Q1 2019 Earnings Call

Company Participants

- Christian Becker Hussong, Head of Investor Relations
- Christoph Jurecka, Chief Financial Officer

Other Participants

- Analyst
- Andrew Ritchie
- Edward Morris
- Jonny Urwin
- Michael Hieke
- Sami Taipalus
- William Hawkins

Presentation

Operator

Good day, and welcome to the Munich RE Q1 Results Conference. Today's conference will be recorded. At this time, I'd like to turn the conference over to Mr.Becker Hussong. Please go ahead.

Christian Becker Hussong

Thank you, Daniel. Good morning, everyone. Thanks for joining us for our call on the Q1 earnings. I have the pleasure to be here with our CFO, Christoph Jurecka; and in just a few seconds after my short introduction, I will hand it over to him. And he will give you just a short overview and a few messages on our Q1 result, before we will then go right into Q&A Christoph, please go ahead.

Christoph Jurecka {BIO 17223019 <GO>}

Well, thank you, Christian. It's a pleasure for me to present our Q1 results today. And as Christian has said, I will start with some introductory remarks. With EUR 633 million in net earnings in Q1, Munich Re had a good start to the year. This good result is based on a solid underlying business performance and an investment result which is largely in line with our expectations, also helped by some positive FX effects of EUR 58 million and a low tax ratio of 16.2%.

We had a RoRaC of 9.9%, and the RoE totaled 9.1%. In Reinsurance, we are well underway, executing our growth strategy. And the outcome of new April renewals showed some positive momentum there. In primary, we continue to be on track with respect to our strategy program. So overall we are fully in line with our financial targets 2019. As there were some debates this morning about the operating income versus the net income, please allow me some comments on the difference between the two because net income wise, we are above the consensus, whereas operating there were some differences.

If you look at the drivers, we see that many of the drivers have been capital market driven. So, if you look in the operating, we are somewhat below, than the investment results so capital market driven result is. This is one of the drivers here. The second one is in life reinsurance that we had a technical effect based on interest rates in Australia to increase our liabilities there.

On the other hand in the nonoperating result, we had market driven effects, like FX, which were also capital market driven which then increased the nonoperating and overall lead to the achievement of the net income consensus result again.

And then on top we had, as I said positive FX developments but they are also not independent from capital market developments, because the mix of our earnings, depending on how we are performing on capital markets also is influencing the tax ratio quite heavily. Having said that, my message would be, please don't overemphasize the differentiation between net income and operating income, as many of the differences are often capital market driven, and not all of them are consistently being accounted for in operating or nonoperating.

And therefore, I'd like to somewhat maybe highlight the point that in our view, we are fully in line with our target and also, fully in line with the guidance.

Having said that, I'd like to give some more flavor on some of the details of our result. I quickly mentioned the investment result already. We had the decline in interest rates in Q1, stock market increased and the spreads tightened. So overall from an asset valuation perspective, a very positive quarter at the same time, US dollar and some emerging market currencies depreciated, which was beneficial for us.

Thereby we were able to deliver an RoI of 2.9%, over the slightly reduced running yield compared to 2018 as a whole. Our disposal gains are mainly on the fixed income side and more than offset the write-downs and the losses in derivatives with both have been largely related to equities.

Our drop in -- the drop in the interest rates is reflected in the reinvestment yields of 2.1%. And this makes our outlook for the return on investment clearly more ambitious going forward.

Coming to Life and Health reinsurance, our biometric experience is overall in line with our expectations. We had some offsetting effect favorable development in Continental

Europe, offsetting adverse development in Australia. So this is compensating each other. All other regions have been performing very close to our expectations. Then in the technical result, life and health, we see that the technical result including fee income is somewhat light compared to 25% of the plan. This was driven by two other technical effects, and I've been mentioning one of them already.

The first one is the shortening of the duration for our Canadian asset portfolio, which was more than compensated for by positive impact on the investment result, which due to all simplistic allocation method is mostly being seen in the P&C reinsurance segment. So this is a kind of technical effect you have to keep in mind.

We'll continue with the shortening of the duration in the second quarter, so we will probably talk about it again next time. The second effect on the technical income is the drop the yield curve in Australia as mentioned before, which led to some strengthening of the claims reserve but only interest related here.

Then coming to P&C, Q1 combined ratio in P&C was 97.9%. So fully in line with our year-end outlook of 98%, no deviation here. We had a below-average major loss burn of 9.7% this time, including negative one offs for large losses in the 5.1% percentage points in total. This was the major loss effect. There's of course, a basic loss effect as well, basic losses were higher than anticipated, and resulted in a normalized combined ratio of around 100% according again to our very schematic calculation, which comes with, and we discussed that last time already which comes with a very simplistic view on things. Driver here is again large claims in our North American risk solutions business, and which fell short the EUR 10 million major loss threshold. And therefore have not been normalized for.

And then on top of that commissions in Q1 have been higher than what we would expect for the full year. And then going forward of course, we also expect some tailwind from renewals in April and then also July, which then be earned in the following quarters. Therefore for the time being an underlying combined ratio of much closer than 98 -- to 98% is remaining to be our aspiration for 2019 as a whole.

Then I mentioned, renewals already, April renewals have been pleasing. So the trends we saw in January, continued. Prices were up for especially the markets where we saw risks affected by the natural catastrophes. But also in the TPL markets, we saw some positive stabilization.

Our price increases for the overall portfolio amounted to 1.4%. And the premium volume rose by more than 10%, so we were able to seize opportunities in the two markets especially in India and also in Japan of course. Primary insurance. We have the strong earnings in life and health which offset the large losses on the P&C Germany side. Overall ERGO is contributing EUR 85 million to our result and this is in line with our ambition of EUR 400 million for the full year. If you take into account that Q1 includes disposal losses of EUR 22 million, as a consequence of our portfolio optimization in the international business.

In Germany, the net result of life and health Germany of EUR 63 million, reflects a very good performance, ongoing good performance in health. And a high level of gains to finance the funding which we did to a large extent already in the first quarter. On the P&C side in Germany, we saw a combined ratio of 98.1%. If we adjust that for above budget nat cat and Man-made claims, it would be around 95%. And then looking at the regional fluctuations, we generally always have in Q1, so there are supposed seasonality on claims as well as on some premiums.

Then we see that the underlying combined ratio still supports the 2019 full year guidance of 93%. Then Overall, I could say we see that Germany that the positive impact on life and health Germany is offsetting the negative one in German P&C. So overall, it's nothing really -- really help them a lot. In International business combined ratio is continuing to be 95.4% in a very attractive level, which is fully in line with our ambition of 95% for the whole year.

We communicated last week that we're going to sell our Turkish entity which will lead to a mid-double-digit million euro burden in Q2. This is of course not included yet in the Q1 account, just to be clear. However, this effect will neither affect our earnings outlook for 2019 and nor the ERGO targets for the strategy program 2020.'21. So this will be compensated.

Capitalization remains to be sound in addition to the solid Q1 net earnings. The capital market developments led to significant increase in IFRS equity of more than EUR 2 billion. And the ongoing share buyback had, of course an offsetting impact of very slightly offsetting impact only, so IFRS capital increased substantially.

Solvency II ratio is around 250 percentage points now and also therefore higher than where we were at year end. So also from debt side capitalization improved. And local cap, we continued to have substantial headroom for further distributions so it is unchanged as you noted already. We're going to start, for the next share buyback in a couple of weeks. And as you know this should be completed then by the AGM 2020.

Finally outlook, the outlook is unchanged for the year. So, we are still aiming for the net profit of EUR 2.5 billion and we are very confident of achieving that after the first quarter fully supporting the outlook. Of course, as always provided that, there are no material adverse developments on the large losses or capital markets front.

With that, I'd like to conclude my opening remarks. And of course, we'll be very happy to take your questions now.

Questions And Answers

Operator

(Question And Answer)

A - Christian Becker Hussong

Yeah. Thank you, Christoph for your opening remarks. We will now then start with the Q&A and as usual, I would like to ask you to restrict yourself to a maximum of two questions per person, and please go ahead.

Operator

Thank you. (Operator Instructions). We can now take our first question, it comes from Edward Morris of JPMorgan. Your line is open, sir. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Good morning, everyone. Thank you for taking my questions. First, just a point of clarification. I wonder if you could just help a little bit on the net cash disclosure that you've given. So I think, you've mentioned that there's a negative impact on prior year of around 5.1%, and yes, the overall contribution from nat cat, so I'm just trying to understand it would appear that there's a small positive contribution, current year contribution from nat cat. So can you just explain that?

And the second question just coming to renewals. I mean thinking about the experience with jebi and the quite good price increases that you've seen as a response to that. Do you feel now that the market overall is compensating you for risks taken and the losses that you've incurred? And is there a way to think about the sort of return period for Jebi in particular do you feel that the market is responding as it should? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, thank you. On nat cat or general, let's talk generally about large losses. When we disclose one-off, clearly this is always a mix of positive and negative effect. So there's offsetting effects there and therefore Jebi is a large contributor. But that's of course not all. And there if we might in any way, there are offsetting effects. So you're right. So the explanation is the right one here.

On the renewals, price increases are pleasing indeed. So, I can confirm that. With return periods, I would be cautious. Because if diversification is really part of our core business. Although the way we calculate is not, we don't look at a single event and then wait for a couple of years to earn it back, but it's -- more and that's how we do our underwriting as well. It's look at the overall portfolio, and there are offsetting effects of course, between different geographies otherwise, the business would be more one dimensional than it actually is.

So therefore, it's -- I think, it's not the right way to on one single claim and then wait for a couple of years to earn it back. On the other hand, we have to say that in the past, Japan has not been performing so bad. So this was a part of the story here.

Q - Edward Morris {BIO 16274236 <GO>}

Thank you.

A - Christian Becker Hussong

Thank you. Any questions please?

Operator

Thank you. We can now move along to our next question. It comes from Andrew Ritchie of Autonomous. Your line is open. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. I wonder Christoph, could you just clarify, how come the reinvestment rate stayed stable Q1 versus Q4? Is that a reflection of -- I think you start to change the reinvestment policy slightly more infrastructure and more long dated? Just clarify kind of how it was achieved given the decline in benchmark, yields and spreads.

And secondly on life and health re, sorry, I'm a bit confused as to why -- what is the reasoning behind the asset duration shortening for Canada? And I think the implication is that this is an ongoing thing. Does that mean there's another earnings effect in Q2 or over the rest of the year? Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Andrew, yeah. First of all reinvestment rate. You're right the interest rate environment has become more difficult in Q1 than it was in Q4. So clearly, if you look only at the external environment, the expectation, I agree to that, should have been that it should have been smaller than what we saw actually saw because the actual development was stable.

If you then compare in detail what the investment activities have been, then you'll see that of course, the specific assets we are investing into, they differ a lot between Q4 and Q1. And this has to do with the books we are investing into. So it depends on where do, -- you have reinvestment needs in a specific point in time.

Then of course, also the cash positions we're holding are different. You know that Q4 was very much driven by derisking activities and Q1 is still at a considerable cash position for preparing to pay the dividend, but so this also plays a role here. And then of course, as that the investment universe depends on in which book for which liabilities you invest and in Q1, we did invest in longer duration bonds, compared to what we did in Q4. So that's part of the different asset selection if you want in Q1.

Q - Andrew Ritchie {BIO 18731996 <GO>}

The expectation, still that you can keep the running yield flattish for the year as a whole. I think that's what the kind of expectation was at least for the reinsurance business.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, I think that's too early to say. I mean, we have three quarters of capital markets development ahead of us. So I'd say, too early to say. What I mentioned before is that we at this stage stick to our guidance of 3% ROI overall. But this has become more ambitious than it initially was, given the low interest rate -- or the lower interest rate environment we are currently in.

Coming to life and health, re in Canada. So what we are doing here is basically improving our ALM position, which has been substantial in the past. And that's that we are able to do that it's a changed regulation, which regulation changed a year ago or so. And now, we are in a position that we can reduce the asset duration to bring it closer to what we think the right liability duration is, so reduce the mismatch here. And yes we started that in Q1. but it will continue in Q2, but it's important to notice this, I think, you just saw that in the documents. Anyway is that the overall earnings impact of that exercise is positive. So we have a negative impact on the technical result and a positive impact on the investment result, which is a couple of times higher than the negative impact on the technical side.

Q - Andrew Ritchie {BIO 18731996 <GO>}

But just so as to be clear though, the impact on the investment result is because you're realizing positions. The actual ongoings earnings are lower?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes. Yeah. I think, yes, you're right. And at the same time if they are lower, we increase on the liability side. So that's all related to each other, yes.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. So shouldn't affect the run rate technical and fee income in time, obeyed in May will do again in Q2?

A - Christoph Jurecka {BIO 17223019 <GO>}

While in Q2, that might be another effect, which will then again be over-compensated by the investment result. But on the long run, it shouldn't influence it.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you very much.

A - Christoph Jurecka {BIO 17223019 <GO>}

You're welcome.

Operator

Thank you very much. We can now move along to our next question. It comes from Kamid[ph] Hassan of RBC Your line is open. Please go ahead.

Q - Analyst

Two questions. First just on the North America risk solutions. I think we -- when we heard about they're kind of smaller large losses but I believe at threshold last year, They were kind of accepted as being noise to some extent. Could you maybe talk about whether we're still thinking about these as being noise or whether there's something else going on and the actions you are taking on those?

And then in your statement, I think it was in the press release, you talked about growing for the last six renewals in some areas. When do you think the kind of expansion and I guess improving operational leverage story comes to an end for Munich Re? And any thoughts around that would be really helpful. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

All right, I did not really understand the second question, there was some noise. Could you maybe please repeat that?

Q - Analyst

Yeah, sure in your media statement you talked about areas that you've grown in the last six renewals. And it feels like there's been a little bit of a change in -- I guess management stance on growth since the beginning of last year. Could you maybe talk about when you think that appetite comes to an end, the appetite to grow premiums and find new areas comes to an end?

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay, now I got it. Thank you. I'll start with the first question on the risk solution business and maybe I'll start with giving you some more flavor on what's really going on there, because maybe this will also help in your assessment, if this is really noise or anything else. We again and as I mentioned before saw some higher claims still below our outlier threshold. What we did see with -- the accumulated midsized man-made losses there, we did see weather related losses from the record cold winter especially, in the U.S. Midwest. So the European measure of minus 40 degrees centigrade. I cannot spontaneously translate it now in the U.S. Measure, but it was really cold, which led to the fact that the homeowners had losses on frozen pipes and so on. But this was really extreme.

And then we had some tornadoes in March, that also remained below the outlier threshold and so impacted the large loss performance, but was not normalized. So those are the claims effects we're talking about here. Where -- adequate underwriting and pricing actions are already underway to address the performance in certain sub segments where they're necessary. But technical measures, it takes some time until they fully earn into the portfolio. So things are being addressed or have been addressed already.

But some of -- and then you can understand that the very, very cold winter also some of tornadoes that it's clearly something which has to do with noise with volatility. So that's not really a structural topic. Where are -- where -- in cases where we have some structural issues, they have been addressed and over time, we expect improvement to eat into the portfolio. That's the risk solutions. The growth appetite -- I mean as long as we can write profitable business, our appetite continues to be high. So, I don't see why we should stop that, given that we still find pieces of really attractive and profitable business out there.

And as you can see also with the price development, we have been showing now for the 1st of April renewal.

I think, this is a good signal and a good proof of -- that there is profitable business out there. So at this stage and this is part of the strategy, also for our 2020 results. The growth strategy is continuing and will continue. Finally, coming maybe back once to the risk solutions, what I would like to add outside of the specific issue, I'd like to maybe draw your attention a little bit on the order of magnitude we are talking about here. This is a very small subsegment in our overall book and any large loss we could have from cat or from man-made would quickly be bigger the issue we are talking about here.

So I understand, it's something where there has been a lot of debate around. But the issue itself is important as it is. So, I don't say it's not important. But the size is still limited. That's something I wanted to add. Yeah, that's it.

Q - Analyst

Thank you.

A - Christian Becker Hussong

Thank you. Daniel, next question please.

Operator

Thank you. We can now move along to our next question, is comes from (inaudible). Your line is open. Please go ahead.

Q - Analyst

Yes. Good morning, everybody. Thank you very much. Just quickly, so Christoph, I know you said risk solutions is small, but seems to be the biggest explanation between the 98 and the 100 of being sort of -- I know, you don't like normalized calculation being too simple, but just the way it is. It seems to be important up to two points. Could you just in that background comment on the new initiative which was announced recently of the Munich Re specialty insurance company.

So with -- I remember in the full year results, there was this push to get a bit more growth there or a bit more emphasis was placed and are these loss effects that we are talking about today are these in similar areas or in completely different, as you said homeowners? Or -- if you could just comment in that context it would be very helpful for me. Thank you. That's my only question. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, just I'm very happy to do. So the area of losses is a different one. As I said, the very cold winter affected our homeowners business for example, which we write with American modern. So that put some of the areas, we are looking here in this risk solution part now.

The idea with our new entity in New York was to generate more growth out of the commercial -- in the commercial area. But that's a really a different story. Coming back to your question 98 versus 100. And sorry, I have to say again, that I don't like this very simple normalization. I think part of the story also, is that, I mean, we normalized against the 12% average nat cat charge, which is a full year average figure. So there's on top of that also, seasonality in that normalization approach. And that also might play a role. So you will probably remember that generally Q1 is the quarter where we at least in recent years did have less cat activity than in other quarters. And maybe that's the missing link you are looking for in your equation. So generally it just we can only reemphasize that this very simplistic calculation, is just giving hints on where to look into in the portfolio. That's how we use that. But it shouldn't be over interpreted.

Q - Analyst

Sure. And any of your sense at the risk solutions problem or losses are they different from the ones that were seen in 3Q '18 or is it similar again? Would you be able to contextualize that for us?

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, tornadoes are kind of similar, both storm, we have the very cold winter is something we of course did not see last year wildfire is also different. So in the sense that some similarities that's all kind of cut related, but below the threshold. So that's the similarity here but the driver behind, it has been different every quarter.

Q - Analyst

Okay. Thank you very much.

Operator

Thank you. We can now move along to our next question. It comes from Sami Taipalus of Goldman Sachs. Your line is open. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi, everyone. Can you hear me?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. Perfect. So I've just had some issues with my phone today. So, first question is actually coming back to your growth ambitions. Could you just give us an -- I guess at one part of them at least has been to expand the business in the U.S. and I suppose property and nat cat exposure for example. So it'd be great to just give an update on your expectations ahead of June and July renewals. How confident are you on the market environment? And what sort of thing could we expect from you here on the growth front? So that's number one.

Number two is coming back to risk solutions. Obviously there is quite a lot of loss experienced there. Could you comment on the pricing side. What you're seeing in terms of pricing momentum in that business? It's quite a heterogeneous exposure. So if you could maybe break it down a little bit by the segments that would be great. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well. Thank you. On the renewal, I mean generally of course, it's extremely early now to talk about that. You know that U.S. business has been loss affected last two years. So there should be some momentum. And generally, I'm an optimist, so from that perspective, I'm looking with kind of optimism towards July. But having said that, it's really too early to really tell.

Q - Sami Taipalus {BIO 17452234 <GO>}

Sorry, just can I just follow-up very briefly on that? Have you -- so I think, you were somewhat confident on the right momentum earlier in the year. Have you changed your mind at all recently? Or does it remain sort of unchanged versus earlier in the year?

A - Christoph Jurecka {BIO 17223019 <GO>}

No. We remain to be confident. That's also what I meant when I said I'm an optimist here. Maybe also looking at it, I mean, we of course -- If you're talking about cat growth, of course, we are also balancing that in the course of our overall risk strategy and the overall risk capital review we are deploying. So that was something Joachim talked about in our analyst conference that the overall risk, it's not over proportionately increased, but increased in line with premiums.

And so, we are really careful in looking also into diversification and the mix overall. But other than that from an environment perspective, I just can confirm that we are confident. Coming back to your question on risk solutions. Yes, measures have been initiated. Also on the pricing side, also on the portfolio level, where necessarily we have increased. We have filed price increases in various states some of them high double-digit amounts on for specific, or some specific risks. Therefore those measures have been as I said, implemented. It always takes some time, if they -- until they fully eat into the portfolio and come to their full effect. But yes that's something we have been doing already.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Great. Thank you.

Operator

Thank you. We can now move along to our next question. It comes from Andreas Schaefer of (inaudible). Your line is open, sir. Please go ahead.

Q - Analyst

I think, I have just one question regarding the German P&C business. I mean, you've again grown quite strongly in Q1 mainly in industrial lines. So overall what does it mean for your mid-term combined ratio targets? And more importantly do you expect also higher volatility in the future?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. I mean to start with the end of your question, so the mid-term target is completely unchanged. So we said 92% for 2020, 93% for this year. We had a first quarter which was affected by large losses, but mostly on the cat side, so this was mostly the Storm Eberhard in Germany, which led to the large outlier behavior we saw here for ERGO.

We also were a little bit above budget for the man-made -- on the man-made side but to a much lower extent on the cat side. So therefore, the Q1 shouldn't be interpreted in a way that some changed business mix did somehow change also the combined ratio we are seeing right now. Also the growth, it needs some time, until it eat the portfolio.

And therefore, I mean, we saw that now in Q1 that the profitability of the P&C Germany segment was positively influenced by the growth and the lines we are writing and the business we are writing, we are very confident that this is profitable business. So it will further support achieving our combined ratio target. But as I said at the beginning, we confirm the 93% for this year, and the 92% for next year.

Q - Analyst

Okay. Thank you.

Operator

Thank you. (Operator Instructions). We can now move along to our next question. It comes from Jonny Urwin of UBS Your line is open. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Alright. Good morning. Thanks for taking my question. Just one from me. So today please. So just going back to the normalized combined ratio in the context of recent growth initiatives. And I appreciate your comments that we shouldn't overinterpret the normalized combined ratio and I appreciate, the flows in doing that.

But just stepping back from the detail. Since you've started to focus more on growth, the normalized combined ratio has consistently missed guidance. And I know, you might say this is an overly simplified view. But if that trend continues, at which point do you start to worry? Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

I personally wouldn't see a relationship between in timing, between one and the other. So this is obviously something which happened, but there's no connection between the two.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you. And so I guess it's difficult, isn't it? Because that's the way the market typically assesses your underlying levels of profitability. We don't really have a better way of doing that. But I guess how else can you give us confidence that the underlying profitability of that growth is developing in line with your estimates, which I guess is implicitly what you're saying?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. I mean, that's always difficult to differentiate. I mean, what we then would need to give you is really on a portfolio level, kind of a normalized combined ratio, differentiating in the growth initiatives versus the force. I mean, that starts to be then really messy. If we would go into more detail there therefore, generally we continue to have this concept of a normalized combined ratio, because I think, everybody is used to it, and so it's at least one way to address topics, and have the right topics also now for the call, for example, to talk about. So from that perspective, I think the concept is not that bad, but it can be misleading sometimes. And maybe one thing is the underlying view, but the other is, of course, you should also look at our large loss development. And that also I mean, the level we are affected is varying from one quarter. In one Quarter there's some volatility in it clearly, but overall our budgets generally are high enough also this quarter again, we are below, what we would say is our large loss budgets.

So therefore, I think looking on the performance of P&C only on a normalized basis is clearly cutting out the underwriting efforts, which were especially relevant in the area of large losses. And so that's also part of the equation.

On top of that also business mix questions play a role and growth, in areas where we still make some money, but the combined ratio is comparatively high. We would continue to do that. Even if our 98% or 97% for next year would be at risk then, because we will still make money with it. Therefore, we always said that the combined ratio per se is an aspiration that we would like to achieve. But the target is the net income target and that's continuing to be the main target for us.

So therefore, I think there's not one single answer to your question, but I'd like to invite you to not only look at to the normalized view, but in a broader context on our P&C business, because there's much more to recognize and much more also to evaluate when assessing the quality of our business.

Q - Jonny Urwin {BIO 17445508 <GO>}

Fair enough. That's helpful. Thank you very much.

Operator

Thank you. We can now move along to our next question. It comes from Thomas Facade[ph] of HSBC Your line is open. Please go ahead.

Q - Analyst

Yes. Good morning. I've got two remaining questions. One will be on the ERGO international accumulation portfolio process. So following turkey, could you remind us, what remains to be optimized at this point in time?

And the second question would be really 3Q life and health re in Australia. You're to reserve strengthening linked to lower interest rates, but seems to be that trends in the GI market remains pretty adverse and you had some negative development in the past. So could you update us on what the situation as far as your business is concerned in Australia at this point in time? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes, very happy to do so, I'll start with ERGO international, yeah, we Turkey last week. And basically from a signing perspective that very much marks the end of our portfolio optimization activities. Closing of the transactions -- of some of the transactions is still to be expected in the remainder of the year, and therefore also P&L effects for example from Turkey we expect for Q2. So there will be some discussion around that, also in the upcoming quarters.

But from a signing perspective, so signing the SPAs, we have pretty well advanced, and nothing really on top of that to be expected. Life and health re, indeed there are risks in Australia, which we have to mention. So this time the increase of the claims provisions was interest rate driven and of course further decreasing interest rates would put again a pressure on these reserves. But this is not the only risk we are seeing in Australia, there are of course clearly also risks on the biometric side. The protecting Your Super regulation now has been finalized. We did write out -- write off a huge portion of debt in 2018 due to that regulation. But now it has to be seen if the assumptions we took end of 2018, if they will be realized now after this regulation has been finalized. There is clearly risk, but this is not. So we will have to carefully observe that. We do an view of the biometric side on a yearly basis. There are also potential which we then would need to recognize.

So I could continue. So there clearly are risks. And so going forward, what can we do we work a lot on claims management, and all together with our clients there, this is actually difficult and really time-consuming work, but we invest a lot there. We practically do not write any new business anymore. And at this stage also we do not see any additional regulatory issues or anything of that kind. So that's what we do right now.

Finally, I cannot rule out that further risks will be realized at this stage. We try to be on top of things as much as we can. But Australia keeps -- continues to be an area of focus for us clearly.

Q - Analyst

Okay. Thank you.

Operator

Thank you, sir. We can now move along to our next question. It comes from Michael Hieke of Commerzbank. Your line is open, sir. Please go ahead.

Q - Michael Hieke

Thank you very much. Good morning to everyone. Two questions. I have to come back on the -- to the basic losses which you said were very high, it includes many small claims across many lines of business I understand that. And aside of what you said about risk solutions, can you identify any other trend or anomalies, anything special which drives this high basic loss ratio? You mentioned that risk solutions overall plays only a minor role in terms of size.

Second, April renewals. Can you talk a little bit more about the dynamics of the April 1 renewals, what lines of business you moved in and what business you may have stopped writing or retreated from?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes, basic losses, the major driver for the deviation are also not huge, not big that's what I've said before, it's still risk solution business, so other than that, we do not see any deviation, we would need to comment on today. The renewal -- yes first of all, of course, cat business in Japan was something which came in with higher prices specifically on the wind side. So there, we see the reaction on the typhoons, other than that we see -- generally, we see growth in India.

We see some growth also in aviation. We see some growth also in the U.S. So that's where we see growth. And but then on top of that, we also reduced our stake, wherever we thought conditions are not sufficient or prices are not sufficient. So there are selective conflicts more or less everywhere, where we discontinued our business, because we were no longer happy with the price or the terms. I think that people that like to comment here. Mainly casualty which improved, but we also saw some tendency on the liability side for stabilization or slight improvement, but that's the general picture.

Q - Michael Hieke

Okay. Thank you very much.

Operator

Thank you. We can now move along to our next question. It comes from William Hawkins of KBW. Your line is open. Please go ahead.

Q - William Hawkins {BIO 17918548 <GO>}

Hello. Thank you very much. Hi, Christoph. Back on Australian disability, thanks for the qualitative comments you just gave. Can you just maybe clear up how we should scale this exposure? I mean are you leaving us with the message that, yes, it's an issue, but there is no chance that it can affect your EUR 500 million technical result guidance? Or could it actually be more material than that? So how to just think about the exposure, you've got to that problem. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

I can only say, we are very confident of achieving the EUR 500 million this year, outside of any exceptional effects and we do currently not foresee anything exceptional in Australia, nor in other places. But if I remind you, that's a general remark, really nothing concrete in the pipeline. But a general remark would be of course, if we capture something like that, clearly would have an impact on IFRS, and this would then potentially change the picture. But at this stage nothing concrete in the pipeline, and so nothing to announce and we completely confirm our EUR 500 million target.

Q - William Hawkins {BIO 17918548 <GO>}

That's good. Thank you.

Operator

That will conclude the Q&A session. I can now hand the call back to Mr.Becker Hussong for any additional or concluding remarks. Thank you.

A - Christian Becker Hussong

Thanks a lot Daniel. No additional remarks of course from my side. Thanks for participating in our call. And looking very much forward to seeing you, and hearing you next time. Have a nice day. Thank you. Bye.

Operator

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