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Bloomberg Transcript

Q3 2021 Earnings Call

Company Participants

- Christian Becker-Hussong, Head, Investor and Rating Agency Relations
- Christoph Jurecka, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Andrew Ritchie, Analyst
- Darius Zekauskas, Analyst
- Ian Pearce, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

Good day and welcome to the Munich Re Quarterly Statement as of 30th of September 2021 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Becker Hussong. Please go ahead.

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Saskia. Hello, everyone. Good morning and a warm welcome to our call on Munich Re's Q3 Earnings Release. Today's speaker is our CFO, Christoph Jurecka. The procedure is very simple, straightforward, Christoph will kick it off with his introduction and then we will go right into Q&A.

So, no time to lose, Christoph. The floor is yours.

Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Christian. Well, good morning also from my side. It's a pleasure to present the Q3 results this morning. Q3 was a heavy nat cat quarter which was dominated by two major events, Storm Bernd and Hurricane Ida. These two events accounted fully insured market loss of almost $50 billion with Ida alone standing out at around $35 billion according to our own assessment.

This fits into a series of above average major losses including COVID-19 in the last five years. As a consequence, reinsurance have been increasingly scrutinized by capital markets as regards to the appropriateness of the internal models and partially perceived underestimation of climate change risks. Therefore, before I start with my usual remarks on our quarterly result, I would like to take the opportunity to speak about how many relooks at these topics based on the slide deck included in our Q3 presentation starting on Page 19.

Climate change is not a new phenomenon for us. We have been a pioneer in the research of climate change for almost 50 years. We recognized quite early the relation between global warming and the risk of extreme weather-related events. This impact is not uniform and there are significant differences across regions and perils.

To narrow these risks, we permanently incorporate new data into our internal risk and pricing models. And as risks are constantly changing, we also reflect forward looking findings and incorporate latest academic research. This in particular holds true for our 35 peak risk scenarios, but also what we call non-peak risks.

In total as you can see on Slide 21, I mean if remodels more than 100 risk scenarios on the basis for less impactful risks is somewhat less sophisticated compared to peak risks, which are driving our exposure management and economic capitalization. It is important to add here that depending on where we stand in the market cycle the theoretical prices cannot always be implemented in the market. Therefore exposure and cycle management as well as underwriting our decisive factors for the profitability of our book. For example, we have been traditionally very cautious with regard to frequency or aggregate covers and we still are.

One example of our peak risks is flat Germany as shown on Slide 22; by the way, a risk which we have been modeling for quite a long time even though the flat in July was the costliest nat cat event in Germany history, we deem a flat loss of that order of magnitude to happen about once every 50 years. While the aggregate loss is consistent with our model, the regional distribution of losses is much more difficult to model also due to climate change driven developments like the increased risk of severe rainfall in local areas.

Now how can we respond? First of all, it's our responsibility to help the people affected and support rapid reconstruction. At the same time, preventive measures have to be taken in addition to stricter rules defining the use of land. As there are still many households without flood coverage, this insurance gap has to be closed with primary insurance and related reinsurance cover, but only at risk adequate prices. Capital to cover these perils is sufficiently available in the market.

On Page 23, you can see an example for non-peak risk. Wildfire is a risk where the impact of climate change is clearly visible today. As you can see in the chart, there is a positive correlation between global warming and the frequency and severity of wildfires in California. Does this mean we don't write wildfire risk anymore? No, it doesn't. We have been analyzing this trend for quite a while, investing a lot of effort to improve our internal wildfire model. The increased risk is reflected in our pricing.

And in addition, we've adjusted our underwriting approach and have a much more selective risk appetite with a focus on rate adequacy. If you compare the actual nat cat losses with our expectation, you'll notice that there is a certain fluctuation around the expectation every single year. Looking at the 10-year moving average as shown on Page 24, this average meets our current expectation pretty well.

Comparing last year to this year, sometimes it's just a matter of a few miles in the track of a hurricane whether a market loss ends up at $10 billion or multiple times higher. In the short term, the randomness of events and the specifics of the affected areas are much more relevant for the loss amount than climate change.

In this context, it is important that we can reprice most of the cat business annually and thus response to any change in the risk assessment in a timely manner. The last couple of weeks, we were frequently asked if our expectation of around 8% nat cat losses is still appropriate given climate risks and the recent uptick in losses.

As you can see on Slide 25, the 8% based on the probabilistic bottom up analysis of our current portfolio, considering the peril-specific impact for man-made climate change and factors of natural climate variability, such as the variation of sea surface temperatures in the North Atlantic Ocean. We also come through the changing regulation and social inflation such as building standards and demand surge. Even though we've expanded our nat cat exposure in absolute terms and permanently we defined -- refined our models, the expected major nat cat loss ratio of about 8% has been remarkably stable.

Having said that, we are keeping this under regular review and we might change it but only if necessary. Finally, let me look at volatility from a more overarching perspective on Page 26. Volatility is inherent to our business model and we get paid for taking volatility from our seasons books. The expansion of less cat-prone and less cyclical businesses like Life Re, Risk Solutions and ERGO will reduce P&L volatility over time.

Our strong balance sheet allows us to cope with volatility already in the short term. Even in bad years, we are committed to paying at least an unchanged dividend. Share buybacks increase the amount to be repatriated when no alternatives generating more value for our shareholders are available. And as you have seen in the third quarter results, diversification between earnings components like the investment and technical result and also between segments smoothened P&L volatility in quarters with increased loss activity.

As a result, we are fully on track to achieve our IFRS earnings target despite the large events we have been seeing. This brings me now to our Q3 results. As already indicated in the pre-announcement, we achieved a net result of EUR366 million corresponding to an ROE of 6.3%. Year-to-date, the return on equity is a pleasing 12.1%. We are very happy to have achieved such a resilient performance given the high losses from the Storm Bernd at Hurricane Ida, not to forget, the Texas freeze already in Q1.

In our view, and as mentioned before, Bernd is a one-in-50-years-event, while Ida is one-in-10-years US hurricane event. Also in Q3, we benefited from a good operating profitability in all fields of business, but also from a strong investment result and also currency result related to our investments. Therefore, let's start to look a little bit deeper into investment result. In Q3, we achieved an investment total of 3.3%. So result was (inaudible) by disposal gains from typical portfolio turnover, but also from outsourcing activities to third-party asset managers. As a part of the disposal gains in Q3 and even more so in Q4 goes back to our share reduction (inaudible). I would like to emphasize that our close business relationship remains wholly unaffected by this transaction which in no way reflects reassessment of Admiral's current or future performance.

Due to largely stable capital markets, the derivative result was unremarkable. The reinvestment yield dropped to 1.4% and as a result investments in shorter maturities and lower interest rate during the quarter. Now turning to reinsurance. The Life and Health technical result including fee income of EUR9 million again fell short of the pro-rata annual ambition. Higher than expected COVID-19 losses of EUR168 million were driven by a surge in mortality in the United States as well as an ongoing high mortality in South Africa and India.

For 2021, we are now expecting COVID-19 losses of around EUR600 million. We will not reach our annual guidance of around EUR400 million for the technical result plus fee income. Adjusted for COVID-19, however, the underlying performance remains strong. In P&C reinsurance, we posted above-average major losses as mentioned. While COVID-19 losses were and are expected to remain insignificant, the combined ratio of 112.8% was burdened by the mentioned events.

Given the high amount of nat cat losses in this year, we will not achieve our combined ratio guidance for 2021. However, the underlying performance remains sound including reserve releases the usual amount of 4 percentage points so normalized combined ratio amounted to 95.2%, which is fully in line with our full-year guidance. In primary insurance, ERGO continued its pleasing financial performance with a net result of EUR134 million in Q3, ERGO is on a very good track towards its full-year guidance.

I'm pleased that the strong underlying performance with sustainable profitable growth and stringent cost management as well as a higher investment result could largely offset significant losses from Storm Bernd also of ERGO of around EUR0.1 billion. With negative effect of EUR12 million in Q3, the COVID-19 impact continues to be marginal.

German Life and Health business posted net earnings of EUR80 million good operating performance in health and still very low claims in travel contributed to the pleasing result. In P&C Germany, the comment ratio of 95.6% Q3 was remarkably resilient. High flood losses were mitigated by ongoing profitable growth, favorable underlying claims development, lower large man-made losses and stringent cost discipline.

Given this earnings power, we are sticking to our full-year combined ratio guidance albeit with increased uncertainty depending on further major losses development. The international business of ERGO posted somewhat lower net result of EUR32 million affected by COVID-19 related claims in India and large losses in the Baltics and Austria.

But the operating performance continues to be strong. The ongoing good development in Poland increase as well as a seasonally strong quarter in Spain contributed to the pleasing combined ratio of 92.3%. Now a few remarks only on capitalization. The Group's economic position is very sound and remains sound. Our Solvency II ratio increased to 231% in Q3, which is largely attributable to the issue of our green bond while the change in all the other drivers was rather small.

Finally, I would like to conclude with the outlook for 2021. We maintain our group net income guidance of EUR2.8 billion with unchanged EUR2.3 billion in reinsurance and EUR0.5 billion at ERGO. Within reinsurance, however, the composition of earnings contribution has shifted. Given the high amount of nat cat losses, we expect an increased combined ratio of around 100% in property casualty. And due to COVID-19, we will also not reach the guidance for the technical result including fee income in Life and Health. This has been lowered to EUR200 million.

On aggregate, the lower underwriting result can be fully compensated for by a strong investment performance, which is expected to continue into Q4. All in all, we are very optimistic to achieve the outlook, which is built on our usual cautious planning approach, and reflecting higher than 12% large losses following our usual internal seasonality pent-up.

With this, I'm looking forward to answering your questions. But first, I'll hand back to Christian.

Christian Becker-Hussong {BIO 19080254 <GO>}

Yeah. Thank you, Christoph. So we can now go right into Q&A. As always, please consider my housekeeping remark and we would like to limit the number of your questions to a maximum of two per person. And if you have further questions, please go back to the queue.

And with that, I'll hand it over to Saskia for the first question. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today comes from Andrew Ritchie of Autonomous Research. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. Thanks for the additional disclosure and discussion around catastrophes and climate change, et cetera. Maybe Christoph, I'm just trying to judge is the message here then that you feel that catastrophe pricing is broadly adequate or do you -- because obviously you feel more or less you're on top of it or are you saying still okay with current pricing you can position a good portfolio, but really you would still expect to see ongoing higher pricing across layers and regions to reflect some of the trending effects. I'm just trying to understand what the message is, whether it's okay or should we want to see much more rate on catastrophe business?

The second question is an easy one, I think. When you segment the investment result, is it a section called commodities inflation in one of the slides, which it hasn't -- there has been the zero or negligible effect in Q3 and nine months which surprised me a bit, what I would have thought maybe some of your closely-linked or inflation-linked assets would have had a positive result. So maybe you could just clarify that. Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, Andrew, thank you for the question. Good morning. First, pricing on the cat business. Well, I think it's a differentiated picture. We saw hardening of many cut owned markets over the last few years already, and this was highly necessary. In some markets and in some perils, we did not see a lot of claims, we still need higher prices. And this was s reflected in my introductory remarks when I was talking about the fact that theoretical prices are not always easy to be implemented especially -- that's especially the case when there wasn't a big event for a longer time.

So in the current environment, I would now be pretty optimistic that in Europe [ph]one one, we see some upward movement in prices. That's at least what I hear. And looking at the events we saw in the past and to the pricing level we experienced in certain occasions, I think that's highly necessary. In other geographies, we saw quite significant movements in the past or the question is for sure less than in Europe.

Summing that all up, I think what I can confirm is that cat business is clearly a profitable line of business earning its cost of capital and a decent margin on top of that. So on other more long-term perspective and looking at the book overall, we're very happy with the profitability.

Second question. Commodities that I mean there's a few items in there and so there might be offsetting elements. The inflation in cost per se of cost are benefiting from higher inflation. Maybe that's a more high level answer. If you want to have more details, we might be forced to take it offline or you can take it up with Christian later on.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Great. Thanks.

Operator

Thank you. We move on to our next question now from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good morning. Thank you. So the first one is more on the reinvestment yield, which you've commented due to lower maturity. Because when I look at the interest rate, it's not that much different. In fact the reinvestment yield of 1.4 is not very far from the December level of 1.3, but obviously we bonded 30 basis points, 40 basis points higher.

So I'm just curious, are you positioning the asset side for pickup in interest rate consciously also seen in the duration which are moving quite a lot every quarter these days, but are you positioning for a rise in interest rates? That's my first question.

Second question is just on the Life side, I picked up a comment that the ex-COVID US mortality or experience was negative. Is that purely -- is that something to flag in terms of some other trend or is it just some fallout from how COVID is reported or linked to COVID illnesses or deaths. So if you could just comment a bit about the ex -COVID US mortality, please. That would be helpful. I'll come back for more questions later. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Vinit. The reinvestment yield. Indeed the 1.4 is lower than what we saw in the last couple of quarters. The reason is that interest rates in the quarter themselves were lower than at quarter end, so towards quarter end interest rates went up again. But during the quarter they were lower. On top of that, we invested in lower duration assets. And I think what I can add is also that the volumes have not been spectacular high in this quarter.

We're talking about the low volumes. There is always a certain element of taking a position in these things, but much more often, it is really ALM driven. What kind of assets you're investing into at which point in time. And then maybe on top of that, as you are aware, the green bond was also issued in this quarter. So you get in a lot of cash when you're issuing that bond, then it takes some time until you take the reinvestment.

So this also is in a sense not helpful for the reinvestment yield because it takes some time until you reinvest it so you have it in the short-term cash like investments for some time. And if your overall volume is not very high then a bond issuance of EUR1 billion is making a difference already also from that area.

So I think that that's the overall answer. Are we taking a big position towards interest rate increase? No, we don't. As you know, we are also looking at that in a very differentiated way when it comes to the various currencies we are investing into. And so that, no, there is not a big position taking. But here and there in single portfolios, of course we are trying to optimize our portfolio all the time also given the current environment and then small positions, marginal positions from an overall perspective, are always being taken.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

Thank you. We now move on to Will Hardcastle from UBS for our next question.

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

Sorry there was -- the second question, Vinit, on the non-core -- the non-COVID US performance. I think I can make that very short. There's not a structural topic there. Potentially, there is something which is even related to COVID, we're not sure. We think the separation what is COVID and what is not COVID we done it as good as possible. But you're never 1000% sure there. So maybe that is an effect from that as well that will have to remain sorted out in the course of the next few quarters maybe, but altogether no structural issue there. And as you have seen the overall performance of the Life Re book was good.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you, Christian.

Operator

Mr. Hardcastle, please go ahead.

Q - Will Hardcastle {BIO 22230376 <GO>}

Thanks. First of all on the premium growth drivers in P&C Re. What were the major ones here? Obviously very, very strong growth Q3 discrete. Anything that shouldn't be extrapolated, perhaps reinstatements or is this a pretty good starting point to base our 2022 growth off? And secondly, again, thanks for the slides for the climate change and nat cat impact. Maybe just to clarify second the key messages I should take from this and given expected exposure growth in 2022 you're still comfortable at the 8% nat cat budget at this point. Is that correct or should we view that maybe there's some heightened risk of this increasing? Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, thank you, Will. I start with the second one. Yes, we are still comfortable to 8%. The process is unchanged, so we look at that again in the first quarter of next year with the mentioned bottom up analysis including this probabilistic modeling and then we'll find out if the 8% is still the best number to be communicated. That was the case for the last many years and we'll see in Q1. And if 8% is still the best number then it will be 8 and if it changes it will be another number.

But at this point in time I do not see any tendencies that the change would be appropriate.The premium growth on P&C reinsurance segment is really across the board growth. So it's affecting both the traditional reinsurance as well as with solutions and in these business fields it's really across all markets more or less all the businesses we are having, because what we really see is that the current pricing environment is attractive really across the board more or less on a global level. And therefore we are happy to grow the book in all these areas.

As you know, growth per se is not a target for us. So we only do grow our book if the profitability prospects are correct. So with extrapolating our growth the difficulty always is that it's highly depending on the market environment. If it continues to be attractive, then we will continue to grow our book across all the sub-segments at all the businesses, but then it has to be attractive.

The environment has to be attractive really for all of them. And currently, I think we are optimistic also for next year, but then of course eventually the cycle will break so I wouldn't be unrealistic that the reinsurance business and the global insurance business will continue to be a cyclical business. So as a matter of fact that at a certain point in time margins will reduce again and then we will react, of course.

Q - Will Hardcastle {BIO 22230376 <GO>}

Thanks. Is there any chance to get an understanding of maybe how much of that 18% year-on-year growth is exposure versus price? Is that possible?

A - Christoph Jurecka {BIO 17223019 <GO>}

That's a tough one. I mean, I think you're aware of the renewals, how we communicated them. And as a rule of thumb, I think the price increase we would deduct from that. What is it around 2% of that order of magnitude? But then there is a lot of business where we are also growing, which is not part of the renewals and there is much more difficult. Also given the fact that this business is also differentiated and different and then there it's hard to give you a number. Also, the way we measure that is somewhat different. So therefore, I'm a little bit reluctant, but all-in-all I think the key message is that we are growing the book into a more profitable environment.

It's not like that we are having the same book and increased price significantly. It's really we're having more business but at more attractive prices and terms.

Q - Will Hardcastle {BIO 22230376 <GO>}

Brilliant. Thank you.

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

Can we have the next question, please?

A - Unidentified Speaker

Saskia, please, the next question. Hello? Saskia?

Operator

We can now take the next question from Ian Pearce from Credit Suisse.

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

Ian, please go ahead.

Operator

We can now take the next question from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. I'm wondering, sorry I'm back and i don't expect to be (inaudible) but just if I can just ask one or two more topics, please. One is, you know that the also reserve movements in the major loss category, not just a basic loss. Are you able to quantify then if they're meaningful in the third quarter? That's the first question, please.

Second one I would say is that the FX impact. I mean, the quarter was in terms of dollar strengthening 3Q was not that different from 1Q, but then 3Q has a material number there. Could you just quantify or explain whether there was some driver behind such a big FX move. And just last very quick one is that, are you happy with the 95.3 normalized for nine months, given you only have one quarter to get to the 95? So I appreciate it's about in line but would you have expected a faster run through of rate for example? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Vinit. On the major losses, indeed our reserving approach is very similar to the reserving a portion of the basic losses. So we start from a conservative perspective and then a one-off is something which will occur eventually in case our assumptions are proven to be correct.

In year-to-date for this year, we are talking not about a very significant number, and also these kind of (inaudible) developments, they fluctuate significantly between the quarter sometime. Therefore, we decided to release it only once a year with our annual report, as you know, where you can deduct the full year figures because we are of the opinion that that's for clear giving a much better picture than commenting on quarterly volatility with respect to these developments.

Which are quite natural because we review all our major large loss provisions more or less every single quarter, so it's just the usual activity, what you do in claims handling and claims adjustment, that you review these provisions every single quarter but sometimes tend to be a little bit volatile. Therefore, we're only talking about them once a year. But again, year-to-date not very significant.

FX, well our FX management has two components. First of all, we optimized positioning between the various financial dimensions we have to look at. So this is IFRS, this is the economic perspective, this is local GAAP, this is capital management. And there's not a single sweet spot, because our FX position is different according to all these various dimensions.

So therefore already the definition of a sweet spot implies that you're never completely protected when it comes to FX movements in none of these standards. After having taken that sweet -- that positioning, what our our asset managers can do and what they are doing is they take positions on top of that.

So if they have a very strong opinion of an FX movement, of the US dollar movement, a pound movement or whatever, they can take a position like they do for other risky asset classes as well. And therefore, it may well be the case as it's very often the case, actually that similar FX movement and in various quarters. They result in different outcomes, because the positions were different and the positions of our asset managers have been taken. And therefore, I think the FX we saw in Q3 has an element of volatility in it, but there's also an element of a very good performance in that. And this, I think, is something I'd like to underline here.

Third question. The development towards 95 normalized combined ratio. I think we are happy with the development. I mean, in any case, you shouldn't expect movements in the way we book things to be overly volatile, given the fact that we take conservative views when setting loss picks. And therefore, we are fully on track to meet the 95 guidance. So what else could I expect, to be honest? So, yes, indeed we are very happy with the development.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Many thanks, Christoph.

Operator

Thank you. We now move on to our next question from Darius Zekauskas from KBW. Please go ahead.

Q - Darius Zekauskas

Hi. Thank you for taking my questions. The first question. Some of your peers have reported an impact to Solvency II ratio from capturing expected growth for next year in the 3Q solvency ratios. Does your 231% Solvency II ratio capture growth outlook for next year? And if so, how many percentage points of Solvency II does this amount you? That's the first question.

Second question, I appreciate it's likely too early to tell, but when you have these discussions internally, given how you see the situation right now, do you expect COVID-related mortality losses next year? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

The first question. That's a very clear rule, how we do the accounting. We account in Solvency II for insurance contracts as soon as we have the obligation, so as soon as we are legally bound to a contract. And so therefore what is not included there is future when you was future growth which we are not obliged to take in our books already. Everything where we have already a contract is reflected in the Solvency II numbers.

The second question, if I understood you correctly, was about COVID already for next year. As you have been -- if you have seen in P&C for this year, we reduced the guidance and we didn't see a lot of activity anymore in the third quarter at least. So generally it's trending down. There are still a few multi-year contracts which we have which might end up having some claims next year. But all in all, I would think that's probably insignificant in the context of all the overall amount of claims we have in every single year anyway.

It's more difficult on the Life and Health side. As you have been seeing, we have had to increase our guidance for this year twice already and I have to say unfortunately the pandemic by far not overview of increasing case numbers now again in Europe, but also United States is by far not over yet. And I think this pandemic surprised that already too often. So therefore, I'm a little bit reluctant to call it off already now, but I would rather say that also next year we have to be prepared to still have claims on the Life Re side.

I would expect them to be lower than what we saw this year because I'm still optimistic and I think humankind will be making progress in fighting this pandemic so claims will be lower, but I'm pretty sure there will be claims also next year.

Q - Darius Zekauskas

Thank you.

Operator

Thank you. We now move on to our next questioner Ian Pearce from Credit Suisse. Please go ahead.

Q - Ian Pearce {BIO 1780543 <GO>}

Hi. Thanks for taking my questions. My first one is on nat cat growth. With the sort of statement that nat cat is doing very good returns on capital and comfort around the 8% budget, should we be expecting exposure growth and PML growth in nat cat business next year? And my second one was just around the decision to sell Admiral. If you could just give us a little more detail on sort of the strategic logic for selling down there and also what the realized gain we might expect on that stake sale in Q4 might be?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Thank you. On the nat cat side, I think as mentioned before, we are happy to grow the book if the rates are adequate. And again I think it's the core of the strategy of every reinsurer because it's really where we started from as reinsurance businesses -- as reinsurance market overall. The geographic diversification is an obvious benefit we can deliver to the individual markets and as long as the rate is adequate, we are happy to grow that. How that will play out in the 1/1 renewal, I think it's too early to tell, but again if rates are adequate we are happy to grow that and then PMLs also would go up.

On the Admiral side, as I said in my introduction already, what we did has nothing to do Admiral per se, but the concentration of a single stock in the context of our overall equity portfolio was just too big. So therefore, we reduced the investment amount into this one single stock to benefit from a better diversification going forward and to reduce the concentration risk here. Also having in mind, and you're probably aware of that, how well the Admiral stock performed over the last few years.

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

Thanks. Can we have the next question, please?

Operator

Thank you. We move on to Michael Haid from Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good morning to everyone. Two questions, both on ERGO Life Germany. The net profit contribution from Life/Health Germany was quite high, EUR18 million, and year-to-date this even above EUR200 million. Can you say more specifically what drove this IFRS profits and is that level a level which you think is sustainable going forward?

Second question, I assume the investments remained broadly unchanged despite a shorter duration of newly invested money. From the past, I remember you invest also in the US and do run from FX risk there. Is this still the case or has it even increased?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Life/Health Germany, indeed we are happy with the performance and the maybe better than expected performance, at least in your perception, is attributable more to health and the travel business than the Life business per se. As you know in this segment, we are combining the Life businesses in Germany with the Health business and also the travel business.

And Health is performing well. And also on the travel side, we have still a very good performance given the fact that of course also travel was restricted to some extent. So therefore, we would not expect that to continue like that also going forward, but a certain swing back to normal is something we would expect on that side maybe even more mid-term than short-term. More short term on the Life side, I think what I have to mention as well is that from the (inaudible) realizations, you are aware of them, we already did around 90% for this year in the first three quarters.

So therefore, for the fourth quarter we expect much less and you know in IFRS this immediately translates into realized gains on the asset side and therefore also for the fourth quarter, your general expectation for that segment would be to contribute under proportionally given that lower realization level.

The investment strategy is indeed unchanged, so we are investing significantly in the United States already due to the fact that also our liabilities are -- took quite a substantial amount in the United States. It's for sure, one of the most important markets we are doing business in. And so, indeed we continue to do that. We are running some FX risks, but as mentioned before, we're also doing some hedging there, with the technical difficulty that it's never possible to hedge all the various dimensions of metrics you're looking at. So IFRS, local GAAP, capital is all different, and on top of that, we're also taking FX positions deliberately sometimes if we have a very strong view on markets.

Q - Michael Haid {BIO 1971310 <GO>}

That also goes for Life/Health Germany, right?

A - Christoph Jurecka {BIO 17223019 <GO>}

On the Life/Health Germany side, it's different. So that -- thank you for asking that more precisely. On the Life Health Germany side, we are investing in US assets, but there it's really about hedging or fully hedging the currency effect. So there, we do not take a lot of positions, but it's really hedging, and so the reason is that the liabilities are euro liabilities there and we need to have a tight match currency wise between the liabilities and the assets.

So the position taking takes place in the [ph]regionals business.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much.

Operator

Thank you. We now move on to Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Thank you for taking my questions. First one is on the IBNR level for the P&C COVID reserves at 65% in the United States, that looks remarkably high, so is it likely that we may see some releases perhaps next year? That's question one. And the second one is assuming the Group is able to achieve the 2.8 billion or around 2.8 billion for this year, which where you certainly seem quite optimistic, how should we think about potential return to share buybacks? I know it's a year-end decision and review then cited by the Board and somewhat it -- basically, I wanted to get a context of how should we think about potential capital return versus the group environment. So those are my two questions. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Vikram. Thank you very much for the questions. The claims adjustment process in COVID-19 is ongoing and, unfortunately, I have to again emphasize that is slower than I would have expected personally, again. There is a number of reasons for that, but what we do is, of course, we follow our clients and we have to rely on the claims reporting as it comes in from our primary insurance clients and they are sometimes still waiting for the outcome of some legal proceedings of some court actions, these kind of things. So it takes a little bit longer than expected still, and I would expect claims adjustments to go on in until 2022 for sure, maybe mid of the year or something and please be aware that I have been wrong with my assessment a number of times already so don't give too much credibility to what I'm saying now.

Having said that, the EBITDA level is still high. That gives us a lot of confidence that our reserves are not on the Life side, but I think for everything else, it's a little bit early. When you still do not get the notifications in and then still we are waiting for information some of your key clients and then it's probably too early to talk about if there are any buffers or not, but I also wouldn't rule that out.

Buyback. Well, yeah, I don't have to repeat everything I think, I mean you all aware that share buybacks are an integral part of our capital management and that we will always use them for repatriating more capital as soon as it is clear, that is not a more higher value creation more value creation by investing the money elsewhere. Now this year so far we have been in a very sweet spot. We have been growing our book significantly and at the same time increasing our capital strength and not only by the green bond but on top of that really by the operational development, we have been showing.

So this is, I think, a lot of support from our overarching capital management perspective. Can I predict anything now already what we will do in Q1? No, I can't. Because we wait for the year-end results. We wait for the 1/1 renewal business developments. And then as you know, we'll make up our minds only then, but so far I think we can be very happy with the performance of our company and with the growth and the combination of the two leading to an even stronger capital base. So that's encouraging, isn't it?

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes, indeed. Thank you.

Operator

Thank you. (Operator Instructions) We now move on to Thomas Fossard from HSBC with our next question. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. Two questions. The first one will be on the Life Re business. I think that it's probably fair to say that the volatility of the Life Re earnings for the industry, I mean I think the recent kind of discovery process at the present time due to COVID. Did you change your view of the long-term earnings volatility of the business line, and as a result, the need for maybe additional pricing or margin to cover maybe higher capital that you need to allocate to this line of business.

And the second question will be relating to maybe the 2022 outlook. It seems to me that compared to the scenario you based your five years looking for a view at the time of your last Capital Market Day, it seems to me that things have strengthened much more in terms of topline growth in terms of pricing. So I mean any comment you could put on how this is potentially accelerating the delivery of what you were expecting to achieve or is it front-loading somewhat what you wanted to report? Yeah, anything will be interesting. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Thank you. Thomas, on Life Re, well I think for COVID-19 it's too early to make the final assessment at this point in time. When the whole pandemic started, I think we were talking about our pandemic model also publicly saying that the 1.4 billion loss would be 200 years event. We are, by far, not there yet.

On the Life side, but on the P&C side, claims have been much higher. What we also still don't know is if this COVID-19 impact on mortality, which we are seeing now in various markets, if there will be an offsetting effect after the pandemic has been dampening down. There's a lot of speculation and debate around that, but I don't think anybody has a clear answer yet. So therefore, I think for final assessment, it's too early, but yes indeed volatility is a little bit higher due to COVID-19 compared to what we have been expecting.

On the other hand, the way we are currently presenting Life Re in IFRS is very asymmetric. So worst performance shows up pretty quickly in the numbers, but a better than expected performance, if at all, was a long delay over a long-time only, which I think I mentioned a few times already, and therefore, I think the value of the business per se is not really reflected well enough in the current IFRS numbers. So I think it's higher than what you could deduct from this IFRS numbers. A few years back, we had all these kinds of debates around EMCV publication. Going forward, we will have IFRS 17. There are, for sure, better views how to look at the Life Re business than the current IFRS. Let me put it that way.

So therefore, I'm not concerned overall, and overall, it's clearly an attractive and profitable business for us despite the pandemic, at this point in time, which is a short-term effect anyway. Having said that, of course, we are reviewing that and in certain areas where we think prices need to be increased and we do so. Similarly, what we are doing in the P&C area as well. So maybe that's on Life Re.

On the outlook 2022, well, I mean indeed a lot happened since our Investor Day a year ago. So I mean it's clearly premature to talk about numbers today, and to give you an indication what the outlook could be for next year anyway. Maybe a few items I would look at if I would be in your shoes and to assess what we could be able to do in the next year, in the next few years.

Let's start with growth, something you mentioned also. I think this year, we have been indeed growing more. Market has been more positive than what we expect. The cycle has been more positive, but what we, what remains unchanged is that this cycle will not last forever, and we're also paying a certain price for the longer cycle, discussing large losses a lot today already.

So I think it's good to have that better longer cycle now, but it's also necessary. The cycle will not stay with us forever, but the cycle will turn again and that was our assumption when we released our strategy a year ago, and I don't think this has changed significantly. So in the later years of this strategy, we would still expect the cycle to be much less positive than it is today.

The strategic answer always was to grow the businesses outside of the traditional reinsurance and we are very happy that we have been able to grow them as well; the -- business, the Risk Solutions business, the ERGO business, the Life Re businesses, and there we are making good progress to temp volatility and to have a higher share of earnings also from that sources.

Summarizing all of that, yes the growth is good, the margins are good. The question out there is for how long it will continue to be that good? That's the growth side. On the claims side, volatility hit us this year above our expectation. So clearly for next year's outlook, we have to talk about the expectations and again what the expectation is, and this is too, of course, for the large losses, but then also for the normalized combined ratio, which will benefit from the renewals we saw this year, cover that early on today as well.

At the same time, there is a significant part of our business which is not part of the regular renewals, so we will have to carefully analyze also the price development in these areas. And then also the business mix development. Because obviously we were very happy also to write for example proportional business with higher combined ratios as long it's profitable and low risk, and then it would some of course influence the combined ratios we expect next year. And it's maybe not always covered in the renewal reports. So that's also something we would look at internally and if you make up your mind what to expect from us, that all should, should also play a role

On the investment side. As much as the investment return helped us in diversifying around the higher nat cat losses and helping us to achieve our targets as this year, you cannot expect that to be a new normal, this high realization at very specific reasons. We've been talking about Admiral, we are talking about outsourcing, and we were talking about portfolio management activities. So these kind of things are, not in a sense, sustainable that you could expect them to continue. So there you should be very cautious.

And then finally, my last remark is a comment I gave already end of '21 when we talked about the guidance -- end of '20 when we talked about the guidance for 2021. Back then, I said the plan for 2021 is particularly stretched, and this is also something which I would at least to remind you of, because when you talk about -- think about what the basis then for next year is, this is also something we have to keep in mind.

That's maybe from my side, what I can say about our assessment internally. I cannot give you anything else. The Board has still to assess our plannings, which is still ongoing internally, so that's about what I know myself. And so with that I can leave it with you and trust you take the right conclusions on that.

Operator

Thank you. As there are no further questions at the moment. I'd like to hand the call back over to you, Mr. Becker-Hussong, for any additional or closing remarks.

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

Yes, thank you. Nothing to add from my side and, of course, happy to follow on with you on any questions you might have and hope to speak and hear all of you very soon. Thanks for attending and bye-bye.

Operator

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