical result including fee income of EUR550 million in Life and Health reinsurance is still within reach. The same applies to the guidance for the ERGO financials and the return on investments, which we also left unchanged given the solid Q1 performance. However, this is very important to know, there is a big caveat. We see a very substantial risk of falling short of this guidance, subject, of course, to the further development of the COVID-19 pandemic.

With that, I'm at the end of my opening remarks. And of course, I'm very happy to answer all your questions. And with that, I hand it back to Christian.

Christian Becker-Hussong {BIO 19080254 <GO>}

Christophe, thank you. We can go straight into Q&A. As always, please maximum number of questions of two per person, in order to give everybody a fair chance to participate in the Q&A. So, please go ahead. please go ahead.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We can now take our first question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning and thank you and hope everyone is all right and well. Just two topics, as you asked, so one topic is the COVID impact of the -- in the 1Q, the EUR800 million taken. Could you give us some color on how much is non-event losses assumed in this -- just and which lines are these, if you don't mind? And linked to that is on the Slide 4 of your presentation, the risk of event losses becoming high triple digit, if you could just comment on just anything around that because that's been a focus this morning. That's the first topic.

And second topic is the -- I also saw on the presentation of comment that there's an expansion in corporate bonds, emerging market bonds. How do you perceive that in the risk environment we are in now, given spreads have been widening as well? So just any feedback on the asset side, these movements, including even duration increases would be very helpful? Thank you very much.

A - Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Vinit. Good morning. First of all, the COVID impact in the EUR800 million, to give you a little bit more background. This EUR800 million, you could separate them in two buckets. The first bucket is claims, where we already have claims notification from our client. So, we very precisely already know the claims.

The second bucket is claims where we do not have such thing, but where we know that the event happened. So the postponement, for example, of a large event, we know that from the media, from whatever source. We are aware of that, and then, of course, we take action and reserve for it. That's the second bucket. And then there's a third bucket, which is a more classical IBNR. So we reserve for claims we don't know yet.

So, in that sense, to give you an order of magnitude, the first bucket, so the well-known notified claim -- this is very minimal number at this stage, whereas the second and the third are more or less the full amount of the EUR800 million. And given our usual conservative reserving practice, I think you will understand that there is a reasonable level of conservatism in how we did assess second and the third bucket.

Now which lines are in that? I said in my introduction already that the major part is event cancellation. But it's on top of that, more or less across all P&C lines. So wherever we see a claim, it's in that EUR800 million and reserved for that. So, I hope that is giving some color on the EUR800 million. On the corporate bonds and emerging markets, first of all, we are not talking about a significant shift here, but we're talking about expanding our exposure in this area slightly, a little bit more, where at the same time you could also see that our equity exposure was reduced in the first quarter.

Overall, and I think that's the important message here is the risk we have in our portfolio stable or even reduced given the lower equity holdings we are having. And therefore, I would only talk about small additions to our portfolio here. And of course, what we are doing is to try to make use of opportunities. We are now with higher spreads. We can get a reasonable level of credit risk for a higher quantification for a higher return compared to the last couple of quarters. So that's basically what was happening there.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thanks, Christoph.

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

Thank you. Okay, can we have the next question, please?

Operator

Next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. I want to ask about actions you've maybe kind of taken or are currently taking on the P&C reinsurance book. It feels like, a couple of months ago, people were fairly happy that there wasn't that much pandemic BI to come out. It feels like it's fairly substantial compared to where we were a few months ago. Can you talk about what you're doing with clients to kind of -- out or kind of work out what the silent pandemic risk might look like? And then also on the kind of actions you're taking there, does this raise any fears for you on the -- if size -- were to come up as well, so kind of actions, what you're doing kind of ground up on that?

And the second question is, based on demand, are you seeing a greater pipeline? What are clients asking for? Is it more cat cover? Is it more kind of coverage on their liability? But it's in the U.S., kind of what's demand like and what are people looking for? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Honestly, the first question was very difficult to understand from BI. I interpret now a little, and then please come back in case I did not really answer the question. I think the question was how we deal with BI. And first of all, as all of you know, in most cases, BI coverage is closely connected to physical damage. And so we have clear exclusions in that case in this context here. Then there's nondamage BI. And of course, if you have a claim, we pay it. So that's -- I mean, that's obvious. And then I think part of your question was silent BI, as you called it.

So if there's something in our books, which we are not aware of or where maybe the interpretation at this stage is not completely clear, I think that's something which had been discussed a lot in the industry. We are in close contact with our clients, obviously, and looking into the terms and conditions and so on and so forth. But clearly, the general rule is that we have exclusions wherever the client not explicitly wanted to include a pandemic cover into the coverage. I know that's a very general answer, but I'm afraid I can't give you any more specifics at this time here.

Now on the demand side or opportunity side, your second question. I think it's a little bit too early to tell. In the 1 4 renewal, clearly, a lot was cut driven, given that it was a Japanese renewal and also a lot of the price movement and also the volumes we were able to underwrite were related to NatCat perils in the Asian markets, specifically the Japanese market.

Going forward, I could imagine a variety of opportunities for us. It's a little bit too early to tell which we'll realize, and therefore, it's a little bit theoretical still. But for example, we could imagine dampen -- the primary insurance would be interested in dampening volatility a little bit more, reducing risk from their balance sheet, maybe we could also support them with capital management tools by reinsurance. That would be the opportunities we would be seeing. Already the last couple of years, we have been marketing pandemic solutions, which were not a huge success. So really not a lot of people were interested in that. So there might be a market for things like that going forward. So there's a wide range of opportunities. But finally, it's too early to tell which one will then be -- we will be able to realize in the markets and where then also demand will be high. And I think that was your questions. It's a little bit early.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great. Thanks very much, Chris.

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

Next question, please.

Operator

We can now take our next question from Edward Morris from JP Morgan.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, everyone Hope you're well. The first one is sort of a bit of a big picture question really. But it seems to me that increasingly, the expectation is that this is, in aggregate, will turn out to be an event that is equivalent to a pretty major NatCat, certainly medium to large sized NatCat. And I wonder if you could just talk a little bit about how you think the risk transfer mechanism for the industry will work in this instance? Because for a regular NatCat, you have a huge number of providers that, in aggregate, end up paying the claims, whether it being the specialist providers, ILS markets, cat bonds, et cetera. Whereas in this scenario, it seems that there's a sort of fewer number of reinsurer type players that could end up picking the claims.

So I wonder if you could just talk a little bit about that. Do you think this loss could end up being much more concentrated amongst the smaller number of providers at the top end? Or is it likely that if it becomes large, it really ends up staying more with the primary insurers because reinsurers in the end don't have the same terms? Just some thoughts on how that might play out if it ends up being a very large loss.

And the second question is really on Life and Health. So I noticed that you're maintaining the guidance for the technical result despite a slightly weaker Q1 and, obviously, with large caveats around how COVID might turn out. I wonder if you could just talk about what is your current assumption for the incremental global debt figure you talk about. There's a EUR10 million figure here, which I think is your 1 in 200 exposure, which you say would be a EUR1.4 billion hit. What is your current assumption on excess mortality? Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Thank you for the questions. Ed, the first one, what I've been observing also the last couple of days or weeks is kind of run for giving the highest possible estimate for the market claim in this event. And honestly, I'm not sure if I buy into all these estimates already. I think it's really early days, and uncertainties are extremely high.

And we don't know how this is going -- finally going to be evolving over time given the fact that we don't know how the virus will really continue to be threading around the different geographies, but then also government action, which is also, as you know, very different from market to market and country to country. Having said that, I think it's still extremely uncertain how expensive this finally is going to be. For sure, it's going to be expensive. But how expensive, that's highly uncertain. Therefore, I would not like to contribute giving another estimate like how expensive this is going to be. I think there are enough estimates out there, and all of them are highly uncertain.

Having said that, I agree that potentially the risk transfer mechanism is different in this area than with NatCat. But then finally, it's too early to tell because we have many open questions still. And again, how expensive it's going to be, which lines will it be economic downturn, how much government action will we see, will credit insurance be affected, to what extent, yes, no, will there be state support for credit insurance, I mean there's such a huge number of questions which is still open and uncertain at this stage that I don't think anybody can give you a precise answer to what you're saying. The only comment I can make, I think, is that I share your view that probably the distribution amongst the different players in the market, primarily as well as reinsurance, will be differing from what we are used from NatCat.

Coming to Life and Health. Indeed, so far, we did disclose our statistical pandemic one in 200 year event, which is a statistical exercise based on influencer type of events which we saw in the past, so more -- also Spanish flu. And you're also right that we were talking about 10 million excess fatalities in a scenario like that, and we were talking about claims in the order of EUR1.4 billion.

Now in Q1, we did not have any notable COVID-related claims in Life and Health. Now in Q2, we see developments starting. And based what we see so far, the specifics of COVID-19 are very different to the influencer type of estimate we have a base of our scenario. And then, of course, our portfolio, so the demographic makeup of our portfolio as well as age structure as well as social demographic facts in our portfolio, they are different to the general population. And then we have these government actions, which seem to be, at least in some markets, highly effective so far. Nobody knows if there will be a second wave or a third one even. But so far, they seem to be highly effective.

Having said all that, I think it could well be the case that our claims will be lower than the EUR1.4 billion in the 200-year event we were mentioning before. But I'm in no position to give you a precise answer to that question because again, uncertainties are high. Who knows if there will be a second or third wave, whatever. And I think it's just too early to tell, finally. But as I said, the observations we have so far, they are signaling in a direction like that our exposure might well be lower.

Q - Edward Morris {BIO 16274236 <GO>}

Okay. Thank you very much.

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

Next question, please.

Operator

Next question comes from Ivan Bokhmat from Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning. Thank you very much for letting us a question. Hope all is well. I've got 2 questions, please. The first one relating to investments. It seems that your investment yields have been flat in the first quarter. This is to some extent an accounting concept and how it's calculated. Maybe you could talk a bit more about your own reinvestment strategy at the moment. Are you -- where are you placing the cash flows that you generate from maturing instruments?

And the second one is related to ERGO, where you referred that, that also creates operational issues there. Can you talk a little bit about whether the transformation program could be affected by the outbreak in terms of investments in the business or the cost savings? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, thank you for the questions. Yes, the investment result was in an IFRS view stable. I think that was what you were referring to in the first quarter, even slightly above prior year. Of course, economically, if we also look at the unrealized gains and losses, then, of course, we did a number of unrealized gains reduced in the first quarter. And then also, economically, that's what you see in the Solvency II ratio we -- which reduced to the market environment.

So economically, clearly, that was not positive. Just to give that view from all perspectives. Our investment strategy is unchanged. So generally, our strategic asset allocation holds up and is unchanged. As I said before, we might be looking into opportunities if we can find the right piece of credit at a reasonable price to be added to our portfolio, but rather marginally. And also, from a perspective that the overall risk of the portfolio should be unchanged.

Also, the hedging strategy, which we have in place is still in place, and we're going to continue with that like we did for a long time already. So we were prepared for markets. Now we like that for quite some time because we generally look into -- look really carefully from a risk management perspective into our portfolios, how much risk we can afford and how much risk we are willing to take, so in that sense, nothing spectacularly new on the investment side.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

And on ERGO?

A - Christoph Jurecka {BIO 17223019 <GO>}

Sorry, ERGO. Yes, ERGO, our strategy program is on track. All the measures the ERGO was implementing there, they're being implemented as we speak. Of course, ERGO is also affected like all insurers by COVID-19. So there might be an overlay from COVID-19 in a sense that, for example, new business volumes under pressure, given the lockups, stuff like that, but other than that, ERGO is delivering as promised.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thank you very much.

Operator

I can now take our next question, Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. It's Vik from SocGen. I hope all of you're doing well. Just really one question from my side. Thinking about the new environment that we are in and your push on the digital side, I guess the first part of the question is, if the world gets more and more comfortable with remote working, do you see a positive in terms of the sustainable cost savings long term or would it be too small to matter? And the second part is on the digital and start-up investments that you have, including the InsurTech side. Do you see a risk that you may have some impairments going forward?

A - Joachim Wenning {BIO 16273429 <GO>}

So can you repeat the second question? I didn't really hear that.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Sure. The second part is kind of related to your push towards digital and start-up investments, including the InsurTech side. Do you see a risk that you may have some impairments or write-downs going forward?

A - Joachim Wenning {BIO 16273429 <GO>}

So your first question was about the mobile working and if, on the long run, there might be a potential for cost savings? So first of all, I think I have to underline that we are very happy that our -- all our PCM measures worked out so well. So, we have more or less the whole organization working from home. And it feels as if we were as efficient and as effective as ever before. You can see that the renewal figures, so there was no any -- nothing really to be seen in renewals, but also then customer relations at ERGO are still working very well. And then even on the sales, part of ERGO sales strategy was to extend also digital services to the sales forces, and I think we were benefiting from that now also in sales.

Of course, sales was not unaffected by the crisis, but I think we were able to mitigate the effect to some extent due to the fact that we invested so much in the so-called hybrid customer project program. So in that sense, I think it's indeed a very good starting point. And we have home work -- home office anyway already as a concept in our company. So in that sense, it's not new. Will there be opportunities to extend that? Potentially, yes. But that's something we will have to take up over time then and we did not discuss thoroughly so far, but potentially, yes, why not? Because it's really working well.

Your second question is investments in digital, in the venture capital area, start-up area. Of course also these enterprises are affected by the current crisis, as all of us are. It's too early to tell to what extent and really how much they will be affected. But yes, generally, I cannot rule out that there would be any impairment risks at this stage, as much as I only also not able to confirm any of this because it's just too early. But I obviously cannot rule it out.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Okay. If I can just come back on -- I have kind of a second question on the COVID-related claims. And I appreciate you mentioned that a large part of the EUR800 million that you've penciled in relates to the event cancellations and postponements. Just wondered if you made any specific reserving with regards to the credit insurance, the exposures because that seems to be another area that -- where claims are to be anticipated.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes, credit insurance. Well, I think we talked about it already. I think the potentially most affected area would be trade credit. In Q1, obviously, we didn't see a lot yet because the economic downturn just started in Q1. But potentially, going forward, there would be clearly a risk in that line. In Q1, we didn't book any claims. We can only book claims which we already have in Q1, or which happened already and we don't know from.

So not a lot really in Q1. In Q2, it might be happening. To give you a rule of thumb in order of magnitude, I mean, I think the overall premium volume we have in credit is EUR800 million, but then only 40%, 45% of that is trade credit. And then if you think about I don't know, combined ratios, 100, 110, 120, that would already be quite a negative scenario. So just to give you an order -- a feeling in order of magnitude how losses could look like. Even a 200-year event would end up -- we would -- in 200-year event, we would, I think, end up with losses -- with a loss ratio of 110 roughly, order of magnitude. So just to give you a feeling of the potential order of magnitude. But in Q1, we did not have substantial bookings yet.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you very much.

Operator

And I'll take our next question from Jonny Irwin from UBS. Please go ahead.

Q - Jonathan Irwin {BIO 20491581 <GO>}

Good morning. I hope you're well. Just 2 for me, please. So firstly, I think you just clarified this, but the COVID losses in P&C Re, I mean, it sounds like the EUR800 million is your first attempt to quantifying Phase I, which is mostly event cancellation. But I think the message is that business interruption in credit are surety are kind of still too hard to quantify at this stage. We haven't seen the actual claims activity develop. So that will come later. So if you could just confirm that, that would be great.

And then, secondly, how should we think about retro coverage? Because I guess most retro is written on a named peril basis. So question, is pandemic a named peril? And will it be an easy recovery for reinsurers? Or would it be quite challenging? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

So first one indeed, again, the major part of the EUR800 million is event cancellation, and we expect other lines to be much more affected in the quarters to come. And again, we only book claims which are incurred in quarter 1. We cannot book claims which we expect to incur in Q3 -- Q2 or Q3. So, I think that should answer your questions. Independently of that, of course, in this EUR800 million, all the other lines you were mentioning there to some extent, included in there, but only with smaller amounts because we had less claims incurred in that other lines. On retro, you know that, in any case, retro is not -- I mean our retro program, given also our share size is not of that high relevance outside of the cat area. In the cat area, we have some retro program in place, but it's really cat specific

Q - Jonathan Irwin {BIO 20491581 <GO>}

Thank you.

Operator

Next question is from Darius Satkauskas from KBW. Thank you. Please go ahead.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Good morning. Thank you for taking my question. So first question, do you think that higher P&C reinsurance demand we are seeing at the moment will continue this year and in 2021? Or do you think that demand by primaries will come down due to lower GDP? My second question. Do you expect that COVID-19-related losses will be mostly dealt with by the industry in 2020 because of reports losses and by building IBNRs? Or should we expect a notable spillover into 2021 because of uncertainty in business interruption? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Sorry, I didn't understand the first one. Could you please repeat that? I apologize.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Yes. So what do you think about a P&C reinsurance demand? We are seeing an increased demand at the moment. Do you think it will continue or do you think that it will come down because primaries will be seeing lower growth due to lower GDP? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay. Thank you. Yes, indeed, there are these 2 tendencies. First of all, as you said, for many primaries, some of the lines are GDP-dependent. So they might be growing less, but on the other hand, in times of crisis and increased levels of risk, increased uncertainties, increased volatility. Generally protection is something where we think that the demand will go up. So they are both tendencies. If you ask me for a personal view, I would say the demand should continue to be high, because I think this is the more important tendency right now given all the uncertainties.

Then second question, if there's a spillover into 2021. Honestly, I think it's too early to tell. It depends on how this virus situation evolves. If there will be a second or third wave, potentially, there will be even, I know, a third wave next year, with lockdowns next year, I don't know, but I can't exclude that. And therefore, I think it's impossible to really answer your question. I would very much hope that it's over this year, but who knows?

Q - Darius Satkauskas {BIO 19724328 <GO>}

Thank you.

Operator

Next question from Anthony Penel from EdRAM. Please go ahead.

Q - Anthony Penel {BIO 16200897 <GO>}

Good morning. Regarding dividends. So you've just paid your dividend. Could you comment on the positions regarding dividends in the sector and for your company, positions from the EU regulator, your German regulator, the professional associations of insurers across Europe? Did you receive any pressures from the political field? And was it tough to resist the pressures to cut the dividend?

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay, thank you. Yeah dividend, we just paid out the dividend I think which is very good news. The dividend is the key part of our capital management story for many, many years and decades. And so it's of high importance for us.

And of course, we plan to continue that, like how we did in the last, I think, five decades. What happened this year is, indeed, there was a lot of regulatory pressure on dividends across Europe, driven by EIOPA, but also some national regulators, where our German regulator BaFin took a more differentiated view on dividend payments by insurance companies in a sense that as long as you're able to prove to them that your risk and capital position is strong enough to support the dividend payment, they have no issue with that.

And so what we did is we discussed with them, and we're able to prove to them that we are clearly in a position to be able to pay out this dividend and not only in expected value, but also in severe stressed scenarios, it would be no harm for us to pay out this dividend.

And then they confirmed it would be no issue for us to pay out. And so it was a very fact-driven discussion and very fair discussion, I have to add, and a very good relationship with our regulator without any undue pressure or whatever, but really fact-based. And given the strong capitalization situation we are in, it was finally not very difficult to convince them.

Q - Anthony Penel {BIO 16200897 <GO>}

But if I may, add from your competitors, Mr.Buberl from AXA, that you would have liked that a common position for all the insurers across Europe not to have discrepancies among insurers and competition issues. Did you discuss with other insurers the general cut among the insurers?

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, I think a little bit difficult to say because there are so many insurers and probably a variety of opinions there. Again, for us, it's really important, and we -- I mean, you can just confirm that, again, how important the dividend is for us. And already in the past, we were able in really bad years to continue to pay a dividend. Also because due to the local GAAP mechanism we have in Germany, so -- allows us sometimes also to pay out the dividend even in years where we do not have a lot of IFRS result. This might be different for other companies.

But then again, I think for a private company, privately owned company, it should be possible to pay out a dividend. That's a natural part of the capital management story. And as much as we rely, we and all our peers rely on capital markets, if we want to like to raise capital, we, of course, also have to be able to pay back capital. I think that's a very natural thing. So I don't, in that sense, I don't see not a huge variety of opinions honestly.

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

Thank you. And next question, please?

Operator

(Operator Instructions) Next question comes from Michael Head from Commerczbank. Please go ahead.

Q - Michael Head {BIO 21643990 <GO>}

Thank you very much. Good morning. Two questions, both on ERGO. ERGO P&C. So far, you -- that you have not been hit by the COVID-19 losses. I would be surprised if ERGO ultimately was not affected by any COVID-19-related losses. So what are your exposures at ERGO with respect to corona crisis? Event cancellation business interruption does not play any role there. What makes ERGO so different versus other primary insurers?

Second question on ERGO Life Germany. Can you give us an indication on how new business in German Life has developed in the first quarter and what we should expect for the second quarter? You mentioned digitalization which helps you to mitigate any lockdown effect.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes, Michael, thank you for the question. First of all, ERGO P&C will be affected. I think that's clear. Until Q1, nothing happened so far. So it was too early. But in the second quarter and then in the quarters to come, I would expect ERGO also to be affected. To what extent, still has to be seen, but we're already regulating -- paying out claims to our clients. So that's happening already. So no surprise here.

Exposures might be different due to different business mix compared to some of our competitors. Also underwriting guidelines might differ, but I mean, taking all this aside, there will be claims and ERGO will be affected. So we have to wait a little bit to see to what extent. Will it be very material from a Munich Re Group perspective? I don't think so. But also this still has to be seen.

Life Germany new business, we started well into the year, which gave a lot of tailwind when in March the lockdown situation started. And in that sense, I think Q1 was still a good quarter also volume-wise. I think that's also what the figures are showing. Going forward, of course, there's a number of factors which make you more cautious. The one is, of course, the lockdowns, which makes it more difficult to interact with your clients. We have, as I said, invested in digital tools, and this mitigated the effect to some extent, but there will be an effect. On top of that, then we also have the economic downturn, the GDP reductions, stuff like that, where it also remains to be seen how volume will be affected by that. We have some commercial lines where volume is related to turnover. There, we might be affected by lower volumes.

But then again, also when people make less money because the economy is in a difficult situation, that they will probably only save less, less possibility to take out life insurance policies. All these kind of things might happen going forward. So uncertainties are high. And the only thing I was commenting before is that Q1 was relatively unaffected still.

On top of that, I think it's also something I can mention here is that ERGO is also a travel insurance player in the German market, also international markets. And of course, there will also be effects on the volume, significant effects on volume in travel insurance there. So don't get me wrong, ERGO will be affected, but in Q1 it was not yet significant.

Q - Michael Head {BIO 21643990 <GO>}

Thank you very much.

Operator

Next question comes from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good morning. I've got two remaining questions. The first one would be regarding your unchanged guidance for Life and Health reinsurance. Can you give us a bit of flavor on what gives you the confidence that the EUR550 million is achievable, having in mind that you're starting with a lower quarter in Q1; that potentially could have maybe some additional reserving coming in Canada, but that's a question mark, and Australia with BI could be also affected. So what gives you the confidence that this is -- this guidance remains in place?

And the second question would be on the running yield of your portfolio, so 2.5%, almost unchanged in Q1. How should we think about it, especially for the reinsurance division, I mean, any offsetting? Or should we expect the usual 15 to 20 basis points attrition to play in the full year 2020? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes. Thank you, Thomas, for the questions. On the Life side, what are the assumptions for the 5 50 unchanged outlook? Unchanged subject to major COVID-19 effects outlook I think it's important to note here. Of course, the assumption can only be that Q1 was a one-off. And the other quarters will catch up with what we saw in Q1.

Then we will end up with EUR550 million, and then there might even be some space for some limited COVID effects, only limited ones. If there are more, if there are higher, then, of course, the footnote to our guidance would immediately jump in, and we will no longer be able to deliver the EUR550 million. So again, I'd like to underline that the EUR550 million are highly at risk. But at this stage, we do not have enough indications to already withdraw it. So it could well be the case still that we achieve it, but they are highly at risk.

Second question, running yield, I think the usual attrition assumption is still the right one. Maybe a little bit higher than in the past, given that U.S. dollar interest rates also came down more than they did in the past. So somewhat increased maybe.

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

Thank you. Can we have the next question, please?

Operator

Next question is from Andrew Ritchie. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So, hi there. I wonder if you could just clarify, should we -- what is -- what has happened with ERGO Life and Health in Germany in Q1? I expect it's an incredibly technical answer. But maybe if you could sort of simplify it, Christoph, that would be useful. And how we think about the natural earnings power of ERGO Life and Health Germany, and if that's changed?

The second question, you're talking a lot about higher claims, and clearly, we're going to expect higher COVID claims for both non-life businesses. Are there areas where you're going to see lower claims, including in the reinsurance business, where you provide quota shares to personal lines businesses, and I presume you haven't seen any of that benefit yet, but are there not areas where you're going to see lower claims? Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes. Well, thanks for the question. There is indeed a technical answer for Life and Health. I won't give you the technical one. What happened really for Life and Health Germany is the following. 2 things mostly. On the technical result, we had higher claims in health insurance in Germany. And these higher claims, we didn't have due to COVID-19. That's again important. We had them because there was a catch-up effect. People were less busy in the offices, so they had more time to work on all the claims and the backlog was reduced. And by that, we were paying out more claims in the fourth quarter, which somewhat burdened the technical result, first thing.

Second thing, the investment result, despite the hedging activities, was somewhat burdened, again in health, not in life. The reason for that is that in health, we have a higher risk capacity than in life. So generally, they take higher equity investments. And so in that sense, the exposure was just a little bit higher. And therefore, they are affected by the market turmoil to some extent. And these are basically the 2 things.

On top of that, if you talk about the operating result, and now I have to be a little bit more technical. What happened there is, first of all, we had a positive FX result. But then the shareholder share of the FX result is deducted from the operating result. This is, again, right, it's about EUR15 million, so it's not a lot, but still distorting the figures to some extent. And then there's a fourth effect, and this is a new cast cost allocation, which basically is not changing anything at all, but taking out costs from nonoperating into operating, the same costs like what we had before, really no change. But it probably looks different than before. But that's only an optical effect. So that's basically what was happening in ERGO Life and Health Germany in the first quarter.

Second question was, are there lines with lower claims? I think I could give you the obvious answers, like people are driving less when they're at home and so on and so forth. But then again, I think it's too early to tell if this is really then, on a full year perspective, really to go to last or if other effects -- if there will be catch-up effects and so on and so forth. So I think just finally, too early to tell. And so we will see that a little bit later. It's always simpler, a little bit simpler for us to look into the claims you have and make estimates about worse cases other than then to fantasize about where things could be going much better than we expected. So I think it's a little bit early to tell. Overall, I would always assume that the burdens are much higher than the positive effects.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Like the ERGO Life and Health issues is transitory. I mean, to some extent, clearly, actually reflecting the unique circumstances of Q1.

A - Christoph Jurecka {BIO 17223019 <GO>}

Travel is, as you know, we showed travel in Life and Health result. In Q1, what we saw was mostly a little reduction in volume and some first claims coming in from COVID-19, not really material. For the remainder of the year, both effects will -- so I have to put it differently. For the remainder of the year, we expect a more pronounced COVID-19 effect on travel, but the effect will mostly be volume-driven. So there will be much less turnover.

Because in the travel cancellation policies ERGO has been selling, there is an exclusion for pandemic, so after -- at least for Germany. That's differing from market to market. Some international markets is different. But for the major market Germany, there's an exclusion, which means after the WHO declared the pandemic, after that there were no claims anymore from COVID-19. And for travel in Germany, outside of Germany, there were some. But again, as I said, limited amount and the bigger risk going forward is volume to lose just a premium because people travel less. And then, of course, the fixed costs are no longer covered by the turnover. So that's something we sure will be seeing in Q2 and then the remainder of the year.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And the health claims, you -- the high health claims, it sounded like it was a kind of sort of one-off.

A - Christoph Jurecka {BIO 17223019 <GO>}

It was a one-off. And then going forward, we will have to observe what's going to happen. I mean, there's various things going on in health right now. As much as, of course, hospitals are busy with COVID-19 due to the lockdowns, many people just don't go anymore to their usual physician or don't go to the dentist anymore for their maybe quarterly check-up. So it remains to be seen how claims really develop in the next quarter there because there clearly are offsetting effects like people going much less to doctors than what they would do usually.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

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

Okay, thank you. I think there are no further questions as far as I'm aware.

Operator

No further questions. I would now like to turn the call back for any additional or closing remarks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay. Not a lot to add from my side. As always, we are happy to take more questions at the Investor Relations team, as always. And yes, thanks for joining us and hope to, if not see, then at least speak to the most of you soon again. Thanks for joining us. Have a nice day.

Operator

That concludes today's conference. Thank you for your participation. You may now disconnect.