FINAL

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Y 2020 Earnings Call

Company Participants

- Becker-Hussong, Head, Investor & Rating Agency Relations
- Christoph Jurecka, Chiuef Financial Officer
- Joachim Wenning, Chief Executive Officer

Other Participants

- Andrew Ritchie, Analyst
- Iain Pearce, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Unidentified Participant
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good day and welcome to the Munich Re Analysts and Investors call on Annual Results and January Renewals. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Becker-Hussong. Please go ahead, Sir.

Becker-Hussong {BIO 19080254 <GO>}

Yeah. Thank you very much. Good afternoon, everyone. Welcome to our call on our full year 2020 earnings release, including 1/1 renewals and the outlook for 2021. I have the pleasure to be here with Joachim Wenning, our CEO; and Christoph Jurecka, our CFO and both gentlemen will kick it off with their statements and afterwards, we will go right into Q&A. And we have ample opportunity to answer your questions. So, I suggest Joachim, the floor is yours.

Joachim Wenning {BIO 16273429 <GO>}

Thank you very much, Christian, and good afternoon everybody out there. Thanks for joining this conference. As said Christoph and I would like to report the final figures 2020, the outlook 2021 and again highlight one of the other essentials of our ambition 2025.

To start with the corona pandemic has had no doubt a decisive impact on 2020. But also without any doubt in the absence of Corona today, we would have celebrated an excellent business result. And despite COVID-related losses of around EUR3.5 billion, we closed the year with a profit of EUR1.2 billion and despite the very material COVID-19 losses, despite the further drop in interest rates and despite significant business growth also requiring capital of course.

We closed the year with a solvency ratio of 208% in the upper-quarter of our optimal range that you know. And subject to the approval of the AGM later in May -- sorry in April, we will pay a dividend of EUR9.80 per share unchanged from the previous year.

We, as you know, have been keeping our dividend promise now for more than 50 years, even in challenging years without any one exception to-date and we don't want to change that. Looking back, we have delivered on our mid-term ambition 2020 and also successfully mastered the three year period 2018, 2019, 2020 and I may add despite quite some challenges in that period like falling interest rates, above average large losses and barely any significant tailwind from the P&C rate cycle, because P&C rates really only started going up more broadly since last year only in 2020.

So overall, our success was driven by good growth and good earnings and reinsurance, the turnaround of ERGO and savings. Every year, if you look on Slide five. Every year we reported on how natural catastrophes, are developing in our most recent report on the year 2020, we again highlighted that climate change is coming with ever higher costs. Weather-related natural catastrophes become more frequent and more severe and this context, we are a proven partner of our clients with expertise and in many cases large or even very large insurance capacities.

The message that we would like to add again now today is that -- in addition to all that with our climate ambition announced two months ago, we are also committing ourselves to targets in-line with the Paris agreement. Our targets are science-based, they are very concrete, they are binding, and they are measurable, just to recall, we are committed to net zero without exception in all areas. So firstly, on the investment side and not only net zero in 2050, we commit to five-year milestones. The next one in 2025, we will have reduced our carbon footprint by at least 25% maybe slightly below 30%.

Secondly that ambition is the same on the liability side, net zero by 2050. Of course, but we will be out of thermal coal business already by 2040 and that business footprint, we will already reduced by 35% points in the five years to come. And also with regard to oil and gas, we start reducing that footprint by 5% at a lower pace because systemically these energy sources are still very important as science suggests. So the -- you will see, we will be out of the business with explorers and producers of fossil energies at the latest by the point in time when science suggest that those fossil energies are no longer compatible with Paris 2050.

So we hope that this good example is a good example for other industries and companies to follow for the sake of climate change or climate protection. And thirdly, of course, we also have a net-zero ambition with regard to our own emissions from buildings and from traveling, et cetera. We have reduced that dramatically already in the last 10 years by little less than 50% CO2 emission per person, we're going to reduce it by another 12% in the five years to come, we will be net-zero by 2030.

Let's move on a systemic risk like COVID-19 poses many challenges to risk management. Of course, because too much of this risk can be poison and undigestible but also to business continuity. And with regard to both aspects, we can be very satisfied with how we have dealt with the pandemic, although the COVID-19 losses are material for the whole industry, including ourselves, they are well manageable and they are digestible and at no point, they have weakened our capital strength, so that not only we pay a dividend, but also benefit from current growth opportunities.

Let me move on to the 1/1 renewal in reinsurance, we have taken the opportunity of the hardening market to grow further in P&C. Prices have increased, as you know, risk-adjusted so margin improving by 2.4% in 2020 and in 2019 January renewals, those rate increases were then only 1.2% or 0%. So you see the trend increase in the rate development and we seen the strongest increase in the Property XL business and non-proportional property business,, as well as in particularly loss affected businesses, in these areas often double-digit and in some cases with very large capacities, deeply into double-digit increases. In all other areas, I would say across the board, single-digit rate increases. And as planned, we seize this opportunity and we're able to expand our business by 10.9% in terms of premiums, so that we can see, -- we are -- say we are really pleased with a really good renewal which fully supports the target combined ratio, as we have communicated it for this year 2021.

And if you allow [ph] me the outlook for the one for 1/4 renewal and the 1/7 renewal this year should be even better because those renewals typically, our nat cat heavier, but we will see when we come there. Slide eight shows the regions and the lines of businesses and how they have seen rate changes and how we could leverage these rate changes for business growth. I think what becomes obvious is that in no region and in no line of business, have we seen any rate deteriorations. This is different from previous years and to us this is another good sign of markets hardening.

With regards to investments, Christoph is going to give you some more details in a moment. However, I'd like to just take this opportunity to reiterate that not only was the 2020 investment result very pleasing with the return on investment of 3% and a difficult years with ups and downs. But also, I'd like to reiterate that investment strategy in place has the power to partially counterbalance the yield erosion, which is the consequence of declining interest rates, while we are not increasing our appetite for market risk.

All in all, the path we took three years ago has had a very positive impact on our total shareholder return. In the three years since 2018, the TSR has increased by more than 50% and compared to our peers this was hers [ph] best. We will work hard that the five years ahead of us, will hopefully look similarly positive. And then you have this Slides 11, 12 and 13 in your deck, which are repetition, if you like from our investor day presentation last December. What they're are saying in summary is, at this year 2021, the expectation of delivering at EUR2.8 billion result means that we will be already back at the pre-corona earnings level this year. We will maintain our capital strength we have strengthened the growth elements of the proven strategies at ERGO and in reinsurance. And as a consequence, we expect growing earnings and returns on capital on equity of 12% to 14%. And we aim for an average annual dividend growth per share of at least 5%.

And with this introduction, I'd like to hand over to Christoph.

Christoph Jurecka {BIO 17223019 <GO>}

Thank you. Joachim. First of all welcome also from my side, it's pleasure really to lead you through the financial update today. Let's start actually with the financial results 2020 on Page 15. We are very pleased, Joachim mentioned that I think already, we are very pleased to the 2020 financial performance, considering the severe impact of the COVID-19 pandemic.

Our IFRS result EUR1.2 billion would have met our guidance if adjusted for COVID-19 and if you look at the drivers in reinsurance, we digested COVID losses of EUR3.4 billion pretax and delivered ongoing profitable growth of around 10% both in P&C, as well as in Life Health. ERGO successfully concluded the five-year strategy program, for the net profit of EUR517 million, which is quite close to the guidance EUR530 million and adjusted for COVID I think, it's fair to say that ERGO would have exceeded the guidance. The economic capitalization remains strong 208% and with that, solvency II ratio, which is after the deduction of the dividend, we are still close to the upper-end of our optimal range and we are very comfortable on that level.

Local GAAP, partly [ph] German GAAP, here we see an increase in the earnings also compared to last year, largely driven by one-offs, but to remind you very obviously local GAAP accounting in Germany is deferring a lot from the IFRS, we all used to having differences between IFRS and local GAAP. It has been -- these differences have been negative quite some years in the past this year, it's the opposite. Nothing else to mention here I think. On page 16 you'll see the COVID-19 impact in some more detail. And I think what you see here is that we almost fully confirm the guidance we had given back in December. The provision for 2020 increased only marginally and also the expectations for 2021 are largely unchanged as well. And we are confident that we are solidly reserved. But of course, we can only monitor the situation closely since there remains a high level of uncertainty in all these estimates.

Bringing to a little bit more detail, P&C, the loss estimate of EUR3.1 billion overall is sufficiently prudent and on top of that at the end of 2020 only 22% of this amount, are losses reported to us (inaudible). And of the total 78% of IBNR, a significant portion has not yet been assigned to specific loss or specific contract. This indicates, on the one hand side, the high degree of uncertainty that exists in the estimates, but then also the degree to which we have built large provisions for losses, even though we do not know exactly already when and where they will eventually be reported to us. But I think, another signal of prudent here.

Referring to Life and Health. We are strongly provisioned for 2020 claims as well, including also prudent IBNR for claims incurred in 2020 but not yet reported. The IBNR makes up approximately half of our booked losses for 2020. Our projection of claims cost for 2021 anticipated a strong winter surge in cases with an improvement starting late in Q1, driven by the roll out of the vaccines. The level of the winter surge in cases in the United States, in the UK and also in some other countries are higher than what we anticipated. Whether or not this ultimately will translate into higher full-year costs than anticipated. This is still very much dependent on how the pandemic will develop over the course of 2021 and they are particularly, of course, in the United States.

Now let's have a look at the Q4 figures on Page 17 and Q4 is actually really fully in-line with the guidance. So I think we can be very quick here. Reinsurance contributed EUR75 million and ERGO EUR136 million to the overall EUR212 million net result. ERGO once again posted a strong results in that quarter despite the COVID-19 impact. And on the reinsurance side, we benefited from a favorable major loss experience apart from COVID-19. At the normalized combined ratio, very nice signal of the very good underlying profitability of our book was 96.6%. So to some extent, lower than the 97% which was the full year guidance.

In Life and Health Re, we continue to see elevated mortality in the context of COVID-19. In related to that, we established in IBNR, the COVID reporting lacks [ph], but also in the field of living benefit covers. In addition, we observed a further negative experience in the US that goes beyond COVID-19 also we must say there is evidence that at least a significant share of this can also be associated then indirectly with COVID-19. Furthermore, there was a single large claim in Asia in Q4, which also influenced the result.

Fee income business continue to deliver pleasing contributions like it did already for a large number of quarters. Finally, the investment result 3.3% was above the full-year guidance and driven by realizations to offset derivative losses. Next page is a quick reminder on the ROE. As you know, we discussed in December, we introduced the return on equity now as a key performance indicator for our Group. This slide now shows to the number at year-end, nothing more than that. The Group ROE came in at 5.3%, which is below our cost of capital. But then if you adjusted it for COVID-19 effects, the normalized ROE, would have been around 12%.

Let's have a closer look at our investment result, Page 19 which fully met the guidance of 3% for the year. Starting with regular income, the attrition of 30 basis points was unusually high of course affected by COVID-19 entity [ph] derisking of our portfolio we did in that context. So specifically we recorded, lower income from public and private equity investments. But on top of that, of course, even low interest rate levels also helped us here. Going forward, we turn to an expectation for a negative attrition of around 10 basis points, in-line with the formal guidance.

The unrealized gains, increased up to a level of now EUR37 billion. In that context, I think we discussed at various times it's normal course of things that reserves get realized anyway in the course of the normal portfolio management activities. On top of that some reserves have been realized for compensating losses on derivatives for hedging and also to compensate some write-downs, we had in the -- especially in the first quarter. And then also as usually for the financing of so-called ZZR. So, the additional interest rate reserve we build up in our German (inaudible) will life business to prepare them for an ongoing low interest rate environment.

All in all, in the very volatile year we saw in 2020, we are pleased with the investment income also with the overall development of the portfolio and the stable outcome of activities. The next two slides cover ERGO now. The ERGO fully met the net income target, if you would take out the COVID-19 impact. So I think that's another year with very good news on the ERGO result. The premium volume was almost stable, there was some pressure due to COVID-19 in some lines especially travel, which is shown here as part of the Life and Health segment.

On the other hand P&C Germany, was growing very nicely in the retail and commercial lines and we don't have any market figures yet, but we are convinced that this growth is above market and therefore ERGO was also possible to increase its market share in Germany. Internationally, the volume is stable. But as you know, we sold a number of companies last year. So, the stable development means that the companies, which we want to grow but they're delivering nice growth.

Net result was supported by all segments, which is very pleasing. In particular, the international business posted strong results and the combined ratio in International came in at 92.7% which is an excellent number given that the target was 94%. In Germany, the combined ratio remained on the very good level which we had last year already some 92.4% in 2020 is also a very good outcome.

On the next slide, what you can see here is a collection of key performance indicators of the ERGO Strategy Programme over the last five years. And what you see here is that ERGO has completed the Strategy Programme delivering on its financial targets, without any exception across the whole five-year period. And not only financially, but also operationally ERGO successfully finished the ERGO Strategy Programme and regained a competitive position in Germany by establishing the so-called hybrid operating model, across all distribution channels, internationally the portfolio has been optimized as mentioned before. And also there with a much better -- in a much better shape now than it was five years ago.

So if you look at that, I think it's clear that ERGO now did an important step and is well prepared for the next step of our strategy which we presented already in December. On page 22 Reinsurance. First of all, in P&C reinsurance, we showed significant organic growth in almost all lines of business, taking advantage of the hardening markets and also of new business opportunities. Additionally, also our Life and Health business expanded by around EUR1 billion across all core markets.

The bottom-line results though substantially declined, but this is due to COVID-19 related losses, in P&C these losses were to some extent mitigated by low average and low Nat cat losses, which came in below our budget, both for Q4 as well as for the full year. The underlying profitability improved significantly over the last year, we show a normalized combined ratio just below 97% for the full year. And as I said, the last quarter was even better than that. Given the pleasing outcome Joachim was commenting on that of the general renewals, we are very optimistic that this (inaudible).

The Life and Health reinsurance technical result including fee income will also sort of the full year ambition and again this was exclusively owing or nearly exclusively owing to the impact of COVID-19 mortality claims. And then also some related trends, as mentioned before. We had strong results in other geographies outside of the United States and also strong and increasing fee income which strengthened the underlying profitability of our Life and Health book. So adjusted for COVID-19, we continue to see a gradually increasing earnings path in Life and Health.

On Page 23. So just a snapshot on our Risk Solutions business, which also had a very pleasing development, with strong business growth and the combined ratio improvement of almost 4 percentage points compared to prior year. We benefited from better market conditions and also expanded our footprint substantially across all units. And as you can see and this is also something we -- I think, commented on a lot already in December, risk solutions remains a growing and profitable segment and a key part of our strategy going forward. And yeah, we will just continue to organically grow this business.

Turning to Reserving on Page 24. I think the first item on the list here COVID-19. I think -- if everything has been said already before also on Asbestos I -- there's nothing, I would like to comment other than that we are very safely being reserved here and I think, results continue to be at a strong level. Therefore, I would like to concentrate my comments on the slide here on US casualty. As you all know, the US casualty loss trend is a topic that continues to affect the whole insurance industry at the moment and we are also seeing adverse loss developments in our US book.

We have to distinguish though between different areas, we have observed adverse development, particular in the US commercial liability lines and strengthened our reserves here again in 2020. On the other hand areas -- such, for example, the personal lines business have shown a much more favorable development and then from a much broader perspective again our book overall continue to have a very pleasing and positive reserve development. So the pockets where we had to strengthen the reserves are not visible overall, as the ongoing reserve releases continue to be above our guidance of 4% -- 4.2% particularly this year, and fully in-line with our expectation and despite a challenging environment.

Our reserved strength is unchanged compared to the prior years. As you can see on Page 25, our Solvency II ratio decreased to 208% due to various drivers. First of all, we grew our book significantly over the last year and growth means deploying capital. On top of that, of course, COVID-19 and related capital market effects, most prominently, the lower interest rate also left its mark with negative economic earnings, and also what we saw in the comment on that on the next slide is an increase in the required capital.

It's important to notice that the 208% of the solvency [ph] ratio already includes the deduction of the dividend of 7 percentage points. I think at this point I traditionally remind you of our conservative way of calculating the Solvency II ratio. So I would just like to repeat that again today. So we have not included any transitional measures in our numbers here. We also do not use the dynamic volatility adjustment and even the static volatility adjustments only used for a very small number of subsidiaries in our group.

Despite this conservative calculation, our ratio is still close to the upper end of the self-defined optimal range and as said already at the beginning of my presentation, we feel very comfortable with that level. More details on the sources of economic earnings will be provided with the release of our Annual Report on March 17.

On the solvency capital requirement. I can release some more details already today, and this is done on Page 26. And what you see here is an increase of the Solvency II capital requirement from EUR17.5 billion to EUR19.2 billion. What are the drivers in P&C, the SCR increase is mainly growth driven, while in Life and Health, it's also growth but mainly the result of the lower interest rates. On the investment risk side, so market and credit risk we diversified our book further and we partially derisked also the portfolio. Still, the SCR went up, mostly by the decline of the interest rates and also by higher risk charges, which we applied considering the elevated volatility in the capital markets, especially in the first half of the year.

Overall if you maintain the balance between insurance and investment which is important to us and continue to see that as a very healthy balance as shown on Page 26. Last but not least on my Page 27. A few comments on German GAAP. The German GAAP result of EUR3.2 billion came in much higher than the IFRS result. And as said before, this is due to the differences we have between the two accounting standards, which lead to timing variations with respect to the recognition of earnings and the P&L.

In 2020, this was mainly due to the high dividends from subsidiaries into some real estate transactions within our group. But once again, of course, also due to the requirement to build up equalization reserves in our local GAAP accounts, as you can see on the right hand side of the slide.

There is one point on this slide, I would like to particularly emphasize, the very high level of distributable earnings we show here now with EUR4.3 billion will not lead to higher capital repatriation, who went above the plans and the capital repatriation strategy we discussed at our Investor Day. But you should interpret it, as a strong basis to fund the growing dividends and to support our opportunistic approach to share buybacks in the future.

With that, I'm at the end of my presentation. Thank you very much for your attention. I'm looking forward to your questions. Back to Hussong.

Becker-Hussong {BIO 19080254 <GO>}

Yeah, thank you gentlemen for your statements, we are now ready to go into Q&A. And just one usual housekeeping remark please limit the number of your questions to a maximum of two per person. So, please go ahead.

Questions And Answers

Operator

Thank you. (Operator Instructions) We will now take our first question from Kamran Hossain of RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

All right. Good afternoon. My two questions, the first one is on the P&C Re. The expense ratio there [ph] reduced about three points year-on-year. How much of this is permanent or is this kind of low -- less COVID spend. And I guess looking forward, should you make [ph] greater operational leverage from growing at the 1-1 renewals and further growth to come in like two years and benefits [ph] further.

And the second question is on Life Re, given how US mortality has kind of increased pretty substantially even since your December guidance, are you still comfortable with the EUR400 million Life target? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Kamran good afternoon, Christoph here. I'm going to take both of your question. Expense ratio development, there are some one-off elements in there, as we for example released some provisions also in Q4, but fundamentally major driver is growth here. And as we have been growing our book quite significantly, and continue to do so, I think there is continued pressure also on the expense ratio going forward, despite the fact that some of the one-offs will not repeat themselves again this year.

On the Life Re side, US mortality indeed the winter spike was probably little bit higher in the first couple of weeks of this year than what we had in our mind when we came up with the estimate in December. However, I mean, this is a long year ahead of us and therefore I think it will by far too early to say that our guidance would no longer be the right one, maybe the risk is a little bit higher, that we will not achieve the target. But the guidance is what it is, then is unchanged.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's pretty [ph]. Thanks very much.

Operator

We'll take our next question from Andrew Ritchie of Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Yeah. Hi. The first one, I think normally ask about topline for non-life, but I'm going to ask this time at the Investor Day in December, you gave a 2021 premium number for P&C Re including Risk Solutions of EUR24.6 billion of GWP, which was anticipated with the year growth on 2020. It turns out, 2020 ended at our number, that it looks like it ended stronger than expected. What -- and therefore, is your expectation still a flat GWP over the course of full-year '21. I appreciate this currency effects and possibly COVID effects. But maybe if you could just update or was there something funny about Q4 in P&C, which inflated the premium?

The second question, could you just remind us what your sort of approach or a view is on US casualty. I think, looking at Slide 83, which allows for renewals. You have kept your US casualty book essentially flat year-on-year is that the case? Am I right to interpret, you're not entirely comfortable yet growing that business mindful of loss cost issues? Thanks.

A - Joachim Wenning {BIO 16273429 <GO>}

Hi, Andrew. This is Joachim. So let me give you the answer on the premium expectations of the premium outlook. frankly we don't pay so much attention to our premium planning, because if we don't steer premiums. It's just a number that comes out at the end when we do the accounts. So we do the economic steering, we do IFRS steering. And there we apply quite some accuracy. We do not care so much for premium. Now that doesn't give you a precise answer, but it just means. Yes, the outlook that we talked about in December -- may in the meantime, tend to be at the lower end we should end up higher.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Andrew, US casualty, I'm happy to take that. I think, I mean -- you were referring to Page 83 and you're right, the book is stable. And I mean you rightly saying that we are not significantly growing the book. I would even go beyond that what we had in the 1/1 renewals also a shift in our casualty book from XL, from excess of loss treaties to proportional treaties, further reducing the amount of excess of loss treaties, we are having and an increasing the share of proportional which also gives us more confidence going forward.

So yes, indeed we are -- we continue to be cautious in that segment.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks.

Operator

We'll take our next question from Vikram Gandhi of Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, it's Vikram from SocGen. Just a couple of quick questions. One is on P&C Re the -- I noticed the attritional loss ratio for the full-year has actually increased by a full percentage point. Just wondered what could explain this. And secondly, it's on the expense ratio and you've partly answered it in the -- in one of the previous questions, whether you had a one-off in Q4. But for Q4 specifically we are used to seeing a bump up in the expense ratio generally due to sliding scale commission adjustments. I wondered if there is any other specific drivers at this time around, and whether this is the sort of new pattern that we should be expecting going forward? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Christoph again. Well, thank you for the question first. I'll start with the second one Q4 expenses. I think I was mentioning before already that we were able to release some provisions also in cost provisions and then it did specifically do so in the fourth quarter so that might already be the explanation, you're looking for.

On the attritional loss ratio. I think couple of statements here. First of all business mix always plays overall. So it's not that simple to compare just the nominal value against each other. On top of that, as you know, we're always taking conservative loss picks in the current year, which we also did again this year. And if you look at our triangle, where we have two years with a negative one-off, we might have felt inclined to even be more conservative than traditionally in the current year and maybe that holds the place overall [ph] when you look at that number.

So there is not a single reason for that. But yes, your observation is right.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thank you.

Operator

We'll take our next question from Vinit Malhotra of Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you. My questions, the first one would be on Risk Solutions space, so -- the 96.8%, I think the medium-term plan or at least, at some point Investor Day plan was to get to 92% for this part of the business. So my question is that -- i.e., is this 97% sort of consistent with the planning and could you remind us how the walk should be, because as we know this is not clearly the pure commercial lines expos [ph] book. So that is the first topic, risk solutions. Second topic is, an apologies, just for going back to the US liability, where I understand obviously you've taken conservative reserving. But just if I look at Slide 76 on the deck, of the renewals, the biggest line is proportional casualty and you mentioned you have increase in it.

So, would you mind, I mean -- is this more into Europe. And could you also please clarify, you said that you were careful about US commercial liability, but not for about personal lines or could you just clarify a bit more on the US casualty, please. Thank you very much.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, okay, let's maybe start with US casualty then. I mean we're -- I mean, sorry, for the very general answer. But I mean we are always cautious where we do not see attractive enough prices in the market and this is very often the case in the commercial space and sometimes also the case in the personal space but generally spoken, the personal lines business is less affected by social inflation and all these trends. And therefore we are more -- generally more confident in this personal space.

The other statement is I think, that we generally feel more comfortable in the casualty area with the proportional treaties, that's why we also shifted exposure from XL to proportional in the renewal here, this is also one of the reasons here. And this is what you can -- also can see on the Slide 76, you are referring to where you see a positive volume change in proportional. And at the same time reduction in XL. And if you look at the order of magnitude, often the proportional treaty just as higher premium volumes because you participate also in the premiums of the primary insurer, whereas the XL premiums are pure risk premiums and a nominal value sometimes tends to be much lower.

So you always have to keep that in mind when you look at volume changes going up in proportion and going down in XL. The absolute numbers sometimes differ quite a lot. And I think that's the whole story really, so nothing else to be reported here and we continue to be cautious, we took decisive action on the reserving side, maybe a last remark also on reserving, we reserve the business and we're relying on our own assessments. So we do not take the Picks from our clients, loss picks and then their expectation. But really do it in our own way and we're looked at the business as prudent as always. But then on the other hand of course, it was another year where we had to take some action at certain pockets of our casualty book, and clearly we are not happy with that. And the other question Risk Solutions, and I think two answers to that. First of all, also our Risk Solution business was quite heavily affected by cat events and whereas on our overall business we came in below our cat budgets for risk solutions, in particularly in the US, we exceeded the budgets quite significantly. And therefore the 96.8% this year was also still driven by above-average cat exposure. And therefore, I would say it's a journey to -- bent down to lower numbers, but obviously also that business despite being more stable has some volatility in it. And this -- this year 2020, the cut experience, was not great in risk solutions.

And also we will see rate increases going forward on that book, of course. So it's a journey down to the target level of 92%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you Christoph.

Operator

We'll take our next question from Thomas Fossard of HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. I've got two questions, the first one would be relating to your pricing of 2.5% positive in the 1/1 renewals. Could you, explain us a bit how you've taken positive original rate momentum in your proportional book, how is it has been factored in your 2.5%. And also what you see claims inflation and maybe see a model changes, also that you have factored in.

Just to phrase the question differently, you're reporting 2.5%, which seems to be the less positive pricing momentum of the year, of the European peers. While I guess that you believe that you had very strong renewals. So maybe if you could give us a bit of granularities around the 2.5%, just to make us understand why these are very strong economic renewals. And the second question would be related to your local GAAP number. So you highlighting EUR800 million of additional acquisition reserves increase in 2020. What's going to be the incremental number that we have to expect in the coming years even, I guess that due to COVID maybe some of your equalization reserves have been deplated. So what the run-rate beyond 2020. Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Yeah, Thomas, thank you for the question. Starting with the 2.4% price increase and I think I have to talk a little bit about methodology now. I think that the very general high level remark would be the 2.4% is a number we would fully expect to be earned through in our combined ratio overtime going forward. This means, this number includes not only claims inflation effects but also changed business mix effects, for example.

So this number includes, for example, if you have a different growth numbers in different lines, it includes also if you have XL [ph] contracts versus proportional contracts that's all included. Also included claims inflation, not only on our level but with proportional treaties of course, also the underlying business. But then again, as I said before on the reserving side, based on our own assessment and not just by what we hear from our clients.

So it's really our own best estimate what we think claims inflation will be and trends like social inflation or all these nice little events, which led to higher reserves this year on the liability side. All these kind of things are fully included as claims inflation in the pricing assessment, as well as model changes or our most recent expectation, let's call it that way on the property side and on the cut side.

So it's, -- to the best of our knowledge, our best estimate expectation on the claims side and that's fully deducted -- mix effects fully deducted and what remains is the best estimate what we think will be fully earned through in the combined ratio.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, -- sorry I thought I covered it already -- but it was taking very big methodologies sorry. -- HCB, the equalization reserve there is every year a theoretical maximum number which in Germany is called -- the so-called OIBDA [ph] and this is the number where you would end if each individual line would be filled up to the maximum possible in that reserve, which is an unrealistic scenario because it would mean over many, many years, all the, lines are outperforming, you have to fill it about every single year.

And this OIBDA [ph] is also very much growth driven because it's premium proportion. So if you grow your book this OIBDA also goes up. Currently this, OIBDA is still a mid single-digit billion number above our current level, but then it has not -- of course, not to be filled up in a single year. But it will be distributed over time. Having said that, expectation needs to be, that there are equal -- that their contributions of equal size not unrealistic going forward. So, and everything else is really hard to predict because the formula and the way to calculate it, is not only very complex. It's also sometimes counter intuitive, what happens there. And therefore, it's really hard to predict sometimes.

But I would not be surprised to have similar orders of magnitude in the next couple of years and to be built up.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

We'll take our next question from Michael Haid of Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions from my side. First on Nat cat, one of your competitors materially reduced its exposure to secondary parallels, which are hailstorms (inaudible) mid-sized storms and so on. And does reduce the exposure to frequency as they think that these risks in times of climate change are not adequately priced yet, how comfortable are you with this lower layer and secondary parallels unmodeled risks.

Second question on Life Re, you mentioned that higher mortality during the course of 2021 may not necessarily increase only to higher losses, can you explain why this is the case? Do you have any mechanisms in place, reinsurance or whatever? Or is your exposure is just too small?

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay. Yeah. First one. Yeah let's start with the mortality question. I think the answer to the question is, just very straightforward that our reserve level is already quite high. So it is -- lot have covered already by the reserves. And the second question secondary parallels non-models, not Nat cat risk and so on, the frequency risk, and so on and so forth. I think the general answer is that of course, we try to include in our models as much as possible. And of course we also - will be a feeling much more comfortably soon, some thing is properly modeled in our risk models. Frequency risks and events not fully included our models. I think, we are careful and have been historically and quite to be a little bit reluctant in on the volume [ph] there.

Q - Michael Haid {BIO 1971310 <GO>}

Okay, thank you very much.

Operator

We'll take our next question from (inaudible). Please go ahead.

Q - Unidentified Participant

Thank you, good afternoon I have one question regarding the dividend proposal. Could you just update us on your talks with the German regulator in recent months and what are the key metrics, they have been focusing on in risk [ph] case. That's my question?

A - Joachim Wenning {BIO 16273429 <GO>}

Okay. Yeah, I'm very happy to do so. As you can imagine those discussions we're quite intense, it took a lot of time and they've been very constructive. I mean the German regulator was already constructive last year and this did not change at all. Key metrics well, to be honest it, was a very holistic conversation we had.

So similar like in the call today, we are talking about the economic, few IFRS local GAAP risk budgeting, SCR similarly, of course, also regularized, interested in all these different perspective. So it was a very holistic discussion, more or less across all the different perspectives, you could have on our company.

Q - Unidentified Participant

Thank you.

Operator

We'll take our next question from James Shuck of Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, thank you. And good afternoon, good morning. So a couple of things from me, I just wanted to dwell a little bit on frequency benefits, which we tend to focus a little bit perhaps too much on the primary side. And the reinsurers to some extent, I mean, I can understand on the proportional side on retail, that should be just a mechanical thing. But equally just less reduced economic activity and changes in societal behavior, how are you thinking about frequency benefits in 2021.

I know you have your target combined ratio, do you allow for any frequency benefits in there. Or would that come on top and I suppose the flip side of that is while you're touching on loss [ph]. How are you thinking about potential supply chain disruption through COVID? Second question was around the -- on Slide 53, which shows the Life VaR. So I think the VaR has gone up a little bit. But it's mainly market driven, and business growth driven. My question is kind of really about well, when you look at these given your experience with COVID sick and mortality and the mobility side, when we think about long COVID, have you not reassess your models was in, rise upwards some of those VaRs, or should you not to do so. Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay. Well, first of all, frequency. And I understood your question in a way that you're talking about motor frequency, that benefits some primary players are primarily seeing when looking at the combined ratio development in 2020. I think, the remark I can make here is that on the reinsurance side, we benefited to much, much smaller extent if at all from the development wise that. Because in most of the treaties, sliding scale commissions are pretty common. And therefore the benefit would only sit, that's the primary insurer.

We have some frequency benefits on the motor side, ERGO, probably a little bit more in the international book because it's, a higher portion in motor then in Germany, but probably also to some extent in Germany, as we also have some experience there that the frequency went down during the lockdown phases in Germany. Is it very significant? No, it's not. And it's clearly overcompensated already at ERGO by higher claims, due to COVID-19. So the frequency effect is fully included in the quantification of the COVID-19 effect we gave you in the deck.

Q - James Shuck {BIO 3680082 <GO>}

It wasn't specifically just on motor, it was really just -- it is not logical to think that a reinsurance company should benefit from frequency across all sorts of the -- all parts of the portfolio, commercial and retail proportional and excessive loss?

A - Christoph Jurecka {BIO 17223019 <GO>}

Well, I think it depends really a little bit line by line. And then also how the business is structured. I think the most obvious is really motor, but then already on the fire side, I'm not so sure really because as soon as people stimulate-home [ph] more, there might even waste [ph] for more fire claims. And so it did -- I don't think it's that straight forward and it's clearly not a trend, which is so significant that we have been discussing it exhaustively here.

Q - James Shuck {BIO 3680082 <GO>}

Okay. And on the --.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Life VaR, it increases indeed mostly interest-rate driven but that's by for sure, by far, the more important driver than any consideration about long COVID or mobility or you name them. Because it's just -- the much more important sensitivity on this value at risk. We are updating our models also the life side quite regularly, with recent experience and with the recent claims expectations. But what we also have to say I mean, another maybe interesting and relevant question. So it's hard to find an answer right now, is if you look at the increased mortality right now, what's going to happen with mortality once this pandemic is over, will we see a compensating reduced mortality going forward or will it just fade away in a sense that we go back to normal, but without any offsetting effect. And so in that sense, I think from a biometric perspective, they are more open questions then just the question of long COVID. And all of them are hard to really analyze and includes in the models at this point in time because we just lack data. In any case, the interest rate component is the much more material one in any way for Life and Health risk for the slide you were referring to.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Okay, thank you very much, Christoph.

Operator

We'll take our next question from Iain Pearce of Credit Suisse. Please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks. Two from me please. Firstly on the strengthening you took in '18 and '19 accident years. Is this sort of all US liability related, mainly US liability or there any other sort of problem areas where you have strengthened. And if so, could you provide some color around those.

And then secondly, I just had a question on the side [ph] book. We've seen some players increased their loss ratios and so you just have deterioration on some recent underwriting is there as well, if you could just comment on your experience inside will that be useful. Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, I'm very happy to do so. On the claims triangle. I think if you look into our releases over the last couple of years, what you will see is that a negative development in the first year is not fully unusual, we had that once in a while and the reason, often was that we use the first year to further increase prudent in our reserves and there is an element of that this year also included in our triangle again.

The other years of the second negative year, this is clearly related to US casualty and this is more of other uncommon for us to have two years in a row with negative development.

And finally, then on the ERGO side, ERGO has some parts of its book, where a clear allocation two years and a triangle is not easily possible and therefore some COVID-19 experience of 2020 is also showing for technical reasons, negative one-off in '19. But this is clearly just, let's say a very approximate presentation -- miss presentation of what's going on there, these have all been of the COVID related -- without COVID the ERGO one-off, would have been positive.

Yeah, that's what I can say on the triangle. I think on cyber, of course, we are aware that there has been a lot of talk around recent events on the cyber space. We do not observe to that extent, if at all, it would be maybe a loss ratio shift of maybe up to 5 percentage points or something for our book, which continues to be overall very profitable.

Q - Iain Pearce {BIO 19522835 <GO>}

Perfect, thank you.

Operator

(Operator Instructions) We'll take our next question from Will (inaudible) of UBS, please go ahead.

Q - Unidentified Participant

Yes, hi guys. Couple of questions on SCR, if that's okay. To go the uplift for the P&C exposure guys, presumably that's incorporating the successful one January new [ph]. Is that they -- already including similar exposure growth assumptions for later renewals, you mentioned their more not cat heavy but you're expecting higher prices. So just, sort of an idea as to what's incorporated within that uplift this time.

And then the second component is what do we need to see in the market future and do you see these additional risk charges on the volatility side. And is there any way you can give us an indication of how much that SCR uplift was the half year on year for these higher [ph] charges specifically?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. The first question is simpler to answer. So I'll start with that one. We included the SCR calculation in business, which is already bound. And this is to only for the 1/1 renewal (Technical Difficulty). As this is not the case, for 1/4 and 1/7, it's not included in the calculation.

The additional risk charges that's hard to say, and honestly I'm not even sure if we did internally a separate calculation. So not changing anything in our book. Just changing the risk charges and on the full SCR calculation, I don't think we did do that. What we can say is that it made quite some roll already in Q2, and I'm not aware that it did a lot -- intensify a lot over the remainder of the year, it was mostly an effect already visible in Q2, but the order of magnitude, I'm sorry I do not have answers at this moment.

Q - Unidentified Participant

Okay, just to come back on the forward renewal expectation, do you believe -- you baked something in, because it's a 12 month projection, a normal level of growth per se. Just trying to understand where that stacks up relative to the 11% volume growth from January?

A - Christoph Jurecka {BIO 17223019 <GO>}

Well I do, I mean, hard to say today, it will depend on the volume and the outcome. I think, here a similar answer like on the life and health value at risk before holds true. I think the interest rate is a much bigger driver to our SCR than the growth, which we might be able to achieve in 1/4 or 1/7. But on the other hand, yes, of course, if we grow it will -- I mean it will mean additional capital deployment and then we would also be very happy to do so. Because it's -- just the expectation that in a market phase like where we currently are. We will easily -- in the cost of capital with the business we're writing right now.

Q - Unidentified Participant

Absolutely. Okay, thanks.

Operator

And there are no further questions at this time, I would like to turn the conference back to our host.

A - Joachim Wenning {BIO 16273429 <GO>}

Thank you and thanks to everyone for joining us this afternoon. A pleasure as always, if there are further questions, please don't hesitate to get in touch with the Investor Relations team and we very much hope to see you all soon again, stay healthy. Bye-bye.

Operator

Thank you. That concludes the call. Thank you for your participation, you may now disconnect.