Y 2018 Earnings Call

Company Participants

- Christian Becker-Hussong, Head of Investor & Rating Agency Relations
- Christoph Jurecka, Chief Financial Officer, Member of the Board
- Joachim Wenning, Chief Executive Officer, Chairman of the Board
- Markus Riess, Chief Executive Officer ERGO, Member of the Board
- Torsten Jeworrek, Member of the Board of Management, CEO of Reinsurance
- Unidentified Speaker

Other Participants

- Andrew Ritchie
- Edward Morris
- Frank Kopfinger
- Jonny Urwin
- Kamran Hossain
- Michael Haid
- Sami Taipalus
- Vikram Gandhi
- Vinit Malhotra
- William Hawkins

Presentation

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Ladies and gentlemen a warm welcome from my side to our call on Munich Re Financial Results 2018 and Strategic Outlook. Thanks for joining us this afternoon. Before we get started I would like to express some our apologies for the unintended pre-announcement yesterday, which was simply due to human error, sorry for any inconvenience.

Now, let me introduce today's speaker starting with Munich Re CEO, Joachim Wenning; our CFO, Christoph Jurecka; Markus Riess, CEO of ERGO and Torsten Jeworrek, our Reinsurance CEO. The gentlemen will start with a presentation based on the slide deck we published this morning and afterwards, there will be enough time for Q&A and I would like to ask you already now to please limit the number of your questions to a maximum of two per person. Thank you so far.

And now I have the pleasure to hand it over to Joachim.

Joachim Wenning {BIO 16273429 <GO>}

Thank you very much, Christian. Ladies and gentlemen. And good afternoon and welcome also from my side. I'm happy to report on a strong result in 2018 and giving you a positive outlook in the years to come. If you are happy to follow me on page 3 of the presentation, I'd like to highlight that in essence. It's relatively straightforward, which approach we are following in the group, our strategic focus is threefold and one is reducing complexity, which means increasing efficiency, which means that we focus on business, we focus on material operations rather than immaterial operations from which we would rather divest.

When it comes to digital transformation, it's about efficiency increased through automation of processes. It's about sophisticating our core functional excellence and it is about creating new business models. And all of these initiatives both on the ERGO and the reinsurance side, they help us grow the business in reinsurance, but also make ERGO improve in progress on the program, which they have started a couple of years back. And in some, this creates value. This increases earnings and this increases then our potential for capital repatriation to the shareholders.

On Page 4, I'd like to give you a little bit more detail on what we mean by complexity reduction. Yes, it's taking out cost and resources from the operations both on the ERGO side and the reinsurance side. On the ERGO side, I think Markus has already reported. Quite often on it and he will give you some more details during his presentation. So I don't repeat this at this point. But also, on the Reinsurance side, we have run and successfully, so the voluntary program in Munich in 2018, taking out 350 full-time equivalent and the same cost reductions is also happening in the international organization, which is going on and well on track. And by 2020 as promised, we believe that we will have taken out 200 in the order of EUR200 million recurring cost.

Which then gives us potential to reinvest such money either into digital competencies or directly into digital businesses, that we are either buying or that we are creating.

On Page 5, the digital transformation peace tries to highlight, where there are similarities between ERGO and reinsurance, and whether a differences. So similarities are there when it comes to the question of automating processes, using artificial intelligence, or robotics, or voice etcetera. This helps increasing efficiency both on the ERGO and the reinsurance side. Using technology using data, wherever possible and wherever meaningful is happening on both sides and allows us increasing our functional expertise on both sides. But then ERGO is sort of in a complete digital transformation with regard to its total business approach to the sales forces , to the personal intermediaries, and the end consumers improving that interface and Markus may shed some more light on that. Whereas, the difference in reinsurance is next to the traditional business model which is still there and which doesn't go away and which in itself is offering growth potential. The reinsurance are adding new digital business models, some of which are highlighted on this page and which are productive already.

On Page 6, I'd like to just say that the interaction and the interconnection between both businesses, primary insurance and reinsurance is not only limited to digital transformation but embraces also various initiatives with regard to strategy, innovation, product development, you see that all on that slide. So this slide is only meant to tell you, it's quite an interconnection. Sure, not everywhere, certainly not where it doesn't make sense, but in many areas where ERGO strengthening the reinsurer and the competencies of the reinsurer is strengthening ERGO.

Page 7 emphasizes that the 2.3 billion result 2018 is coincidentally exactly the midpoint of the range that we committed to last year and this is also true both for reinsurance and ERGO itself. I think it's remarkable that both operations have delivered such a strong result, not only because there has been quite some large loss activity and particularly saw in quarter two of last year but also the capital markets, they made it quite difficult and most of the asset classes have lost money and not made money like in the years before that. So against this trend having the strength to show 2.3 billion results for us is a remarkable positive.

Page 8 confirms that our mid-term ambition of delivering 2.8 billion in 2020, still is valid, there is no reason to change that. So we are confident, we believe in it, because we believe that ERGO will carry on delivering on its program and also we carry on believing and our confident that the reinsurance will benefit from ongoing and further growth potentials. What that means, completely in 2019 is we believe the result delivery of 2.5 billion, which then divides into 2.1 on the Reinsurance side and roughly 0.4 billion on the ERGO side.

Page 9 is important to us because we want to get the message across that, yes, we employ more -- we write more risk as we are growing our business. This consumes more risk capital, which is available. So we employ it, we make it work for us, we make it produce earnings, this is the way how the bottom line is increasing. But in relative terms, so capital relative to business volumes, you can see by that line that this is flattish. So we aren't doing any riskier business, but just more business which is good. And on the investment side, we can confirm you, our ambition is not just investing riskier and then hoping for higher returns is that our CIO has joined us this Monday, he is expected to deliver on superior area strategic asset allocation and superior asset selection or in technical terms generating over time a higher alpha.

On Page 10, I have the opportunity to talk about sustainability criteria. This is not often the case in these runs where we talk more about strategy and financials. However, I understand that this discussion becomes also more and more relevant to you folks. So I'm happy to tell you that it started when it comes to external rankings on this subject, Munich Re since many-many years is already top position and we are particularly proud about our climate strategy, which focuses on enabling the necessary technological transformation in the energy sector, bringing lower carbon technologies into work or bringing totally renewable energies into work and this requires both an investment appetite which we have here and there.

But more importantly, even is that we are prepared to insurance-related risks which by nature are new and then more uncertain. So this is what we are reporting on it and more detail can be given if that is of any interest you. But there is more than climates strategy, if we just take governance questions like, do we responsibly and in a fair and proper manner lead our operations and our organizations? There is stuff that we are happy to talk about, like how we re-secure people or our staff by leading them through what we call our internal digital school, training them to make them fit to give them the understanding of how digital impacts their daily work life, but also the businesses that there are active in or also how we have run a voluntary program last year in Munich with no noise produced.

Page 11 gives you evidences of a very strong balance sheet 245 Solvency II ratio, 3.8 billion distributable earnings in German GAAP and clearly below average debt that leverage of 13.2%. You are aware that, we intend to increase our dividend from 862 to 925 subject to approval by AGM and also we have announced yesterday that we will carry on our share buyback program by buying back up to 1 billion starting -- I think, end of next month and in the middle of that page you see that we're proud of having repatriated in total since 2005 when we started the programs EUR27 billion to the shareholders which at that point when it was calculated corresponded to 85% of our market cap. So almost our market cap, the totality of our market cap was returned to the shareholder within 14 years.

Page 12. To finish my presentation, should say that our ambition is not only to meet internal plans like our IFRS result of 2.5 billion next year or 2.8 billion in 2020. But even more importantly so, it tends to make sure that we will be top ranked in comparison with a defined group of eight global reinsurers and global primary insurers and 70% of the variable pay of the board members is related to how our total shareholder return corresponds to the total shareholder return of that peer group. And if you look into 2018, which is only one year which we appreciate. We are top-ranked, we are proud to also in this sense. 2018 was a really good year for us. Thank you very much.

And I will hand over to Christoph.

Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Joachim. I'd like to start my presentation on Page 14. And this page basically shows a little bit what we are doing the (inaudible) on a day-to-day basis. And what we have to do is we have to align the different metrics due to the fact that not always that they are running the same direction, but not in very -- in many cases, it's opposite directions we have to deal with. So it's about finding a balance or compromise between the different views. The introduction of IFRS 17 might be an opportunity to get some more consistency, but I think, we have to be realistic and certain inconsistencies will remain with us and IFRS 17 itself is also very complex. So I think the situation will not really improve a lot. The good news though is that in 2018 and the balance worked out quite well.

If you join me in going to Page 15, what you can see there is that we have been delivering good results according to all metrics and this is despite the fact that Q4 especially was difficulty capital market still whole year was having or showing high claims activities, overall difficult year and still in line with our targets according to all metrics. I won't go into any further detail on that slide. Now, I just would like to highlight or emphasize that the dividend increase we're proposing and also the continuation of the buyback. In our view a clear signal of the earnings probably we have also going forward.

On the next slide, I'd like to talk a little bit about our solid balance sheet and opportunities we see with respect to that balance sheet is always two things, it's downside protection as well as support of our earnings and what you can see here is that in various areas, we see advantages from that. So if you look for example on the reserving side, the resilience we have against adverse development is nicely connected to an ongoing benefit, we've been seeing in our result for many years now already. Also on the investment side, we have all defensive portfolios was able to deliver 2.8% ROI and we still have 22 billion of unrealized gains which we could harvest and to that extent it seemed unavoidable in the usual portfolio management activities to harvest at least some of those reserves.

Also our taxes have positioned us quite prudent, we enjoyed tax reduces in recent years, driving the tax way down to 20% in the past. Going forward, we expect more -- our expectation more to be around 25% still that the tax reserve position is equally prudent as it always was. Our low level of intangibles also if you compared to other market participants limits the risk of further down sides substantially.

On the next two pages, I'll have some more details. And two of the examples like to mentioning, one is the reserve position on page 17. As you already know, our reserving practice is more or less to immediately react on any signs of deterioration, while we allow positive indications to develop more gradually over time. We consider our reserve position end of 2018 to be equally strong as at the end of 2017, so nothing really happening from that perspective.

Part of our reserving policies is a very close monitoring across all our reserves and with a special focus on the circle that having hot spots that's how we named them here, so certain areas of some markets where more than average risk on the reserves can be observed and as I just said we try to be very early in reacting on those developments and to let's say they've got the resilience of our reserves against adverse development. So that the prudent setting of our reserves the tends to unwind over time, and this clearly supports our earnings in 2018. We had in total releases of more than 9% and that's without eroding our substance on the P&C side so I think that's quite significant. The basic loss was open[ph] itself was 4.6% that's slightly above our guidance, again and in absolute terms the same amount been in 2017. So the reduction from 5.2% to 4.6% is only growth and volume driven. Let me summarize the page, this stronger reserving position provides us a lot of flexibility also going forward with regard to our future earnings position.

Page 18, some comments on the investment side. Our portfolio is well balanced and if you're compared to the sector over which, we are benefiting from a low exposure to risky assets as well as from a higher rating quality. Especially in Q4 last year, this helped us very much to protect us against the downside of the capital markets, when not only equity markets decreased significantly but also credit spreads have been widening.

Over the years the prudent risk taking and also interest rate decline of course, they helped us in building up substantial amount of unrealized gains and part of which is being realized just as now, as usual normal part of our portfolio activity management part of the usual turnover and sometimes we actively decide to realize some of it as part of ALM strategy. We are very cautious when it comes to additional harvesting of our valuation reserves into the very prudently in order to avoid any erosion of our substance. Of course this reserves are not only available to shareholders, but also to policyholders they also protects[ph]. And what I'd like to emphasize that they give us a lot of financial flexibility which then finally is to the benefit of all the different stakeholders.

Our next page quick comment on local GAAP. The good news is distributable earnings are staying largely stable, so nothing really happening there and reason for this is clearly that the local GAAP result, the HGB result is in line with our capital repatriation volume wise and then you know, the equalization provision is a significant driver of the local GAAP with alpha's regularly and while --- and our claims affected year just like in 2017 it helps to buffer effect from large claims, you can see that in the reduction of the reserve from '16 to '17 and the flip side of the coin is that we of course have to refill it in and years with the claims activities reduced. So this year we had to refill it by 800 million fully financed all over local GAAP result. So you can see that, this also worked out and in the year 2018.

Let's go to Solvency II on next page. You can see that our ratio is 245%, so more less stable and still above our certified optimal range, so roughly 25% above. We sometimes of course get the questions why are we not more active in bringing the ratio down? Two reasons mainly I think, Q4 was a good example why we feel comfortable with that situation when capital markets are really in an exceptional situation. It makes sense to have this additional buffer, also going forward the macroeconomic uncertainty, it is still significant. But more importantly and the second reason is that we have financial and strategic optionality with that high capital on our books and we could use that either for additional capital repatriation, but also for organic growth, also for M&A

To further illustrate that, let me mention some examples from 2018. In 2018, we saw strong growth especially in reinsurance. We bought relayrs, we had some M&A activity and on top of that very repatriated 2.3 billion via dividends and share buybacks to our shareholders. So overall you can see that although strategic levers are constantly being managed. If needed, we also repatriate more than our annual earnings and feeling very comfortable with that and as Joachim pointed out, of course our target is to generate more return on the capital we have.

On page 21, some details of the development of the Solvency II ratio, you can see that the largest positive contributor was the operating impact of the -- let's say the profitability of the core business. This has been partially offset by market variances especially in Q4 and then of course capital management, where in this figure here we have already included the share buyback as well as the dividend and this is offset by the hybrid debt, we have been issuing last fall. Solvency II capital generation on the lower right-hand side of the slide 600 million.

Finally page 22. On the eligible own funds again the main driver have been the strong operating earnings both in reinsurance and in ERGO. And I'd like to comment a little bit more in the SCR development, because I think it's much more interesting. Overall, the SCR only increased by roughly EUR300 million that something you could see already on page 21. If you look at the different categories on the right hand side of page 22, you will see that this is year 2018 and this is the first time in many years and that insurance risks exceed investment which saw property peak, casualty and life and health together is higher than market and credit. Major driver of the SCR development is ERGO, as Joachim said this is in line with the premium growth and on the other hand our ALM strategy and risk management strategy. We've ended an increase of the market SCR, especially by the fact that our interest rate risk management has been still very tight and Q4 we did some derisking activities mostly on the equity side.

So we could summarize that in the sense that our overall risk profile has improved to the higher amount of P&C risks, we having the higher volume and leads to higher level of diversification and thereby we've reduced dominance of market risks and this reduced dominance of market risk, I think is a very good starting point in the year 2019, which still comes with a lot of uncertainties, and I think we are very well positioned with that.

That was my final remark, with that I hand over to Markus Riess from ERGO.

Markus Riess {BIO 1835270 <GO>}

Thank you very much, Christoph. I would like to speak about three subjects regarding ERGO First of all, I would like to give you sort of a formal overview on where we stand on the technical ERGO Strategy Program then I would like to spend a couple of words on the digitalization trend that Joachim has already alluded to, and lastly I would give you a very fast glimpse on the various segments that we have.

So please follow me on page 24, the numbers you have seen already I just don't want to read them out to you, but you see each and every KPI that we have set hours is either being met or exceeded that in itself is a positive result. I'm also very happy about the investments, because what you see here only on the second instance is that in 2018, we have been able to invest 91 percentage points of all our investments that we had scheduled for 2018. I know that some of you criticized us correctly by saying in the past you have this investment program but you can't spend the money, that's not the case anymore in 2018 for the first time, if you don't account for the last 9%, so that's a very positive message.

Also, I'd like to positively draw your attention to the tied agent productivity. When we met last in London, I already told you that this is looking very promising. We can now say that we have increased since the initiation of the program, our productivity of our tied agents by 25% and 20% loan in the year 2018. Also, we can confirm that we are back in the life business. With our new products being actively accepted in the market and you see the numbers here this is all looking very positive. Let me just briefly go into the cost savings and into the FTE reduction. We have currently 1,240 people having left ERGO out of the 2,100, we have agreed this roughly 300 more people to basically leave ERGO by 2021 which basically means roughly 75% of our targets, staff reduction is already implemented, and I'm very positive that there has to be developed accordingly. The rest I leave to you read on page 24, but if you take the message of a quantitatively it's really always working very well.

Page 25 shows a more qualitative element and here just like to focus on the ambition. What is left to be done until the end of 2020 and why we have been very content with what we have achieved so far and I'm very grateful to the entire ERGO team that really everybody domestically and internationally contributed to that, lot remains to be done. So we need to focus, focus, focus still on execution. The ambition is that we need to continuously increase the agent productivity. I'm very happy to report that in Q1, 2019 this looks very positive, and we have by now and it's already by the end of 2018 achieved an agent productivity that we have not seen in the last 12 years. That's very positive signal, but, it needs to be even better.

The cost savings, you see we have already accumulated two-third of it that's in Germany and roughly one-third of it in international, there is still some things to be done. I'm optimistic but we need to deliver on this. And lastly on the IT migration, that we also discussed very often. I would like to share with you that we did now decommissioned 44 out of 59 systems. Now, some of them are small systems but still they are decommissioned and I'm very happy that we are visibly on the way to a more modern, more digitized infrastructure already.

Let's have a look on page 26, with regards to the digitalization trend and Joachim alluded to that in his subject[ph]. I can only 100% reconfirm of what he said, we are trying to fully digitize the entire business system and we do that by first as the upper part of the chart, really trying to do pilots proof-of-concepts, we try things out in the classical technology trends that. We have initiatives in voice, in AI, and in robotics. We have a team of 200 people in digital IT, who are readily available. We have system which allow us to have in niche areas six week time to market in new products. So that is already a very nice side of the infrastructure.

And most important part on this chart you see in the middle and I would like to reconfirm that. Our digitalization strategy has three parts. First, the digitalization and improving of the existing business model. Secondly, the disruption of the existing business model and lastly the establishing of new business models, all of which have to do with digitalization. But our strategy is we jointly follow all of these three tricks at not one and one trick alone. We have achieved good results in the existing business model, we have in CRM tool up and running. We have now run some campaign, we are currently contacting 100,000 of our customers in Germany with sales campaign based out of this new CRM tool.

Our pure digital player nexible in the disruption area has now 50,000 policies versus 80,000 risks in the second year after inception and we are now entering Austria and trying to get a new product on the platform in 2019. And on the mobility side we try to become a part of an evolving ecosystem. All of this only grows based on culture that's why the foundation of this is culture, so we work in digital factories to digital communication formats and also work with our employees in a transformation at ERGO union-related program.

Let me for the last two minutes, just briefly go into the last three slides. You know, all of this is why our visionary touched on it superficially. Life and health in Germany is working as you know, the back-book is separated, the contract with IBM is working, the migration that starts in Q1 2020, so far the ramp up as working well but we'll only know after the first tranche of migration, so not before mid-2020. We try to maintain a sustainable profitability and we try to protect ourselves against low interest rates and Christoph has already spoken to this.

On Health, we have again defended our strong second place in the German market with the growth in insured persons now almost 6 million people have a health insurance with us and that makes us very, very good health player and the clear market leader in the important and growing supplementary health area.

On P&C, we are have a combined ratio which is going down to 96%, we're going to have the next three percentage points in 2019, this sounds ambitious and it is, but the drivers of it is growth on the top-line, a growth and expense ratio, and the growth and the claims ratio we have very detailed plans for this since I know this is going to be a question. I tell you right away that from 96 to 93, it's two-third claims ratio and one-third expense ratio and from 2019 to 2020 it's more expense ratio than it is claims ratio. And we can go into any more detail if you prefer.

We have now established a new back-book system for our motor product. This enables us to establish a very modern tariff for our motor insurance in Germany that should enable us to profitablize[ph] and grow this business as well.

My last comments on Page 29 for the international business, which has a record combined ratio of 94.6%. The nice thing, what I like most about this is that this is being driven by all countries. We have finished the consolidation 13 companies are either sold in terms of signed or closed, and the rest is developing well. We have improved combined ratios in more or less every other entity that we have. Also our joint ventures are doing well with India and China outperforming our expectations.

In summary, the program is well underway, I have highlighted some of the successes that we had but I'm very, very cognizant of the fact, that we are not through[ph] yet we have two more years to go. So we will build on the momentum and try to transform the ERGO, as we said we would. Thank you very much.

Torsten Jeworrek {BIO 5724439 <GO>}

Yes. Torsten Jeworrek speaking here. Good morning, good afternoon, ladies and gentlemen. I would like to lead you through the Reinsurance and start on slide 31. 31 overview about the results, after the bad year 2017, a very satisfactory result, I would say in 2018, despite some significant cat and large losses which we had to digest. Combined ratio in non-life 99.4%, which is close to our target, and the very pleasing result in life and health to 729 million and particularly the technical results of 584 million which is above our target. Good is that particularly in non-life, we did not achieved this result by extraordinary reserve releases, they were in line with the expectation so was a very true result, which we show here.

On Slide 32, only a short overview to say that the Reinsurance segment will contribute to the group ambition and our result target for 2019 is 2.1 billion, and this will be also be achieved by an improvement of the combined ratio by about one percentage points vis-a-vis 2018 whether the combined ratio improvement come from two-third of this one percentage point come from business, better business, different portfolio mix in one shot, approximately one-third from our cost reduction or transformation program.

On Slide 33, our expectation for Life and Health , this slide show tell you that life and health had a very good year in 2018 very much driven by very good claims developments particularly from North America. And the way forward shows that, we will be able to readily, permanently increase our ambition and what we will deliver to the markets. Therefore, we decided to increase our technical result ambition for 2019 to 500 million from 475 million in the year before, so and I don't see any reason why this should not continue in the years after.

On Slide 34, I will skip this. It only shows our setup, Life and Health, Reinsurance, P&C and our specialty insurance risk solutions and then all our digital initiatives and I will also skip Slide 35, which shows our set up -- our worldwide set up in live, where our strongest market are North America, United States, Canada and with lot of growth potential Asia and Europe.

I will spend a bit more time on Slide 36, now. Because Slide 36 show underlined and show a bit what kind of initiatives we have underway and how we position ourselves to achieve growth in the current market environment. And when we started our growth program Reinsurance, some of you and some of the colleagues internally challenged ourselves and said is it the right time to start with growth ideas where we all know that the market environment, particularly in P&C is very bad and that has not changed since last year.

And I admit that was a challenge, but nevertheless, we found the right mix in my opinion to grow where it's too feasible, we have not changed our profitability target, our ambitions are so, no we do not achieve that as a expense of weaker terms. But at the same time we said there are a number of new initiatives and ideas where we can grow into businesses which are not under the same and severe competition like in traditional reinsurance. So in the top markets we have identified ideas particularly in where we are bit under represented the United States regional business and then we have a number of large initiatives which we published already last year; large transaction for capital relief, mortgage insurance, agricultural insurance, so very new initiatives which are not under the same competition, and I'm very happy that the organization delivers and I think we do the right things. We don't give up our cycle management where it is necessary and at the same time identified businesses which are worth to accept.

On Slide 37, we basically repeat and show what we saw in the last renewal in January. (inaudible), when you comment, we compare the January renewal with the coming renewals in April and July, that was probably, that is my expectation now is the weakest renewal in the year. Why, because, April is Japan, and July 1 is United States and global business and in these remaining renewal dates, those treaties which contributed or deliver the losses come up for renewal, so that means we have a strong expectations that our rate change and our outcome will be much better.

Slide 38 overview about our large losses. Again, I told you it was an active year, large losses particularly in the last two quarters, but what I want to show is that in spite of this large loss activity, I think we managed it quite well and we're available to deliver combined ratio and therefore profitability in line with our expectation at the beginning.

Slide 39, risk solutions. This is one of our growth segments where we had made decisions in the last few years to consolidate that after the decision to get rid of our Australian business. Last year, we decided to sell both of Lloyd's MSPs to one of our two Lloyd syndicates. Why, there were subcritical and couldn't deliver the performance or the growth which we wanted to achieve and we came to the conclusion we can achieve the same by using our Munich Re syndicates in form of Watkins.

And at the same time, we took a decision last year to build a new insurance platform in the United States called Munich Re specialty insurance and to achieve that we bundled three of our existing companies specialty markets temple and Belen Clements and we opened basically the door or the space for them to go more into the E&S market in the United States. By within the next five to six years, we expect strong contribution to profits but also strong growth from this new business segments in Munich.

Last Slide, digitalization. I'm on slide 40 now. Here's overview about our digital initiatives. I come to digital corporation models and IoT on the upper left part in more detail. One remark about cyber insurance, we are still one of the market leaders in cyber, with a very good profitability maybe a bit luck but I've also seen good underwriting and good risk management. Premium volume still significant increase by more than 33% to 473, now you see that now in the middle, so that means we have a significant market share in the insurance business not in reinsurance only in insurance and we deliver good combined ratios here usually below 85%.

One other remark which support our cyber activities, we are very active to build corporations to know what is going on the technology side, but also to build business models for our customer, usually prevention and response models technology-based, and one of the investments we did last year was an investment in Team 8, which is an Israelian company and they are basically from the I call it the good hacker community and build business models with other industries for cyber protection and prevention.

On Slide 41, you'll see an overview of about our platform model. I think what remains to be mentioned here is that particularly in the insurance and reinsurance industry. I think the Munich Re is the first address for the insure-tech companies. Digital Partners is our company which we found that the few years ago here in that regard, they are very successful, they support the business model by investing venture capital into some of the insure-tech companies and in the meantime they have achieved in these various partnerships a business model volume of close to EUR100 million.

Last Slide, our activities in IoT, where we -- where you know, we bought one larger player relayr, last year. IoT is for us a technology play where we deviate from traditional insurance and reinsurance. Actually, we combined it, but basis is technology and we have three pillars we want to grow. One is the small business, it's a retrofit on the left side where HSB is our flagship in the middle part the SME business where we offer end-to-end solutions, technology solutions done by relayr and then we have the big partnerships with Bosch, MHP and KUKA in that regard further might come and will come. And this together will give us a completely new business model usable for risk prevention and loss prevention in the future but also really to build fee based business models for corporates.

Having said that, I would like to finish and thank you very much.

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you very much, gentlemen. Now we can start with your questions, ladies and gentlemen. And if I please may remind you to just limit the number of your questions to a maximum of two per person. So please go ahead.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions.) We will now take our first question from Andrew Ritchie. Please go ahead, your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hello. Thanks for the updates of today. My first question, you are appointing new role CIO, Chief Investment Officer. I mean, I guess you've outlined that you feel pretty comfortable with your asset positioning, you don't really want to take much more market risk. So what do you anticipate to be the benefits of this new role or how do you feel you need to find a change? How you think about the asset positioning of Munich Re? I'm just curious to know of your thinking there.

And secondly for Markus, I think, last year you said that you come back to us, when you got a lot more visibility on how new products were being received, how IT revamps was going, you were particularly nervous this time last year about IT revamps, once those were clearer you might be more confident about assessing whether your run-rate earnings ultimately could be higher. Has any of (inaudible) or you still kind of reserving judgment? Thanks.

A - Joachim Wenning {BIO 16273429 <GO>}

Hello, Andrew. This is Joachim. Good afternoon. Thanks for the first question which I'm happy to take, CIO related. So what we intend to achieve is the following. We believe in the analysis that says if we compare our asset class performance to date, to the asset class performance of best peers then we do see the potential that we could improve that. Now, we would expect that our asset manager MEAG focusing on core assets will through the influence of Nick Gartside having joined us this Monday will gradually improve its performance on these asset classes. And there is always some asset classes as part of the strategy, a strategic asset allocation which are subcritical to a player, where you have more specialized asset managers and there is potential that we could partner with them.

All together, we believe that this will lead to overtime higher returns and how that then will feedback into the strategic asset allocation that we could then adjust for our performance potentials in certain asset classes that needs to be seen. All in all, we see not immediately, not in year one, not in year two, but maybe year three from now. We see quite some material potential. Thank you.

A - Markus Riess {BIO 1835270 <GO>}

Okay. Alright. Andrew, this is Markus. I take the second question and yes, you are right. I was using 2018 to try to get to a personal judgment on whether this will be a successful transformation or maybe if we would need to change some things. And I can tell you today quite comfortably and self-consciously that I believe ERGO is very well positioned for this transition to be successful at the end of the day and let me talk a little bit about that. I would like to start with the IT dimension that you have. When we met last time , couple of migrations were still underway and obviously with the program of this magnitude that sentences always two.

But we have for example, been able to successfully complete our migration of our motor book in Germany and that cannot be underestimated because we are talking about 7 million policies and the success ratio i.e. the number of policies that have been migrated successfully is higher than 99.8%. So that is actually for such a big migration of 7 million quite remarkable. Also it enables us to implement our new risk model which we have already used for nexible of our direct digital insurer, plus adjusting that for our intermediary distribution channels. So I believe this will not only put us into a much better position from an administrative perspective, but also from the way we'll be able to calculate and adjust prices in our motor book.

Let me remind you that we didn't have that for the last ten years and that really is a major step forward. Also on the life migration, here I can't tell you about results, but I can tell you that the ramp up phase is really going well and if we are currently all green for trying to migrate the first tranche in 2020 which is only one year array, so here from now I think we have a better view on this. And then we have now basically closed down 44 out of those 59 legacy systems and I don't want to sound too optimistic here but these least are very hard indications in the year 2018 that lead me to believe and I believe that we are making significant progress in the IT department.

Second dimension is products and you are rightly asking this question as well. So if you look at what we have been able to achieve so far as we go into the P&C products, you see that we have a significant growth in the corporate side, you see that we have an overall growth in the P&C side of 2.5%, it's a little below market, a market will be around three. So I'd say, it's positively speaking on market level not yet above market level, but if we didn't have good products that would not be possible. Also if you look at the sales agent productivity and I will just like to reiterate that, we will have increased the sales agents' productivity now by 25%, which is a significant increase in productivity. So in the dimension of earnings to a annualized premium earnings. We have now basically 25% more sales result per sales hedge[ph] than we had 2016.

And let me also repeat again that as long as we have statistics back which is since 2008, this is the highest number and it has again written by double-digit percentage point in the first quarter. Now, I don't want to oversell that, it's first quarter only, but it's very clearly looks like a positive momentum.

On life, we have tried out these new products, we have 20 agency salesforce, whom we didn't really give easy to sell products over the last years and even this first year, we have more than 40,000 units that being sold with annual premium equivalent of EUR40 million, which is for us a big deal. It's plus 25% and it shows that the products are making a difference also we have to acknowledge the fact that in a large agency organization, you really have to train people and one important products improvement on life only came about in December. So I believe this will also continue to go on.

And on health, we had one of the best years in the supplementary product range over the last decade, and we have again really significantly increased our supplementary health client and we have much more than 20% market share in this regard. So I believe if you look at all of this, all this bearing in mind that we need to keep focused on execution and there are still challenges that we have. I feel much more confident than I felt in 2018.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Great. Thank you.

Operator

We will now take our next question from Kamran Hossain of RBC. Please go ahead, your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Thanks for taking my question. First on dividend. We guess, when we look at your dividend growth this year it's kind of above your normalized earnings growth during the year. When we look out to 2019 and 2020, should we assume that the regular dividends should grow in line with the earnings growth that you're suggesting, so kind of the 2.5 on the midpoint, 2.3 last year and then the 2.8 on the turned half[ph]. So just kind of thoughts on how we should think about that?

And then secondly, just on the 2.8 target overall. Little bit of a tough question, but compared to a year ago, could you give us some indication of whether you're more comfortable, less comfortable or feel like you're exactly on track? Thanks.

A - Joachim Wenning {BIO 16273429 <GO>}

So. Thank you Kamran. This is Joachim. Thanks for the questions. The first question with regard to dividend and the outlook 2019 and '20, whether you should expect the dividend to grow in line with the result projection 2019 and 2020. I think this is exactly the expression that I myself used some time ago, like in line with --.

Let me clarify what we mean, it is not proportional, so if we grow results by 10%, you should not in a mechanical form like sort of way, just say then the dividend will go up 10%. If the result goes up 20%, the dividend will go up to 20%. And the reason why you should expect an under proportionate increase of the dividend is because we commit to dividend continuity, so even in the years like 2017, where our results were hardly positive with 0.4 billion, if I remember correctly, we paid out an unchanged dividend. So if you give -- if you commit to dividend continuity you cannot increase it proportionately but under proportionately. But we want to keep it attractive which you have seen this year and more or less in line with our current practice, you should have dividend expectations into 2019 and 2020.

With regard to the second question, whether after a year into our mid-term commitment, whether we feel more or less comfortable or just the same. I think this is subjective, this is soft. I can give you my version. Every year that we develop as expected into a new pretty high ambition, I feel more comfortable. So Markus has already shed some light and give you some examples why now he's pretty confident that ERGO will not only develop in 2019, but also into its midterm targets. I can say that's true also for Reinsurance and why is that, we have seen in the last 1.5 years, we have seen the Reinsurance growing in a way selected in a disciplined way exactly into the Markus where they wanted to grow into, not into any other markets. And if we look into the results of that growth then at least to date, it may be too early to come up with an ultimate (inaudible) view of it to date of a very good quality, that gives me more comfort now than I would have had a year back.

Q - Kamran Hossain {BIO 17666412 <GO>}

(inaudible). Thanks very much for the color.

Operator

We will now take our next question from Vinit Malhotra of Mediobanca. Please go ahead, your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon, everybody. Thank you very much. So two questions please and one quick follow-up, please on ERGO So the first question is on the risk solutions. I see here the new platform, the Munich Re specialty insurance platform and one of the lines that --- one of the mentions there is about targeting excess and surplus lines. I mean looking at some peer results from that line, doesn't it feel like maybe that's a bit risky here or do you think the market is now getting better there, if you could just comment on that please? That's the first question.

Second question is just on the retro session. When I look at the annual report, the reinsurance recoverable rating quality seems to have moved down a bit. Again, when I look at your slide it doesn't show much of a change in retro session numbers or the coverage. Could you just comment or help us understand whether in your keen[ph] divide to manage the risk. Has there been a change in your counterparty credit qualities?

And last question is just the ERGO follow-up, please. Marcus, when we talk about agent productivity in the past when you met us in London, we've talked about how being the motor portfolio back has helped. But when I look at the last three years '16, '17 '18, the motor GWP is almost constant in the accounts. Is that, if it is just fact that something else going on between the AP and old book and new book on motor please? Thank you very much.

A - Markus Riess {BIO 1835270 <GO>}

Okay. Vinit, this is Markus. I start with the follow-up. Thank you for giving me the opportunity to clarify that. When it comes to productivity increase, within P&C motor has a significant proportion, but the momentum comes from we are back in the life insurance, because life insurance carries much more APE than motor insurance. However, I do not have to take back what I said in London because this out of functioning motor book. You don't get the agents and an interaction with the clients in such a way that they can really do the cost sale and they sale and advice on life insurance products also. So one thing does not go without another, you want activity, you need motor for an activity, but if you want volume and productivity increase you need to do it with life, that's how these two lines come together. I hope that clarifies that Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much.

A - Unidentified Speaker

Thank you. (inaudible)

A - Torsten Jeworrek {BIO 5724439 <GO>}

Torsten speaking here, risk solutions. Right, we decided to form the MSI, the specialty insurance. And I said that we open the space for (inaudible) and is it why and why now and is it manageable and possible for us. First of all, it's not completely new, so we know (inaudible) markets and non-admitted market pretty well in the United States, both from our non-proportional and proportional reinsurance activities. So we have a lot of data and information about the business, that is not the information and know-how does not come from insurance only that is in-house in the company.

Second, we think, is particularly the E&S market, it's a market which is built (inaudible) housing on expenses and distribution success and all these things for the normal bread and butter business which is good for us.

Third, when you look at the E&S market, there's a lot of light and shadow in the US market in general, but you have quite a good chance, if you play with know-how to be on the better side of the market and to deliver very good performance. So in that regard, we are very hopeful to speak and almost convinced I would say that this is good for us.

Third argument, we also -- we're entertaining a small piece of business in (inaudible) specialty insurance, unit which is part of the new one now and by last but not least, of course we will pick those segments in the United States not all which see the best support in today's market environment from positive rate increases and rate changes. Whether we then change the long-term that remains to be seen, but there are certain segments which look better than few years ago regarding the future profitability. So in that regard, I'm optimistic that this is manageable and it's good segment for us at the end. And by the way, because it's not admitted, of course when you do it in the right way, you can respond to market changes surprises or whether in a much faster way rate change -- can apply rate changes in the traditional market.

Retro. In our traditional retro program, we basically has the same structure in place like three years ago and that means, a traditional program in the traditional retro market which is relative to our size maybe not that big. But compared with other markets, may be the biggest placement in the traditional retro market that has hardly changed, why? Because after the severe losses in 1917, last year it was not affected, so we didn't see the loss into these programs and for that reason most of the existing players offered similar and unchanged terms so the outcome was very positive.

Same on the alternative, side, here we basically will did and will cancel some of the kept[ph] funds but renewed and placed our other non-traditional programs in particular to set cast, so that volume is collateral volume slightly above 700 millions or all the very sizable. And after these frictions and the lot of noise in the alternative markets, our players stayed on board on most of them at least. So that is unchanged, so I can't see in our traditional and alternative retro significant changes of the quality of the participants that is well done and similar quality like last year .

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you, Torsten.

Operator

We will now take our next question from Edward Morris of JP Morgan. Please go ahead, your line is open.

Q - Edward Morris {BIO 16274236 <GO>}

Thank you for taking my questions. The first one is just on cyber. I'm just interested to hear about how you think about your risk appetite in cyber? There's a slide in the back which shows your estimates of the market, which looks like it will sort of doubled over a three-year period. Just wondering whether we should expect your cyber premium to follow that path and similarly how do we think about the level of risk here compared to say peak and (inaudible) risk? I appreciate you mentioned it's a lot lower but, could you give us a help[ph] for what kind of risk you're now running in cyber?

And then the second question is just coming back to Munich Re specialty. Just interest (inaudible) as to how your exciting sort of win the business that you're going for, and what really is the driver of growth. Is this business that you're winning on price from competitors or just because you won tendering for it previously? Just a bit more color there would be helpful. Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Cyber, Torsten here again. Yes, how is our risk appetite? How is our strategy? First of all, today our portfolio grew in line with a worldwide insurance market. That means our market share, and market share means here in the insurance market, not in the reinsurance market. Usually, we've the reinsurance market share. Here since the insurance is a bigger insurance market is close to 10%. And in the past years, could be grew in line, with this original market, which we think is now slightly above five billion by end of 2018. So we grew to 700 -- 473 or so million. And which was good at the end so far we didn't lose market share, was exactly in line. And we have many activities underway also to participate in the small, but steadily growing markets in -- particular in Europe and in Asia.

Second, how do we manage risk and risk appetite and what our segments? Of course, we have a bit of everything but our clear focus, where we want to grow is in the SME business. It's not the large industrial business, we have some participations in the large stuff. But our core segment is the SME business. So the small to medium-sized enterprises and for various reasons. One is, first of all, from the demand side, we are absolutely convinced these kind of customers, they need our services more than the large companies. Second, we allow -- strategy is not only to sell a financial cyber product and insurance product in case of a loss or to protect them against the loss. Our idea is we built either corporations with external partners or build own technologies, basically software solutions to help these kind of small and medium-sized customers in terms of prevention and risk assessment of their underlying infrastructure, and we combined it of course, the better the quality of the infrastructure and the risk, the better the terms of the cyber product which we can offer. So that is our approach.

Second reason for the concentration of focus of SME is that we say, we have to be -- manage our capacity and capacity management means, we have to look at the accumulation scenarios, which are obvious in the cyber world and these are even global scenario. So -- and more risky if you want, from a theoretical perspective than in traditional net cat business. And then we said, okay, how can we nevertheless, achieve a kind of diversified portfolio, and not by implementing or selling the capacity to 20 of the largest groups in the world in the United States or in the -- in Germany here. No, we said we need millions of small and medium-sized customers. Because then we have a reasonable degree of diversification even in case of more organized hacker attacks. That is one thing. So SME business allows diversification.

Second, diversification is particularly important in cyber, because you want to be able to calculate risk adequate prices. How can you do that? You can't do it in a traditional way by looking backwards and collect data over many years and then to calculate and to fit severity distributions and frequency distributions of the traditional approach because the old data from five to ten years ago, don't reflect the future risk of tomorrow. For that reason, we said, no, that is not an approach. And the alternative is if you can't throw the dice. Let's say a hundred times in an order then you need 100 dice, to describe it in a good example, 100 dice which you throw in one year. So that means you need a large number of hopefully independent risk for pricing purposes. That's the idea.

And with this in mind, I think -- and I do not want to oversell this. We -- but over the last six, seven, eight years, that's the time where we already entertained cyber business. We've a proven track record in that business. To some extent, you can also argue is also a bit of luck, that is probably true. But in general, we have a very, very decent performance here. And the third part is, we have a very tough and strict risk management and accumulation control in place, and that means. We identify also together with partners, partnerships, I mentioned team eight in my presentations, it's Israelian intelligence company.

We identified accumulation scenarios and unmanageable accumulation scenarios like protection of the internet to the underlying infrastructure of our world will not be covered by us. So that means, we cover those parts, where we have an accumulation management and risk management in place. So that was cyber, what was the other question? In the meantime -- I'm sorry, I talked so much, I forgot it.

Our value proposition in specialty, okay. Right. Specialty business for us is commercial and those insurance segments which require know-how and are not, let's say based on the value proposition of, let's say most efficient business for millions of policies, that's not our value proposition. We say it's basically know-how based. And in this know-how based space, we focus and here our strategy differs from many of our peers, particularly, among the large insurance companies but also reinsurance companies. We do not focus on large industrial business here. We have about 600 million part of 4.5 billion industrial business in the portfolio. The rest is all either small commercial business or even kind of C-type business like the inspection business of Hartford's Steam Boiler.

So that means, we are here more in the middle space in the market as target groups and that differentiates us, that means the business development takes a bit longer, because you can't get the high tickets from the broker, which plays in large capacities. You have to develop the business, but once you have the business in the company, it's sort of sticky and delivers good performance. I forgot to mention that when you look at -- look at our Risk Solutions, we didn't have a satisfactory performance in the last two years, mainly driven by large losses by the way, the wildfires and the hurricane losses. But our underlying and expected combined ratio even from the -- from 2019 in Risk Solutions, in general, is still 95%. And on a normal basis -- normalized basis, I would still expect that, we deliver such kind of profitability in that segment. That's it I would say.

Q - Edward Morris {BIO 16274236 <GO>}

Right, thank you very much.

Operator

We will now take our next question from William Hawkins of KBW Please go ahead your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. First of all, can you help me understand a little bit more about your guidance for economic earnings? So two inside [ph] 21 and 45. On Slide 45, you've shown us that the outlook for economic earnings is to be north of 2.5 billion. I'm assuming that is implying a 600 million uplift, so the comparables is the 1.9 billion at the bottom of that slide. What are the moving parts for that net 600? Because when you give us the very helpful detail, lots of things sort of seem interesting, the new business is very, very low, but there's a lot of variances and the rest of it. ,So how do we kind of get from 1.9 to 2.5 this year? And then secondly, the -- on Slide 19. The claims equalization reserve is now 8.5 billion. What's the direction of travel for that figure now? Are you still into the phase of building it back up? And if so, to what level or have you already completed value build up, so you could be releasing again, near term? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay. I'll start with the first one. Outlook of the economy -- It's Christoph speaking here. Outlook of the economic earnings. The starting price of (inaudible) the 1.9 is distorted, due to the fact of that the capital markets were quite difficult in the year. And in 2018, as you know, our planning assumptions are usually stable capital market assumptions. So a stable environment. So we call it internally the naive prognosis. We don't know how the markets are going to develop. Therefore, to compare it with 2018 to the (inaudible) with the 2018 is to certain extent.

Let's say, it's distorted by the fact that '18 was really affected heavily by capital markets. Having said that, the assumptions between the 2.5 guidance are the same assumptions we have for IFRS [ph] as well. So it's the operational improvements we are seeing across all businesses and then the initiatives we have in place. And then it translate into this economic earning guidance equally like it translate into the IFRS results. So no really different assumptions behind.

On the equalization reserve, good question. We are still in the phase of building it up, and there is still significant room to be filled. So our current estimate is, it's three billion to 3.5 billion, which we still need to build up in the next, probably couple of years.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. May I just briefly come back -- back on the economic earnings? Do you -- would you say that the SCR economic evolution last year was normal or should it be higher or lower in a normal year?

A - Christoph Jurecka {BIO 17223019 <GO>}

The SCR is -- this is I think quite normal. It's a fair description of where we stand from our risk [ph] exposure. And I've been commenting before, we're very pleased with the fact that the market risks or (inaudible) investment risks are less than 50% and relatively reduced compared to the insurance risks and this is an integral part of our strategy, when we are saying we want to grow our core business to move. Let's say, the overall risk balance, risk portfolio the diversification into a more optimal direction.

Q - William Hawkins {BIO 1822411 <GO>}

Perfect, thanks Chris.

Operator

We will now take our next question from Jonny Urwin from UBS Please go ahead, your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, all, thanks for taking my questions. Just two please, so firstly. You've helpfully helped us bridge from the 2018 normalized combined ratio guidance to 2019, but could you help us bridge from the 2018 actual normalized of a 100.3% to the 98% guidance for this year, please? And then secondly, the slide is really interesting that you put about the global hot spots of claims inflation on slide 17. Can you just go into a bit more detail on that, and just sort of give us a bit more color and just explain to us what you're doing to manage the risks? Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Let's say combined ratio is in 2018, let's put it in this way. We have a large loss in cap activity, almost in line with expectation. So almost close to 12%. Then we have bit higher than expected reserve leases, that's the second factor. You can adjust for that and then you have a third factor, you don't see in the figures, but you have to adjust for, and that is basically some noise from large -- from cat and loss events which occurred particularly in our risk solutions unit, which don't exceed this level of large losses and are therefore not visible for normalization, so these three factors. When you take these three factors and particularly take the noise out, then we think the true underlying combined ratio in 2018 is in the order of 99%. That is really our internal best estimate and the best view when we assess our all business units.

So the question is now when you start from there that is basically unchanged is exactly what we said to year ago again a bit of noise in, when you come from that and ask, okay, how can we move downwards from there? But we indicated a year ago then for at least 2019, we have at the end three drivers, which will lead to an improvement on a -- everything goes normal, three drivers which improves the combined ratio. One; is we have the spillover of the price increases, which occurred or were achieved already in 2018 for the unknown premium, which will contribute positively to the profitability in 2019.

Then we see of course, the underlying positive development of various portfolios, not necessarily from those portfolios, which were up for renewal so far in January but from many of the business initiatives, large transactions mortgage business, agricultural business. Nothing is renewed -- was up for renewal year, which will contribute. So these two together portfolio and price changes in our according to our expectation will help us to improve by 0.6 percentage points roughly. So bit more than half a percentage point, and then we have of course, we will harvest the cost reductions from our transformation program in 2019 and in 2020. And in 2019, we expect again one third of a combined ratio point from that transformation program, which we did finished last year and which still goes on into the coming two years. And that helps -- that will bring one combined ratio benefit in the coming year.

Third remark is what happens in 2020? Will that continue or not? Bit too early to tell. We don't give up our combined ratio indication, I would say, not ambition, I would say indication of 97% combined ratio which we indicated Joachim where you indicated that a year ago, that was based on the assumption that the business initiatives will deliver, and will also lead to a change of -- of portfolio mix more from long tail -- and more towards shortest tail business segments. And I still see that this is still in line with expectation. However, it's always based on this assumption that the business composition develops in that regard.

If we have -- should have further transactions and businesses like last year and remember, we had maybe a handful very large pretty large transactions, which were both from the Munich Re for capital management reasons, one of them was IAG in Australia, all lines quota share, then of course, we would always consider that from an economic perspective and would write them if they are under economic considerations positive. But it means if they are -- if they deliver more long tail business to us, and where interest rate play a role from an economic perspective, then of course that could change our combined ratio expectation, to combined ratio 97 is not a target, but at this point I still think we deliver that. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Christoph again. On the reserving hot spot on page 17, first of all, none of them are new and I think most of them are all of them are very well known also in the market. So the idea of the slide was more or less to show you that we do not have any issues at all with those. So we are feeling very comfortable. I could give you some flavor of some or all of them. I don't know how much time you would like to spend here. I'll give you one example. On the Ogden interest rate, for example, there is the expectation that this interest rate is going to be increased again this year. We are aware that some company already did that in the year-end accounts. We didn't, so we have another proof of our cautious reserving approach. So our discount rate is unchanged so far.

Similarly on the asbestos side, our risk side, the ratios are still very comfortable. If you can see, there's also in the backup of our pack where we showed them. Also similarly US casualty, there's been a lot of talk about US casualty recently. We have some reserve increases in small parts of our portfolio and parts of our portfolio overall. This is overcompensated by the overall development. So also there at this stage we feel comfortable. I hope this is gives you some flavor where we stand here but overall this is really to show that our monetary kind of reserve level and continues to be very prudent and that we are very well reserved.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks very much. Very useful.

Operator

We will now take our next question from Sami Taipalus of Goldman Sachs. Please go ahead. Your line is open.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, hi good afternoon everyone. Just first question on the life reinsurance business, where you're making steady progress. But if you could just focus on the Australian business a little bit. It looks that there's a few things going on there and it sounds like you're facing some challenges there. Could you just talk us through how you see the market dynamics there? And to what extent that business is a drag on the profitability and how you see that developing over the next couple of years? And then the second question is goes back to ERGO and market dynamics in Germany. And the I think, one of your one of the major motor players in Germany came out about a while ago, and said that they expect motor competition to increase into the near to medium term. Could you comment on what you see there but on the other hand it sounds like the industrial mines business is doing a little bit better. I know this is not -- maybe not huge for you. But how do you see the overall environment there? Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Torsten here. At Life, Reinsurance, yes, your description is right. If we wanted to find one segment in Life, Re Life and Health, where we still have some concerns about further development, then it's Australian business particularly the disability business in Australia and that has been ongoing for a number of years, and I think it's difficult to forecast how it develops but I think it will be under stress for many more years in my opinion, for various reasons it's difficult to estimate, how really the claims and losses will develop in the future.

Second reason is we see a lot of -- let's say, withdrawal from capacity in the original -- in the underlying Australian life insurance market which has led to a kind of a picture where insurance companies who are responsible for that business have, let's put it in polite words, a bit lost of -- lost interest or focus to manage the claims in a very active way as was led for us to the conclusion that we in the meantime decided to take over control over the claims management. And we decided to fund and to build an own unit -- our own units in Australia to really do claims management, together with Australian clients to basically limit the downside exposure for us, and for the clients.

And maybe the third remark is there are even changes in legislation, there is -- there has been Australia's new legislation underway which gives customers the right to let's say withdraw or to cancel policies, it's more the other way around is the policies -- policies will be cancelled, and let's say step in again. And this is not approved or not confirmed yet, but what we have decided is we took action and decided to put a reasonable reserve into our 2018 balance sheet already, basically in anticipation of such changes in legislation which might or might not come this year. Overall, if you ask me, is that over? Is it not over? In my opinion, no I cannot give full confidence that everything is already transparent and digested, but if further advance developments should come, I think, compared with the huge life book, they are easily digestible,

And maybe the last remark is -- my fourth remark is in addition to all of the activities in Australia, we are very active although to look for the kind of recaptures and alternatives to reduce our exposures even if it would cost the IFRS result. But that is too early to tell whether we can be successful here.

A - Markus Riess {BIO 1835270 <GO>}

I give you, Sami, my couple of thoughts on the German marketplace. Obviously, as you know, I can't talk about any competitor's behavior in this call. But generally speaking, people have I think for the last years, anticipated in more toward to there to be an increased competition. And to a limited degree I'd say that's true. You see some new entrants especially in the startup scene but then again they'll have a couple of thousand, maybe 10,000 to 20,000 policies so, I don't think this is really changing the landscape significantly. This might be different in the future. But currently, I don't see that many new competitors entering the German marketplace.

I also from what we see, do not see that the pricing trend has changed significantly, you know better than I do that Fok and Allianz have a very external communication focus with regards to their motor policy, but if you ask me on the market impression that I personally have, I think on motor, it's more unchanged than the people ultimately create the impression it was. The industrial alliance, we'll see -- we are not in the industrial alliance business. If you really talk about industrial alliance per se, there will be so many which would be rather in the reinsurance side.

If they do it for us, I would look at commercial in the small medium and sometimes the large commercial space, and here you are right, we see we see a good demand there our own growth is also primarily from this segment and the combined ratios are pretty much unchanged over the last years. Like always in this business it depends on what you write, but believe in the space that we are and we can do it at a sustainable attractive combined ratio. Maybe I'll leave it at that. Thank you.

Q - Sami Taipalus {BIO 17452234 <GO>}

Great, thank you.

Operator

We will now take our next question from Michael Haid of Commerzbank. Please go ahead your line is open.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much good afternoon. Two questions, first one also on cyber, as you said you could -- you grew significantly and that very profitable terms combined ratio below 85%. Can you share with us and I understand that you grew with many, many risk service SMEs. Can you share with us how you expect pricing and to evolve going forward? and I think cyber must attract more primary insurance also. And should we expect more competitive pricing in the foreseeable future? Second just simply, the combined ratio in P&C Re for 2018 and also the expectation for 2019, 98%. Can you provide a breakdown of the combined ratio for traditional reinsurance and for primary insurance out of reinsurance for 2018 and for 2019?

A - Torsten Jeworrek {BIO 5724439 <GO>}

Let me start with cyber. Cyber is a -- probably the picture about the current and future pricing is not clear and you are right. I mean there are more insurance companies who identify or detect cyber is the segment or line of business which they can't ignore any more and go into this. And in my opinion not only because they believe in the demand or find it so attractive, it has also to do let's say to protect the existing portfolio and other P&C segments with the same customer yeah what you can't do with insurance company long term is basically if there's an increasing demand for cyber to ignore it and to say I write all the P&C business with you. But for cyber, you have to go to a competitor that is not possible. So for that reason, many -- but also small and medium-sized companies in the meantime begin to grow into this just to be able to offer something, which is good for us by the way because particularly those companies is partners of a reinsurance company like us. Depend a bit on our support and help here. That is positive. Nevertheless, there's more capacity coming into the market, here you can say that puts pressure on the pricing mid and long term, which is right.

On the other hand, the demand increases significantly and you see the underlying growth in the cyber market and the insurance market, so growth is in the order of 35% every year in line with our portfolio. And this demand, and I'm very optimistic here will further increase for a couple of reasons. One reason is, the increased awareness of awareness is supported by very prominent and visible large hacker events take the Marriott last year, take the NotPetya in the year before and so on. And the more of kind of events make it into the press and TV, the more of course the risk awareness begins to increase and therefore the demand for better technology solutions but also demand for insurance.

Second, regulation and new laws also promote and support the demand for cyber business in the United States, but particularly in Europe now, and maybe in the future also in Asia. Why? Because when you look at the European data protection laws then you see that companies are required to the utmost to protect themselves. Supervisory boards and board members are liable that they consider all kinds of protection. And these external regulations, they are significant driver for an increasing demand and I'm absolutely optimistic that this demand will at least continue, maybe even accelerate. And the question is now what is now the balance between the two, demand on one hand and available capacity on the other hand?

For the time being, I think the demand is strong enough to avoid significant pricing pressure in cyber in general. That might be a bit different for single symbolic accounts or so but in general I'm very positive here. And so the last remark maybe is it's of course although a job for an insurance and reinsurance company like ours to have a better risk selection and price differentiation between those risk and customers who have best class of protection in place here we offer also solutions and those who don't do their job at the end of the day and that will continue.

A - Christoph Jurecka {BIO 17223019 <GO>}

On the combined ratio, the question was, yes, 98% how two are differentiated between the traditional business and the risk solution business. Torsten mentioned already that the 98% is not as much as a target. It's one indication and therefore not necessarily very precise. Given the fact, I would like to refuse to give any further details. What you will understand of course is that the 98% being an average between traditional business and the risk solution business means that one of the two has to be about 98, the other is to be below 98, and in the one with above 98 is the traditional business. So we ensure as those will be the risk solution. Clearly, we -- it's expected to be below 98 and traditional somewhat above 98 and above. That's our current expectation, but as we said, this is one indication than anything else.

Q - Michael Haid {BIO 1971310 <GO>}

And that was also -- 2018?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yes.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much.

Operator

We would take our next question from Frank Kopfinger of Deutsche Bank. Please go ahead, your line is open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good afternoon, everybody. I have two questions, my first question is a very generic question on your 2020 ambition the 2.8 billion. Now when I look at your slide 8 then the chart itself rather indicates that this the 2.8 is probably only the low point of the range. So any thoughts around whether the 2.8 is a range and whether there's room for the upside or downside would help in this respect? And then secondly on ERGO, I would be interested to hear in where you see a normalized profit level for 2018? Also you beat your original guidance obviously. However, if I take into account that you had 170 million one off, I think from assumption changes in life and I think there was also a 90 million tax effect due to revaluation in Q4. Then your normalized level how I could see it would be below your original range. And then with this, this would open up into a more or less 300 million gap towards your 2020 target. I would be interested on how you see this gap being filled by the your three segments, P&C, Life Germany and International.

A - Joachim Wenning {BIO 16273429 <GO>}

Thank you, I will take the first question. This is Joachim again. So the 2.8 billion commitment into 2020, this time for 2019, so the 2.5 billion and the 2.8 billion for 2020, we are not building a range, we are talking of around 2.5 billion and around 2.8 billion, we will not offer any range around it, whether it's plus minus 200 million, plus minus 300 million and the reason why we don't do it, because we want to avoid any misinterpretation, we mean that point and we mean 2.5 and we mean 2.8, and if we offered a range in the past, we understood from some of the questions and the feedback somewhere saying, well, maybe they tend to be at the lower end of that range and other would say they're so conservative maybe they really mean, the upper end of that range. We mean 2.5 billion and we mean 2.8 billion and that, we are in a volatile business that when capital markets go completely the other way than expected and when large losses go completely the other way that is expected that this means that we can be in excess of that number or below that number that is industry experts and professionals anyway.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Again Christoph here. On the ERGO normalization of the result, you were mentioning two effects with a positive impact, but there also have been a variety of other effects with negative impact. If we sum up all the special effects we had in the year 2018, the sum would be around plus 40 meaning that the normalized result of Ergo would not be 412 but would be 370 or something like that. Therefore even after normalization for one-off effects, the Ergo is exceeding the original target range substantially.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay thank you.

Operator

(Operator Instructions) We will now take our next question from Vikram Gandhi of Societe Generale. Please go ahead, your line is open.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, it's Vik from Soc Gen, I've got this one question. I just going back to the economic earnings for 2018. Can you help us with what the normalized figure was for example you published 2.4 billion for 2017, 2.5 billion for 2016. So an equivalent number for 2018 would be helpful? Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Actually I have to ask again what do you mean by normalized economic earnings?

Q - Vikram Gandhi {BIO 18019785 <GO>}

If I look at your previous presentations, you kind of published the normalized economic earnings expectations for a given year. And that's something that I'm struggling to locate in today's slides show it was EUR 2.4 billion for last -- I mean 2017, 2.5 for 2016. Basically if everything works out in line with your expectations what would be 2018 figure be instead of 1.9 that is it takes into account the large losses above budget, let's say or the capital market volatility?

A - Joachim Wenning {BIO 16273429 <GO>}

Yeah, now I understand, thank you for giving me that support. The way the we present economic earnings figures has changed compared to last year. There has been a working group of the CEO forum trying to align the presentation between different companies and therefore, we also changed the way we present the figures substantially. Normalized you mean the expectation and if you look at our economics earnings 2018 clearly the capital market development, this is not in line with our expectation and then when you look at the in-force contribution there are in some segments certain deviations which are not in line what we expected. Others are because as you know, we are regularly expecting to give you an example, 4% of reserve one-off. And overall, without disclosing now the normalization to the same position like what we did in the past, overall, I'd say normalized expected would in the area of where we are with the IFRS result as well.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions). It appears there are no further questions via telephone at this time.

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

Okay, thank you very much for joining us. Thanks for your questions and nothing to add from my side anymore except saying we very much hope to see you all soon again. Thank you. Bye-bye.