Q4 2017 Earnings Call

Company Participants

- Christian Becker-Hussong, Head-Investor & Rating Agency Relations
- Joachim Wenning, Chairman & Chief Executive Officer
- Jörg Schneider, Chief Financial Officer & Director
- Markus Rieß, Member-Management Board, Chief Executive Officer & Chairman of the Board of Management of ERGO Group AG
- Torsten Jeworrek, Chief Executive Officer Reinsurance & Member-Management Board

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Ivan Bokhmat, Analyst
- James R. Oram, Analyst
- Jonathan Denham, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Huttner, Analyst
- Sami Taipalus, Analyst
- Thomas Seidl, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Analyst Conference 2018. Today's conference is being recorded.

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

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Good afternoon, ladies and gentlemen. A warm welcome to all of you to Munich Re's Analysts and Investors call on our 2017 Financial, as well as the outlook for 2018 and beyond. Thank you very much for joining us.

Let me quickly introduce today's speakers in the order of their appearance. Joachim Wenning, CEO, Munich Re Group; then Jörg Schneider, CFO, Munich Re Group; Markus Rieß, CEO of ERGO; and Torsten Jeworrek, CEO of the Reinsurance Business.

The procedure this afternoon is quite straightforward. After the four presentations, which are based on the slide deck we published this morning, we will host a joint Q&A session. As usual, I would like to ask you to limit the number of your questions to a maximum of two per person. Should you have an additional question, then please register the second time.

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

Joachim Wenning {BIO 16273429 <GO>}

So, thank you very much, Christian. Ladies and gentlemen, good afternoon from Munich. I'd like to briefly start on the key figures of 2017. If you are on slide 3, then you can see that we will have finished this year with a result of €0.4 billion and Jörg Schneider is, of course, giving you more detail of this. What I think is worthwhile mentioning is that, without the natural catastrophes that we have seen, our normalized result would have been €2.2 billion, so fully in the range of €2 billion to €2.4 billion that we promised to you last year. Why is that worthwhile mentioning? Because we want to underline that our earnings indications seem making sense.

With regard to the distributable earnings, I think it's good that with that high level of €4 billion, we continue having the means for offering attractive cash outs, be it via dividends, be it via share buybacks to the shareholders. And also remarkable is that the Solvency II ratio, if you look at it on a like-for-like basis, then you will recognize that it is despite the hurricanes standing at a practically unchanged level of 244%. Jörg Schneider is going to explain that with some more detail.

On the next slide, we just carry on reporting on the RoE that Munich Re has been delivering since 2005. So, this is a picture that you are familiar with. And on the right-hand side we compare our performance to seven other peers of the primary insurance and the reinsurance industry. So, what you see on the left-hand side is that, despite the 2017 dip in RoE, on average in that time period, we are standing at around 10% RoE, so well ahead of the cost of capital, which we estimate at around 8%. So, Munich Re is adding value.

And in comparison to our peers, what you can see is that, there is no one peer that has taken less risk, but delivered a higher return. There is five peers that delivered lower returns, though taking more risk. But also to be fully transparent, there were two peers running some more risk, but also showing a higher return. I think this is the takeaway from this slide.

On the next slide number 5, what we want to reconfirm is our sound capital position, the strong balance sheet, and the high Solvency II ratio, the extremely low debt leverage. And all of this together allows us to either deploy capital into new growth investments or into digital or into innovation, or if we don't find such opportunities that are attractive to the shareholders, then we have the means to carry on, for example, with share buybacks, as we have announced them for the next year, this morning.

Next slide highlights the three strategic and key priorities in the group. Number one being earnings stabilization and successive earnings power increase. We talked about that already last year. The second one is the digital transformation, and the third one is leanness and complexity reduction. Please don't underestimate these priorities as being buzzwords. So, I'd like to highlight that the third one, leanness and complexity reduction, can be translated into a very concrete program that we call transformation program, which by focusing on business and focusing the whole organization on smart governance activities allows us taking other activities that don't pay into one or the other focal points. By taking them out allows us reducing our efforts, reducing our expense bases while continuing to managing a growing book. So, that's a good thing. In total, this means that we are going to take out cost in the order of more than €200 million gross before tax, while continuing to managing a growing book.

Digital transformation, I'd like to share with you and illustrate what we mean by this in the second next slide. But on slide 7, before, what you see is, some examples of the broad range of activities of initiatives or strategies that we have followed up on in 2017, trying to improve or grow the group or invest into future growth or divest from activities that no longer are of strategic importance to the group. But also third one is transforming the business and creating new businesses and creating new business models.

So, on the right-hand side, you would see some of the key initiatives that we have run at the group level, but then also the business field level, ERGO and Reinsurance, if that of interest to you, we can go into detail in this in the Q&A, but I think it's quite self-explanatory.

Slide 8, we think this is an interesting slide because what you see is a very classical value chain on the left-hand side having the front-end or the end consumers, and then you have the risk areas of the – the primary risk areas, then later followed by the regions risk areas. So, this is a classical, and in the end, on the right-hand side you have the capital market.

To the bottom, you see which of the businesses or the business models are sales-driven. In other words, if you don't – if you're not good in sales, you're not a good competitor, to the bottom of this slide. And in the upper corner, you would see the underwriting-driven models, which depend from really superior underwriting qualities to run a good business. And what you see is that, between Reinsurance and ERGO, so in the middle part of that chart, you see various operations that we have either organically or inorganically build or added to the group portfolio in the meantime.

And these are specialty insurers, but it's also the recently run Digital Partners business, it's the pure online play, nexible from ERGO, it's Hartford Steam Boiler, et cetera. So, there is two trends. One is specialization of the business and the other is being front-end, be customer, be end consumer oriented. And the digital potential will be used for sophisticating that specialization and by moving further towards the left-hand corner, more closer to the front-end, and this is what all these bits and pieces of the group portfolio are actually doing by very specific digital strategies that they're following up on.

So, the sum of all these arrows to the left is what we mean by digital transformation in the Munich Re Group.

Maybe I had one more thing on that slide. What we believe is that on the left-hand side of this slide show front-end base. We see a higher growth than to the right hand of the chart and potentially also more interesting margins. However, we also have to recognize that more and more players are trying to compete exactly in that corner, so there is no easy money in this business.

Slide 9, my last slide, shows you our mid-term ambition, our mid-term promise to the market in terms of earnings. In this current year, 2018, we believe that we are going to deliver in a range between €2.1 billion and €2.5 billion result, and I've just taken the midpoint of that range, €2.3 billion, and this compares to €2.2 billion last year. So it's €100 million more, which is good. But even if we go further into 2019 and 2020, we have substantiated now strategies on the ERGO side as you were aware of already, but now also on the Reinsurance side by adding €250 million each of the business fields. In total €500 million more within two years. So we believe that we will deliver €2.8 billion in 2020. And this compares to €2.2 billion on a normalized basis in 2017. So within three years, this is 27% more. We are pretty excited by this number.

What is important to underline is this is not based on any aggressive assumptions. This is substantiated by market strategies. This is substantiated by new business growth in both business fields. And to reemphasize this point even more, if you look to the bottom right-hand side of this chart, you will see that with regard to very key assumptions like reserve releases for 2020 for the €2.8 billion delivery, we only assume the 4% reserve release. And with regard to this disposal gains, we used very robust assumptions.

So thank you very much for the time being. I hand over to Jörg Schneider, our CFO.

Jörg Schneider

Thank you very much, Joachim. Good afternoon, ladies and gentlemen. I only want to emphasize some aspects to underline what Joachim said. First, the strength of Munich Re's claims reserves; second, the stabilization of the investment income, the advantages of our group's structure, some highlights of our local GAAP and Solvency II reporting, which are also important for the ongoing very strong distributions and our outlook for 2018.

First on reserve. The total reserve releases of 2017 of €1,056 million, was almost completely in reinsurance, thereof (00:13:37) outlier losses, €63 million basic losses to risk. Adjusted for FX and sliding-scale commission effect, it was €870 million for basic losses and this corresponds to 5.2% of net earned premiums. More details and comments on the pages 53 and following of the annex (00:14:07).

Against guidance of 6%, this is only a minor difference due to a last minute effect. I would call it in a special casualty book, which we could have easily compensated for. And the strength is also underlined by the development of the Ogden rate, which did not cause us to increase our reserves and we still remain with reserves at a level for an Ogden rate of minus 0.75% in spite of the hope that this rate is going to be increased very soon.

According to all indicators, this is an extremely strong reserving level of Munich Re and this will also resist a major spike in wage construction or medical inflation. Nevertheless, as Joachim mentioned for our profit and combined ratio forecast, we assume a prior year impact of only 4%, but I would not exclude even more.

On our investment income, we also expect some tailwinds or at least an end to headwinds from the stabilization of investment returns. The decline of running yield should end. And at the end of 2017, we were still sitting on valuation reserves of 11% of the market value of our investments in total €25 billion, €11 billion on balance sheet, €14 billion off balance sheet. This is a strong protection against adverse capital market scenarios. The increase in reinvestment yield is supported by the high weight of our U.S. assets in our reinsurance portfolio.

With regard to the structure of our investment portfolio, we continuously, but very carefully increased the risk profile. We built up exposure to equities as well as infrastructure equity and debt, meanwhile also with a strong support of our running yield. But still it's a moderate and well-balanced level of risk, not an aggressive one.

What is also beneficial that is our group structure with Munich Re AG, the giant reinsurer at the top and in the role of the parent company of the group, parent company is serving as a central hub, allowing for swift transfer of capital and keeping capitalization on the subsidiary level as necessary for market and regulatory reasons, but not beyond that.

The strong balance sheet of the parent company provides us with a very high liquidity. We have a limited dependency on dividend up streaming due to the own substantial earnings power of the reinsurer and we can recover tax losses very quickly. And the distributable earnings of Munich Re AG are protected by the equalization provision, which buffers loss volatility.

What this means in practice could be seen in the difficult year 2017. Although the local GAAP result declined compared to 2016, it remained at a pleasing level of €2.2 billion. Because the underwriting result was stabilized by the release of the equalization provision, the level of distributable earnings was almost unchanged at €4 billion, and the equalization reserve still stands at a very high level of €7.7 billion.

Solvency II ratio on the next slide, 16. The capitalization was pleasingly resilient. Please note that according to a new buff (00:18:37) in regulation, we have to include all foreseeable and announced capital measures. We, therefore, restated our 2016 capitalization by including €3.7 billion in dividend, share buybacks and repayment of hybrid bonds, which had been decided at the beginning of 2017 with effect for the end of 2016 capitalization relating to 24 percentage points of our economic solvency ratio.

Opening adjustments contributed plus 11% to the ratio with €500 million effect on the eligible own funds coming from corrections of errors, technical model adjustments like for the treatment of the German (00:19:35).

Model changes led to a decrease in SCR of €400 million. Operating effects had an impact of minus 6% on the economic ratio, the economic impact was plus 29%, and other non-operating impact was minus 11%, more on that on the next slide.

As for year-end 2017, we deduct foreseeable capital measures of 2018. This is a dividend €1.3 billion, share buyback €1 billion and the repayment of a hybrid bond of roughly €350 million.

On slide 17, let me start on the bottom of that slide with the economic earnings. Operating economic earnings were pretty low because their high major loss burden mainly affected the value of new business in property-casualty reinsurance. The new business value does always also include the conservatism in claims reserves setting with any loss reserve releases showing up later in operating variances. This was partly offset by once again high VNB of our life and health reinsurance and positive operating variances coming from our active life re portfolio management, as well as positive earnings from ERGO.

Economic effects are the changes in capital from influence of capital market parameters in currency on assets and liabilities. Overall, they were very strong with plus €1.9 billion due to the rise in interest rates, increasing stock markets and tightening spreads. These effects could over compensate the very negative foreign exchange changes.

Other non-operating earnings are dominated by taxes and all pre-tax – taxes on all pre-tax economic earnings components, as well as additional items like costs for hybrid capital. Despite lower than expected pre-tax earnings, actual taxes were almost in line with expectation, mainly as a result of high tax exempt negative currency effects.

On capital generation, this is the upper part of the slide, since capital requirements decreased by €900 million, mostly due to FX effects and rising yields, €1.7 billion in free capital was generated. You will find all details on economic earnings and capital in the annex to the presentation. This is in our view a very important and valuable disclosure, which is also the basis for our business steering, not always easy to understand, but therefore, we improved the consistency in our disclosure and reflects (00:23:04) potential for harmonization with our peers.

The granularity and consistency of economic reporting is even more important in light of the incoming changes in IFRS 9 and IFRS 17. These new standards are much closer to Solvency II and the transition from the old to the new standard will happen in 2021 with a sharp disruption.

For our targets, purely economic metrics with very high sensitivity to economic effects would not be suitable. And also an IFRS guidance beyond 2020 would be very difficult due to the IFRS 17 effect, which will happen between 2020 and 2021. Therefore, we gave you our indication including 2020 to give you the guidance where we will walk to buy that time.

But first on the outlook for 2018, a few more details in addition to what Joachim said. At ERGO, €250 million to €300 million net result is close to the strong results of 2017, but this was helped by non-recurring effects. We are aiming at a reduction of the combined ratio in Property-casualty Germany to 96% instead of 2017 a guidance of 99%, as well as an improvement in the underwriting profitability in the international business, with a combined ratio guidance of 97% compared to 98% last year.

In Reinsurance, our target remains stable. Both the technical profitability and the investment results support the 2018 target. We expect the trough of the running yield to be reached and a trend towards lower disposal gain, so in a way, the higher quality of the result.

Given the pleasing January renewals, we expect the premium level to increase to €19.5 billion to €20.5 billion in property-casualty. The underlying combined ratio at roughly 100% in 2017 is expected to decline to 99%, not taking to account the relatively benign major loss experience of the first 2 1/2 month of this year. The expectation for reserve releases is at least 4%.

On the one hand, the combined ratio will be affected (00:26:11) from spillover from the 2017 renewals. On the other hand, we expect a positive impact on the underlying combined ratio from an improved pricing environment in 2018 renewals.

In life and health, technical results should increase based on a strong and stable underlying portfolio, which is also supported by attractive new business and a small benefit from the recaptures which happened in the last two years.

So, thank you from my side, and I hand over to Markus

Markus Rieß {BIO 1835270 <GO>}

Let me give you an update on where we stand in the ERGO transformation. You have in your deck the charts number 21 through 28, and then the back up (00:26:57) 92 to 104. Now, I will tell you the story without those exhibits, but if you have questions regarding those exhibits, please ask me in the Q&A session.

2017 was a successful year for ERGO, I think a year in which we have made real good progress, but we obviously have to remain alert to the challenges ahead. Let me use the structure of us trying to be fit digital and successful to tell you where we currently are. I think we have significantly improved fitness, and lot of the success that we have already celebrated, so to speak, is the integration of all five distribution channels into one organization. Now, when I am out at the sales conventions and I do that quite regularly, I can tell you first-hand that the people are coming together and that you can really tangibly feel the efficiency and the effectiveness effects in that regard.

We have consequently the sales fixed costs reduced by more than 36% by reducing our field offices (00:28:00) and the support structure. However, even though we created quite a significant level of disruption in the sales organization, we are happy to report that we have overachieved our sales targets that we have achieved growth in virtually all lines of business and yet we have a notable productivity gain per se at (00:28:20) already in 2017.

70% of the HR restructuring is completed, at 70%, and 50% of the overall cost saving targets have now been realized. In addition to that, we have been able to achieve a significant first step into the portfolio optimization of our international organization by selling our three legal protection entities in Switzerland, Luxembourg, and Slovakia.

On the digital side, to me, most important is that we have successfully hold out a digitally enabled sales software, which now has – enables us to have more or less paperless processes in our sales environment. The customer portals, which were portals won by DKV, won by ErgoDirect, won by ERGO have now been homogenized into one ERGO Group portal and the usage has increased by more than 40% to almost 700,000 users.

We have a pretty good track record in our health business and using digital services, here we have another 340,000 users in our digital services. I think, it will be fair to say that if we compare it to the German landscape and these were German numbers primarily, that we have achieved a significant progress on the digital side when it comes to customer interfaces.

However, also in the (00:29:47) we have made progress. You've seen here the numbers on our improvement in state through processing rates. They are now up between 40% and 70% and still not where I want them to be. So there's further efficiency potential coming from there in the next two years. And we have also build up our IT digital resource centers both in Warsaw and in Berlin, where we have 120 programmers who work in agile methods (00:30:17) and really reduce significantly our time to market when it comes to digital innovation and one can already feel it in the organization and see the end product.

Speaking of products, the third dimension of our program, trying to be successful. The product overhaul in the retail side is more or less completed. We now have modularization as the guiding thought of our retail product line ups in the P&C side. We have just launched our new life products, which are hybrid and fund oriented products, which basically get rid of the old classic guarantees i.e., are very capital efficient; however, are very marketable, easy to understand and we have high hopes in these products. They're being sold as of January 1, 2018. The first results are encouraging, but we have to acknowledge that 10,000 people based sales organization obviously has to undergo a lot of training until this is fully-fledged in the organization.

I'm also very happy that our cooperation with the Deutsche Telekom has led to types like the Insurance Innovation of the Year, which is the SmartHome (00:31:27) joint product development that we have developed, which is also now out in the sales organization, both in the telecom shops and in the agencies of ours.

We've talked about our experiment with potential nexible and I can for the first time now present you with some numbers. If you know that nexible was live in the last three months of 2017 only, it started at the end of September and we are happy to report that by that time, in those three months, we have achieved a little more than 20,000 cars that are insured with us. They have insured 35,000 risks and we are now approaching already 10 million in gross written premiums. I consider this to be a very good success.

However, we have to acknowledge that we will now use this critical mass to streamline our processes. It's a very digital organization. That's why it's important to have this critical mass in order to exercise those digital processes. So far they are working well. We have something like 350 claims per month, which gives us enough room to work with these data in order to see that we can improve the processes.

Summary for 2017, the program is well underway. It's now approaching half-time. On the 16th of September, we will have half time of the ERGO Strategy Programme, and I believe that we can be quite content with the first half, but obviously then the second half will at least be equally challenging. I will remain optimistic that our goals will be achieved. And for 2017, the net income target as you see on the chart, were well achieved, over achieved to be precise. At the same time, we have strengthened the lease up significantly. So I believe financially it was a good year.

Let me close my comments by basically addressing two issues that I believe are high on your priority list. One is the international strategy, and two is a special focus on the life back-book. On the international strategy, let me reiterate what I told you last time, last year that we have three target segments: the market-leading position, the global lines, and the presence in the global markets, which we use as sorting criteria for our portfolio.

I have already told you that the first consolidation has been achieved, and I would also like to tell you that this route of consolidation will go further. Now I will not go into details in this regard at this point in time obviously, but consolidation along those lines is something which we will continue in 2018 and the years to come i.e., more focus is necessary in this regard.

Also there is significant international growth achieved. Let me just draw your attention to China, where we de-risk the life products. There we have achieved a 90% growth rate. We have 40% profitable growth in India even without the integration of the company that we bought there last year. And we have a net record result of €50 million net profit in Poland P&C, which shows us that the international organization is working, if and where we exercise enough focus.

In addition to that, we have now formalized the efficiency gains by targeting €40 million gross cost-cutting in the international organizations by 2020, and that in summary means that I'm confident that we'll be able to achieve the numbers that we have outlined to you.

On the Life back-book, I would just basically tease that issue now and trust you have questions if you have them. Basically we have decided to keep and to manage our traditional life back-book in order to make most of the value potential. That is no news. That we've told you already. Now, what does this really mean? We are confident that the run-off improves the capital position significantly. In our internal model, we have already seen significant SCR reductions and EOF increases in the life insurance entities based on a mixture of capital market development in our favor, but also because of strategic matters. We have now a separate organizational unit for the traditional life business established as of 1st of January, we have what we in German called a capital (00:36:07) of this business, which basically means that they are now run separately from the rest of the back-book.

We have announced that we have an agreement with IBM on the life portfolio management partnership, which basically means that we start to migrate into a new IT platform in 2018. And the medium-term ambition remains to transform the existing entity into a professional run-off business model.

Now I have always told you and I would like to reiterate that throughout 2018, we increased our confidence and I increased my personal confidence that all of these successes are not short list, but really are indications for long-term, sustainably (00:36:52) new level of ERGO performance. And I would like to give you some indication where I believe we are standing there. I think we have five challenges that we need to see coming true in 2018. One is the (00:37:08) in classic life that IBM, where we will be able by the end of 2018 to see whether this is really working as well as we anticipate. The second one is that we need to increase further the P&C profitability, especially in (00:37:23) and that is due to the substitution of the legacy IT that we still have there, also something where I measured the progress in 2018 quite significantly.

Thirdly, there need to be significant progress in streamlining the international portfolio, both in terms of divestment and investment if and when and where the opportunity presents itself. In Germany, we need to focus on the sales productivity, especially based on the new life products. And lastly, the on and offline integration needs to arrive in the daily reality of the sales agents, because that ultimately is the medium-term game on an offline integration, and I'm very confident and I can elaborate a little bit on that in the question if you want me to that we have made good progress here and this will hopefully also come through in 2018.

That means you see me optimistic, but aware of the challenges. And I hope that I can continue to report to you good results on the ERGO Strategy Programme going forward.

And with that, I'd hand over to Torsten.

Torsten Jeworrek {BIO 5724439 <GO>}

Thank you, Markus. Good afternoon. Good morning, ladies and gentlemen from Munich. I would like to walk you through the Reinsurance part, and I'm on slide 30, start with the results in 2017. Overall result, as presented by Jörg Schneider, life and non-life together,

€120 million net after tax. And that is of course a disappointing result, below expectation, no doubt. The driver is known. It's fully explainable by the three major hurricanes, which occurred in the third quarter, which led particularly in P&C to extraordinary combined ratio of 114%. That is net after retrocession. Please keep in mind, Munich Re buys retrocession, but relative to our peers, the retrocession, the capacity under the retrocession program is, of course, not that high. First, not available; and second, if more were available, we would probably not buy it, so that means we are sort of gross to net writer, there's a bit of difference here. When you exclude these extraordinary cat events in Q3 in P&C, the normalized combined ratio is, as expected, we announced at the beginning of the year, a normalized combined ratio in the order of 100% and that is what we finally achieved on a normalized basis.

Reserve release 5.2%, which is still above our minimum level, I would say, of 4%, that means confidence is still high. We didn't release more than necessary, that means we didn't eat from the reserve buffer. Our confidence level is unchanged, unchanged on a very high level.

Few remarks regarding life reinsurance technical results that is what we use to measure our underwriting quality and performance. €428 million. You could, of course, argue that is slightly below the €450 million, which we announced and forecasted at the beginning of the year, which is true. However, nevertheless, I see this result is extremely positive. Why? Because we took advantage of the opportunity and finalized two larger recaptures in 2017, which basically hit us with an amount of around €170 million, that means in spite or despite of this burden in 2017, we almost achieved our €450 million target, that means on an normalized basis, we would have ended up much higher, which is good. And that is one of the reason why we said we have confidence that we can increase our technical result forecast for 2018 and the years after at least to a level of €475 million.

And before you ask the question why not higher, because when you deduct this €170 million minus, we would have ended up higher, that is probably right. But we had a sort of negative history in the past. I would say, seven, eight years or so, in life insurance. You all know that from U.S. mortality, from Australia and so, which always surprised us and that is basically the reason why we stay a bit on a more conservative level here. I'm personally optimistic that we at least achieve the €475 million if there are few years where we can deliver that, we are certainly able and courageous enough to increase this figure further.

And on slide 31, a short final remark on the January renewal, which is our biggest renewal in the P&C portfolio, approximately two-third or 60%, two-third of our portfolio were up for renewal. We all did expect, of course, a price change in the worldwide reinsurance market after the severe hurricane events. And this price stabilization in the loss affected areas of the price increase took place. That is a good message from the renewal, particularly in the cat businesses, but also in the U.S. casualty business, not so much impacted by U.S. hurricanes. We saw very decent price increases. And what is a bit negative, if you wonder, that neither the traditional capacity in the traditional reinsurance market nor what we call the alternative capital from pension and hedge funds, withdrew capacity in the renewal are disappeared. In that regard, the picture is not as good as after the 2005 hurricane events, which were, when you compare them like-for-like for the insured loss, pretty similar. The price - responsive price reaction of the market at that time was significantly higher.

Munich Re could not only show a rate increase for the portfolio, we were also able, I would say at the right time, to take advantage of business opportunities, we increased our volume in this large renewal by 19%, but more than 19%, which is good. And you, of course, could ask the question, was it the right time, were the price changes, the price increases good enough that you - that we, the (00:44:39) Munich Re went for such a portfolio increase? The answer is, although in a flat market environment or price environment, we would have gone after that business, because the business which we wrote here is pretty independent from the cycle and from the price. More than 70% of the 19% additional business came from tailor-made large (00:45:08) transactions, capital management instruments, one was published came from Australia from the IAG, the other one from North America and a few others from Europe. So, that was really desirable business, desirable growth, and I'm proud and happy that we got that and the colleagues did a great job here.

Rate change, on a technical or nominal basis, 0.8%. Why do I say that on a technical basis? Because we remain very constant and predictable in what we communicate here. The 0.8%, as in the past, we have not changed that, is our pure change in the technical results, so that means an expected combined ratio improvement from - when you compare expiring - expired business to the new - with the new portfolio, an 0.8%.

It's not a true reflection and picture of the economic improvement, which we achieved here. And why do I say that? Because we know that the publications and the communications of various companies of our peers talk about different figures here. Some take only the (00:46:26), some take an economic view, we take a technical view here. If you take a full economic view into the consideration and consider that we achieved - that the interest rates particularly in the North American markets increased over the course of last year, then our economic improvement is in the order of 1.6% and that sounds very much better.

So, I switch to slide 32 that is known to you. Here we show by segment the relative improvement or change of the profitability. It's worth to mention that all segments, which you see here, first improved, and all segments delivered profitability well above our capital costs in the order of 8%. So, that means from an economic perspective, the portfolio, what we deliver here, what we wrote is in good shape.

On slide 32, maybe in principle, a more strategic remark here. And when I look at our position in P&C now and ask myself what is the driver for future success. Then I'm - I could say, I'm a bit less optimistic that the pure provision of large capacity and good security is sufficient in this market environment. Why? Because, low interest rate leads to permanent overcapacity in the market. I mentioned it already. I don't see an end of it - alternative capital coming into our industry and therefore finding differentiation and finding different solutions, reinsurance solutions is of utmost importance in my opinion, that will make the difference in the future and, therefore, we showed this slide here, and show our position here, and we think that particularly these various sectors that we are leading in our underwriting quality that we have a global reach and an open door into all of our clients and are capable to structure tailor-made solutions that is probably the key differentiator in the future and that pays more and more.

On slide 34, now the broader picture, which will – is described in the following slides, and which will also be important when we look at our mid- to long-term strategy and (00:49:04) business and the performance come from, here we have unchanged three segments on which we built. One is through a traditional reinsurance. In the middle part of slide, you see the Risk Solutions, which is our primary specialty, primary insurance part. And new strategic options here on the right side, describes the initiatives in digitalization in new business models.

I'll start with traditional reinsurance on slide 35. And here to give you an idea, Jörg and Joachim, they mentioned that we expect increased profitability and also contribution from Reinsurance in the coming years. Traditional reinsurance should not be forgotten here and is part of that. And why do I say that, because here on that slide you see the three major pillars where we expect our growth to come from. The left part might surprise you a bit, because we expect a significant part of our growth and our additional profitability will come from our expansion and improved position in the coming years in certain core mature markets. And of highest importance here for us the U.S. market.

In traditional reinsurance, we looked at our portfolio and particularly in the U.S. market, we identified significant room for additional business, which we begin to develop already. In the middle part, you see what you would expect our smart growth in the core emerging markets, which is not as easy as we sometimes all think. Major markets are of course here India and China, particularly in India, that goes hand-in-hand with the expansion of our specialty business, particularly agricultural business is on our agenda here. And on the right part capital management. That is a kind of business, which generated growth in the renewal January 1.

Slide 36, an update where we send in risk solutions our specialty insurance business. €4.5 billion, premium income in the upper-left part. That tells you that 2017 was for us in specialty insurance a sort of year of consolidation. Why do I say that and why is the premium volume lower than in the past year? For two reasons. One is, it was impacted by foreign exchange rate. Most of the business comes from the United States.

The second driver is more important. We mentioned it already last year that we decided to exit the Australian market. Our Great Lakes Australia business was terminated because the market is too concentrated and we decided not to pursue that anymore and here that led to this consolidation.

Combined ratio was too high last year, particularly driven by larger losses, although some of our specialty insurance businesses like our Corporate Insurance Partner, which is industrial business and others, of course participated in the hurricane events. And in addition to that, we had some of what we would call you from the head office, smaller cat events, which are below our group (00:52:39) threshold, which also impacted this business a bit, and Jörg Schneider mentioned that we took (00:52:45) reserve decision for the U.S. motor market. All in all, I describe that as one of the effects when you normalize for that and that is although my expectation going forward, this business will perform on a normalized basis in 2018 and years after in the order of 95% combined ratio.

Slide 37, and our update on innovation and digitalization. I don't repeat the slide here because that is more or less exactly what we showed you and discussed with you already during our Investors Day in Munich in, I think, in November 2017, where we looked into our various, let's say, strategic directions in digitalization and innovation. That has, of course, not changed since then.

What I would like to highlight here is the middle part of that slide where we give you the latest update on the development of our cyber insurance and reinsurance business. Remember last year and the years before, we mentioned already cyber in terms of new products, is probably one of the fast growing businesses in the traditional insurance and reinsurance industry worldwide. So far the business is more over 90% U.S. business.

We expect it will spill over to Europe in the next wave after the new data protection laws and then also to Asia. The growth we could achieve is more than 40% compared with 2016. That means premium volume of $354 million. So more than 40% growth. That is approximately 10% of the worldwide cyber insurance market, which is significant for reinsurer.

I don't need to repeat that is always of high important for us that we don't go blindly into this business. Accumulation control and understanding of the risk is very high on our agenda and lot events of (00:55:03) WannaCry and NotPetya last year gave an indication of what could happen. So we have that on our agenda. And you can ask how are we doing that. We hire a lot of and hired already a lot of internal expertise internally, but we also cooperate with many of technology partners and I would call them partners from the friendly hacker community (00:55:27) to permanently get the latest information of the activities of the hacker community (00:55:34) in that segment.

On slide 38 and slide 39, two remarks regarding life reinsurance. Slide 38, you see our current split of the business, biggest market in terms of top line, but also in terms of bottom line is still Canada, very profitable business, leading market position for us. Asia is on a strong growth path, particularly so-called FinMoRe reinsurance could be developed here. And in the meantime, I am personally also more optimistic regarding our U.S. portfolio where we begin to build expertise to go for more growth, to go into the mortality business, to go more into sort of financially motivated reinsurance where we built a new unit in New York City.

The only market where we are not able to grow currently and don't want to is Australia. And here I switch to slide 39. Here you see why. On slide 39, on the bottom right of the slide, you see our concerns about Australia. Australia developed for a number of years after bet (00:56:55) reserve development quite nicely or was on the right track, I would say. That has changed and the market is not at a level where we wanted to be. Competition is still too high. That means for us, we are not in a position and don't want to be to expand our business and hardly go (00:57:13) for new volume for new business.

So currently, we manage our in-force portfolio, and also in cooperation and relationship with our larger clients take a lot of activities or draw a lot of activities into, let's say, active claims and claims management particularly in the disability business. So that is the only market, which concerns us a bit. However, in terms of the size of the active portfolio and reserve development, that is for us our control, but again not a market where we think one could go into now or where we can grow.

The other part of that slide are all positives. I mentioned already the recaptures, which we took advantage of in 2017. We don't have a planned determined strategy or further recaptures. So I could not tell you, and because we don't have it, whether there are more in the pipeline. If there would come more, we would of course look into them, but we don't have a sort of recapture target in place or so. It's a sort of opportunistic approach.

On the other hand, let's say, financial strength, but also all our activities in financially motivated reinsurance on the left side here, make us very confident that we have good growth ambitions and growth potential to expand our business in the various other life markets outside Australia.

With this remark, I would like to finish and I hand it over to Christian Becker-Hussong. Thank you.

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, gentlemen. We will now start the Q&A, and are looking forward to your questions. Please go ahead.

Q&A

Operator

We'll go first to Michael Huttner of JPMorgan.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. And these are I sort of say that great results, they look – anyway. And two things. One, you reduced your peak expense (00:59:30) and natural catastrophe quite a lot. And I just wondered if you could give us a feel for the – for what's driving this. And what does it mean for profitability and margins and stuff going forward?

And the other thing is, if I look at the gap or the increase from €2.3 billion midpoint now to €2.8 billion in 2020, and I just wondered if you could give us a little bit more of a granularity on the improvement on the non-life reinsurance. So, nothing to come more from (01:00:03) maybe a few – fewer realized gains. But I just wondered if you could break it down a little bit between kind of life reinsurance or volume growth or maybe combined ratio improvements in terms of margins. Those would be my two questions. Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

So, this is Joachim. Hello, Michael. I take the second question first with regard to how to split down a little bit to €2.8 billion result expectation in 2020 on the non-life side. What it means, if we translate it into combined ratio expectations, then currently we would expect a 99% combined ratio, and into 2020 we would expect a reduction of this to 97%. And roughly two-thirds of that reduction would go back to the growth initiatives that Torsten Jeworrek was talking about. And the rest is going back to various other effects.

A - Jörg Schneider

This is Jörg speaking. With regard to our natural catastrophe exposure and here especially our risk capital which is allocated to property-casualty reinsurance, it declined, but this is due to currency effect. The strong devaluation of U.S. dollar is the driving factor here.

Q - Michael Huttner {BIO 1556863 <GO>}

And underlying, is it flat or up?

A - Jörg Schneider

It's a bit increased, underlying.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you very much. Thank you.

A - Jörg Schneider

Thank you, Michael.

Operator

We'll go next to Vinit Malhotra of Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good afternoon, sir. Just two questions from me, please. One is just on the guidance and I start with, Jörg, in your comments that you expressed satisfaction at being at the midpoint of the guidance for 2017, and this is now two years in a row that Munich Re is somewhere in the midpoint of the guidance, whereas the previous four, five years was always above the guidance, like – is this sort of the new way of thinking? Could you just comment on the guidance conservatism or history here or anyone (01:02:43) comment here?

And the second question is just on M&A, in slide 36, I think there's a mention on the Risk Solutions page of looking for continuous M&A screening with a focus on specialty. Could you perhaps give us an indication of some order of magnitude or interest areas here that you would guide the market to? Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

So, this is again Joachim. Hello, good afternoon, Vinit. With regard to your first question, so how is our guidance, is it mid-term-oriented, is it at the low end of the range, is it at the upper end of the range? Frankly, what you see on this page, the €2.8 billion or the €2.3 billion for this running year 2018, this is, in my words, the best of our estimates of what we are actually going to earn by business. That means, the only thing that we add to this is the reserve release of 4%, but as you're aware of, this is what we systematically add to the business the very minute that we take it on our books, so logically we have to expect that we will not need the 4%, otherwise we would have underpriced the business, and otherwise there is no other assumptions into it. I think this is a very reliable basis, and I hope this helps giving you a reliable and understandable basis.

With regard to your M&A question, we have appetite to buy target companies. What we will look at in any case is that it is good strategic fit into the group, this is our first criteria. We wouldn't buy anything that just at first sight looks like comparably cheap or not expensive, and then find a rationale of why we would add it into the group, we wouldn't buy any such thing. But it's good strategic fit, something that we think makes sense, that we will be willing to buy.

With regard to which type of targets, I think it was in Torsten's presentation. Yes, the core field of interest is in the – on the primary side. It can be on the retail side. It can be something that we add into ERGO. But it can also be in the specialty risk area. In both, we wouldn't have to assume, as we would have in Reinsurance, that the day after purchase we lose some of the businesses because some of the clients for diversification reasons would move away business to competitors.

But there is another third area that could be interesting. Anything that helps us, enables us, enriches us on our digital journey towards coming closer to the front-end, that potentially is also of interest.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much.

Operator

We'll go next to William Hawkins of KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. You've been clear on the earnings. What would you like us to think about the dividend, medium-term outlook? If we take the €8.6 base that you've just given us, do we think out to 2020, that that can grow in line with the 27% absolute earnings growth you talked about or should we be enjoying the benefits of the accretion from presumably the ongoing buybacks? So, just a bit of a feel for how dividends can grow commensurately with earnings. And I suppose just to clarify, I think we're still in a world where we assume the €1 billion buyback is as secure as your ordinary dividend. Are you still committed to that buyback over the medium term?

And then secondly, sorry, slightly technical, but all the way back in slide 44, you've had this great HGB results. And the main variance this year from previous year seems to be that you had very high distributions relative to the IFRS results. On slide 44, there's a €600 million positive, when that number is normally reasonably negative. I think you have mentioned some things through the year already. But can you just remind us how you had such a big positive in the recon from IFRS to HGB and what we should be plugging in as a sustainable figure for the future? Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Will, good afternoon. This is Joachim. I take the dividend question. So, please understand when I cannot give a full commitment with regard to the dividend expectations going forward because there is quite some factors that we have to look into when deciding on the dividends. And secondly, by the way, it's not our decision only, we are preparing a decision. But with all that uncertainty and with all these caveats, I'd like to say, if everything else equal, so if there is no abnormal year, if there is no M&A going on which would require capital, so if everything else is equal, I think it will be fair from you to expect that we would also consider developing our dividend in line with result increases.

Q - William Hawkins {BIO 1822411 <GO>}

Per share result increases?

A - Jörg Schneider

Yes. Per share also.

A - Joachim Wenning {BIO 16273429 <GO>}

Per share also, yes.

A - Jörg Schneider

We just avoided the increase per share because 2017 was an extraordinarily bad year with regard to the major losses. So we learned that the capital market was somewhat disappointed about that, but we thought it to be adequate, yeah.

On your second question, the dividend from subsidiaries of Munich Re AG under local German GAAP, there's a part, which is recurring I would say. But there's also a lot of noise with regard to one-off effect, yeah. So one was in this year that the dividends from our U.S. reinsurance subsidiaries, property-casualty subsidiaries had to be canceled due to the burden from the natural catastrophes. But typically, we also have intra-group transactions of various kinds, be it disposals or be it extra distributions, which disturbs the picture and which serve us to fine-tune the stabilization of our HGB earnings, and this year was part of that also. But it gives us a lot of leeway to also continue in managing the HGB earnings in a way, which can ensure the dividend to be increased as Joachim mentioned before.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. And hopefully just the same, the obvious, but you are still as committed to the buyback as ever?

A - Jörg Schneider

For time being, yes. We have never promised it with the long-term horizon, because we don't know what's happening on the capital market. We don't know what kind of opportunities come up, but here there is a very strong commitment to high distributions in general.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

We'll go next to Kamran Hossain of RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, two questions from me. First of all on, I guess, thinking about the price increases going through in January, do you have any benefit baked into 2019? I guess, the sub-question of that is do you expect the mid-year when you used to be (01:11:15) a little bit better than January?

And the second question, just on the €2.8 billion, 2020 ambition, can I ask you, I never like asking about pay, but how kind of incentivized are you to hit that €2.8 billion or is this still an ambition at the moment? Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Torsten speaking here. I'll start with the question regarding price. It was the price expectation. For 2018, we have two larger renewal dates that is April and July. And in general, our best expectation is that we see a similar market environment like in January. That means stabilization worldwide and differentiation between loss affected and cat programs and other businesses I would say. There was a differentiation. There were never reductions, but there was differentiation.

We see an unchanged picture and expect that in the coming two renewals we see similar price increases. Of course, the impact on our portfolio, we might be different depending on the share of cat business in the renewal date and depending how much Caribbean and U.S. business is up for renewal. So in that regard, the percentages might change, but the market environment and the relative price changes will be similar in our expectation.

Then in the years after, so in 2019, we don't forecast any further price changes now. So this (01:12:55) not included, in Joachim Wenning's result forecast for 2019 and 2020. So beyond 2018, in other words, we expect a more or less stable price environment, but don't make bets on higher prices, and therefore, portfolio increases. That is not the case. My best expectation is we will have then – depending of course on cat activity during the year, but we will have a flattened sideward price development in the two coming years after 2018.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Thank you very much (01:13:34).

A - Torsten Jeworrek {BIO 5724439 <GO>}

Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Kamran, this is Joachim. With regard to your question on the €2.8 billion and incentives, I'm sorry to ask back. Are you referring to individual bonus incentives of the board members linked to the IFRS result? Is that what you mean?

Q - Kamran Hossain {BIO 17666412 <GO>}

Yes. I guess – I was just trying to understand I guess partially for board members, but I guess, also more generally for people in the (01:14:05) from the ground up, how is this being built into how people are getting paid (01:14:11)?

A - Joachim Wenning {BIO 16273429 <GO>}

Okay. So broadly speaking without going into too much detail of a very complex remuneration system, we're steering in the economic terms and this is what leaves us in how we are and which business we are writing. In the end, of course, this also translates into IFRS earnings. Do they enter into some of the metrics that was some way go into (01:14:41) the bonus results, they do, but they don't dominate it at all.

So for example, if you the last year, 2017, our bonuses that are linked to the IFRS results, they would be naturally very low. Does it dominate everything? No, what dominates is the economic steering. Going into the future, this will gradually evolve into making bonuses more dependent from how we compare to our peers, but it's not IFRS dominated. So in other words, the €2.8 billion isn't €2.8 billion because it will serve us.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay, great. Thank you.

Operator

We'll go next to Jonny Urwin of UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there, thanks. Two questions. First on life and health. So you've improved the technical result guidance and confidence around the unit looks to be a little bit improved. However, you are noting that there will be opportunistic sort of in-force management from here, and you're still concerned around Australian disability. I just wonder could you give us a sense for where the underlying quality of the book is versus where you'd like it to be? Are you most of the way than ours the (01:16:03) much further to go?

And secondly, on ERGO, just thinking about the closed book, I mean, is the disposal totally off the table now with the IBM partnership or hypothetically if the pricing environment, the sale price that is, or regulational or the political backdrop were to change, could you proceed with that again? Thank you.

A - Markus Rieß {BIO 1835270 <GO>}

I start with the ERGO question if I may. I never rule out anything for eternity. That's very clear. Having said that it's off the table.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Torsten speaking here. I take the life and health reinsurance question. Worldwide and globally the portfolio quality is good or very good. And I highlighted my concerns and our concerns regarding Australia. Therefore no new business or hunting (01:17:11) new business. And the rest of the world is fully under control.

I also told you I'm in the meantime more optimistic regarding our U.S. performance where we had issues, particularly in the long-term care business in the past, and that is under control and, of course, every new year means that the old portfolio, where we gave up a significant part in the past, so sometimes 10 years ago, gets more mature and has less impact on the quality, but also the absolute performance of the new results. And with this in mind, I'm very relaxed and positive about the life reinsurance portfolio quality. Thank you.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

Operator

We'll go next to Andrew Ritchie of Autonomous.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Hi, there. Sorry to go back to the 2020 target. I think you mentioned there was an assumption of a combined ratio improving from 99% to 97% normalized. I mean, that alone based on a sort of stable premium volume would get you the uplift that you're showing in the slide. So I'm a bit confused. What else is going on because this slide talks about cost initiatives, growth initiatives? And I think, Torsten, you kind of implied that you believe the underlying run rate of life and health is more like €600 million, you're just not brave enough to go there yet. So, maybe just clarify again or walk on the reinsurance of

€250 million. It appears to be all the combined ratio. And on that combined ratio, I guess this is my second question, to assume that degree of changing combined ratio with flat pricing implies a fairly significant mix shift to short-tail lines, is that when you're talking about U. S. expansion is basically going bigger in U. S. property and property cat?

A - Torsten Jeworrek {BIO 5724439 <GO>}

No. The combined ratio improvement in non-life, and I come back to my answer regarding price change in the coming years, is for this year takes into account somewhat – some improvement in the combined ratio after the event, that is included. And then, we don't expect further improvement and then a sort of flattish sort of combined ratio for the active portfolio, for the current portfolio. Where does the further improvement in the combined ratios then come from, and from growth initiatives into growth initiatives which are well identified go into either Specialty Insurance, they go into Risk Solutions, and they go into the U.S. market, and in the U.S. market, of course, also into property business. Not only cat businesses, it's not exactly the same, but because of the growth initiatives, the portfolio mix will change and will – I wouldn't call it improve, but if you take the combined ratio, of course, it's an improvement that will reduced the combined ratio. And It will...

(01:20:31)

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

...the volatility of the combined ratio.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Yeah, absolutely. It will also – I come to that. It will also mean that we, of course, have some appetite, as long as we diversify our business also to go into some cat exposed businesses, when you develop new client relationship, you cannot exclude just this business. You take everything, all the cat business, but it's not all, it's not only. So, volatility will not significantly increase, in my opinion, because when you are, let's say, in a bit more short-tail (01:21:09) business or so and I have Specialty Insurance, let's say, like credit or like property U.S. in the Midwest or so that is still cat business, but it's not the big volatile business what we have here. So, one should not, let's say, always assume that this is hurricane exposed business what we write here, that will come along, but it's not our focus here. So, therefore, it's portfolio mix. And was there another question? I know...

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

I can explain – that would explain almost all the €250 million. What's happening? You talk about other initiatives and I think you implied the run rate of life and health should ultimately be higher.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Yeah. In life and health, of course, you are right. Our conservative – as I mentioned, it is a bit conservative, our estimate, for good reasons I think. And – but don't take the €600 million, so it's €428 million plus €170 million recaptures, this equation a little bit too easy, in my opinion, because take all those into account, we had some very good impact or effects during the course of 2017 on the biometric side also, which we cannot automatically extrapolate into the future. So, agreed, €275 million is conservative, but €600 million would be far too aggressive.

A - Joachim Wenning {BIO 16273429 <GO>}

Maybe I add one point, Andrew, this is Joachim. And that was your question regards the cost part of our transformation program. So, to be very specific, in the forthcoming three years, 2018, 2019, 2020, we are going to take expenses out of Reinsurance, and of some group functions. So, ERGO is excluded, and those data teams, and the innovative shops that we have established are taken out (01:23:14). In the order of a bit more than €200 million gross before tax, a good part of that will be booked in Reinsurance, but that is included in the €2.8 billion number or that is included in the €250 million net impact that Torsten reported on.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

So, where are the negatives then? Because if you got €200 million cost saves plus the 2 points combined ratio on even, let's just say, the portfolio is not (01:23:48) flat, what's the headwind (01:23:52)?

A - Joachim Wenning {BIO 16273429 <GO>}

Andrew, so the one is that the €200 million cost impact that is before tax, right. So, after tax, that is, say, less than €150 million, right. That's one thing. The second thing that we've taken out rightly or wrongly, so but we've taken it out is any reserve release in excess of the 4%. So, we haven't taken that into account. But as Jörg rightly mentioned in his presentation, he said if you believe that we can actually next year - or the next years release more, then consider it as an upside. We have no reason to not - to believe that the reserve situation is any worse now than it was last year or the years before, right.

And also with regard to the disposal gains, we have assumed less disposal gains than in the past, rightly or wrongly so, but we just thought everything that you could consider, like shaping the results to some extent, we've taken that out. We show you the real earnings from business.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay, thanks. Thanks for clarity.

Operator

We'll go next to Thomas Seidl of Bernstein.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you, guys (01:25:17). On the cost cuts, so it seems like 900 staff is cut and you said just that is mainly in Reinsurance, it sounds like more than 10% of the staff from my calculation is going. Question there is, is it mainly back-office, front-office functions, basically the business segments you are closing which are not attractive. So, can you give us some color where this quite substantial head count cut is happening?

And then on one of your growth initiatives, cyber, do you already see now first indications that GDPR is stimulating demand in Europe. I mean, we have seen it in the United States, but so far Europe seems to be lagging and the regulation is coming up soon. So, I wonder, as you're getting closer, as you say, to the customer, what your sense is in terms of cyber demand?

A - Joachim Wenning {BIO 16273429 <GO>}

So, this is Joachim. Hello. With regard to the cost questions, as a percentage, the – more than €200 million gross reduction of cost would correspond to depending on how you look at it between 11% and 13%, whether it's absolute cost amount or whether it's people or FTEs. So, say, in the order of 11% to 13%, that is the order. It is focusing intentionally very deliberately on mid- and back-office functions, but not exclusively. And why is that? Because one of the criteria – not one of the criteria, the key criterion was, we want to take effort out of the organization, and this should not be at the expense of business development, that's why.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Torsten speaking here, regarding the cyber question. Yes, we see more activity that only started last year, and probably the new data protection laws contribute to this increasing demand in Europe, but to some extent also in Asia, and until today, it's early – still early and not much has materialized in terms of premium, insurance premium, that is still on a low level, but we see activity to particularly the small and medium commercial companies in Germany and other markets in Europe begin to ask questions and they look for two things, one thing is kind of service, how they can make IT architecture safer and better, and the other question is, what kind of protection is available, how much does it cost, and what kind of limits do they need, do we have an advisory – so kind of advisory service to determine an adequate sum ensured amount to determine the policy limit and the sort of stuff. So, that is underway, and I see an increasing demand, but I expect, let's say, to see more premium volume in the course of 2018, but more 2019, I would say. But I'm optimistic that will come and the new loss and the higher scrutiny of regulation and government will help further (01:28:44) to increase the premium volume in our markets here. I'm very optimistic.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. So still confident that Europe can grow to a similar size as U.S. market on cyber?

A - Torsten Jeworrek {BIO 5724439 <GO>}

I don't know that. U.S. market is of course ahead here. The U.S. market has also made (01:29:03) another support for this business, that is the activity of lawyers and class actions and this sort of stuff. If things go wrong, the companies are highly exposed in these markets. So from that perspective, the U.S. markets for the companies and the owners of businesses is in more exposed markets, and therefore, demand for protection is higher. So I would not compare that one-to-one, but activity improves here and that will be a significant market for us.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you.

Operator

We'll go next to Sami Taipalus of Goldman Sachs.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Good afternoon, everyone. My first question comes back to the combined ratio. So I just wanted to check of the €200 million of cost savings, how much of that do you expect would hit the combined ratio or improve the combined ratio?

And the second point on that is, on slide 34, the highest risk adjusted returns or economic profitability, sorry, still appears to be on the long-tail lines. So I'm wondering why. It sounds like you're looking to shift the business towards specialty (01:30:14) short-tail lines. So I'm wondering why you're planning do that and whether that is indeed what you meant to say?

Then my second question is on the run-off and on slide 12, you provided a run-off figure of €1.1 billion, but then on slide 115, you say you've added in €0.7 billion of prudence. Now I appreciate. These are slightly different figures, so maybe there's some discounting that bridges the gap. But it seems to me that it's hard to see how the sort of – the prudent has been kept given those two figures. So I'm wondering if I'm missing something there. And also related to that, you're adding €0.7 billion to prudent's (01:30:59) margin within the best estimate liabilities in the Solvency II calculation. So I mean, there must be quite sizable buffering those best estimate liabilities. Is it possible to give some form of steer (01:31:11) on the size of that? Thank you.

A - Jörg Schneider

This is Jörg speaking. On your last question about the expected earnings and this year especially you're right. It's the prudency buffer of €700 million, which is 4% of our net earned premiums, which is build (01:31:30) in the expected new business value. And it should then show up later on in the form of reserve releases as being variances then.

Q - Sami Taipalus {BIO 17452234 <GO>}

Sorry to interrupt you, but I guess my question was you've been adding this, I guess, in previous years as well. So I'm wondering how much it's accumulating or has accumulated into the orders that will come out?

A - Jörg Schneider

So there is a recurring element that is the new business value is always in a way understated by this element of prudence and it's release then. As far as reserve releases are 4%, exactly 4%, they have been higher. And we are not piling it up systematically. But what I can say from the observation also of the actuarial analysis the reserves are extremely strong at the moment here. So I can't tell you last (01:32:37) realities here, but at least my personal conviction is that we really have a substantial buffer at the edge of what's acceptable under IFRS rules.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. And in terms of the – sorry to interrupt you, but in terms of the €1.1 billion versus the €0.7 billion?

A - Jörg Schneider

And the €1.1 billion is including a sliding scale effect and it's €870 million excluding. So it's just slightly above the prudence, yeah. So therefore we are treating the reserve very cautiously.

A - Joachim Wenning {BIO 16273429 <GO>}

This is Joachim, and before Torsten is going to take the remainder of your questions, you had one specific question, and what is the impact of cost reduction on combined ratio in the P&C Re, it's in the order of 0.7%.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

I take your last part of the question, and if I understood you correctly you challenged the combined ratio bit against the chart on slide 32 where we gave the relative performance comparison of the various segments. One should keep in mind two things. On slide 32, it's traditional P&C reinsurance, traditional P&C. So that means all activities, which we have underway in our specialty insurance risk solution business takes HSB or so, they are below the 90% combined ratio. So it's not comparable and not shown you on that slide. And we expect to grow there. That would of course also help to improve the combined ratio a bit.

On the other hand, slide 32 is not in line and does not tell you anything about combined ratios, because that is an economic profitability what you see here. That means when we show here that – let's say, the property business is not so profitable like, let's say, the casualty business was auto motor (01:34:56) on that slide. Nevertheless, the property business contributes to a low combined ratio, right? Why is that then less profitable you can ask, because according to our internal steering method, we measure on an economic basis by allocating risk capital according to the contribution of the volatility of such a business and that means high cat business or property business eats a lot of risk capital or consumes a lot of risk capital, and therefore it's not a contradiction that such business has a low combined ratio, but at the same time a relatively low economic profitability, but again, everything above 8% minimum capital charge, yeah? So that's not a contradiction in my opinion.

Third remark, when we grow in the U.S. business, as mentioned already, very often we take full account quota (01:35:59) shares or proportionate treaties into our portfolio where you get a mixture of short-term and long-term business. That means in that regard, we cannot be so selective and optimize one segment or one line of business only. Thank you.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Sorry. Sorry. Can I just follow up on that? My question wasn't so much on the – I didn't mean to say that there was a contradiction. I guess, you steered the business on economic profitability. But it sounded like you were expecting a mix shift towards short-tail lines. So I was wondering why shouldn't we be expecting a mix shift towards longer tail lines given that they held the higher economic profitability?

A - Torsten Jeworrek {BIO 5724439 <GO>}

No, the 97% expect to shift more to somewhat towards the shorter tail lines of business. So it has to do with identified business segments and strategies like in credit business like in agricultural business, for instance, India that is shorter tail business compared with today's portfolio. And then, on the other hand, the identified initiatives where we think we have to take whole account participations in certain client relationships, don't give us a choice. Here we take the business how it comes basically and we expect it will drive us a bit more into the short-tail in summary.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. All right. Thank you.

Operator

We'll go next to Ivan Bokhmat of Barclays.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good afternoon. I've got two questions. The first one is on the German traditional life platform. You mentioned that you plan to turn it into a potentially consolidator in the medium-term and I was wondering what's the timeline on that. And if any market opportunity come in the meantime would you be willing to go for that? I think the bigger question here is what does (01:37:57) expect to bring to the table after this cooperation with IBM?

And then the second question is just on the debt leverage and the subordinated debt of €2.3 billion that you plan to retire in 2018. And, I mean, I've noticed debt your leverage is already at a multi-year low, just 10%. Do you have any plans to replace the sub debt and how much should that add to your solvency ratio? What's the optimal capital structure?

A - Markus Rieß {BIO 1835270 <GO>}

Yeah, I take the ERGO question. The timeline is that we, first of all, need before we enter a third-party administration market. We need a very competitive IT, because the ultimate value proposition that you need to have is fantastic processes and a state-of-the-art internet connected platform, because otherwise you can't really work with your clients accordingly.

Now, we don't have that yet, that's why we have been engaging with IBM as our service provider in order to migrate our IT into a new platform. The anticipated timeline for this is four years. So, realistically, before that, I don't think we'll be entering the market in the first place. And even after that, I want to make very clear that the 6.2 million policies that we have in our run-off business are our priority number one, and we will only enter that market after we are very sure that our own clients get the best service and that we ourselves yield the cost reductions that we anticipate in getting there.

Second remark I would like to make is in order to avoid any misunderstanding, we would not be willing to engage in a consolidation in terms of buying life insurance portfolios or taking over life insurance companies. Third-party administration for us means exclusively the administering of those portfolios.

Now, I believe that we could enter that market in something like four, five years' time, and obviously we have to develop what kind of market situation we have at that point in time, see how competitive our offer is then. So, for us, it's more an optionality. Let me repeat, the main driver for us is to create an efficient and effective IT infrastructure platform, the state-of-the-art processes for our own run-off assets.

A - Jörg Schneider

On your other question with regard to our debt leverage, it's currently at 10%, €2.8 billion in strategic debt only. And if we repay, as planned in June, another €350 million, by the way, it's a British pound loan, then we will go below 10%. This is extremely low, but Munich Re is well-financed with 244% Solvency II ratio and our distribution capacity would not increase by taking up more debt. These are dominated by the specialties of the local GAAP balance sheet. So, therefore, we would only consider taking up more debt for strategic opportunities which are at least currently not directly on the table here.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Maybe I can ask a follow-up question on Solvency. Those growth programs that you plan in Specialty, I mean, what impact should that have on the diversification of the business and on the capital intensity of what you're going to add – to plan to add?

A - Jörg Schneider

Yeah. That will be marginal impact only, yeah, because as you correctly assume, most of the additional capital requirements will be diversified away and will more or less disappear in this huge business portfolio. So, therefore, I do not expect any impact which would bring us down to the ideal zone between 175% and 220% of the SCR.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thank you very much.

A - Jörg Schneider

Thank you, Ivan.

Operator

We'll go next to Frank Kopfinger of Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good afternoon, everybody. I have two questions on ERGO, please. So, the first is on M&A, as Joachim pointed out that retail could be one of the topics. So, could you elaborate a little bit on the ERGO side, what are the areas where you are looking at, what are the sizes you're looking at?

And then, secondly, also coming back on the run-off book. It seems that the decision to build up an own run-off platform has the same financial impact than simply selling it, which is hard to understand, especially given that you mentioned a timeframe of four to five years for TPA to be really set up and to be up and running. Why is it that the decision has no financial impact on your plans at all?

A - Markus Rieß {BIO 1835270 <GO>}

On the M&A side, I really have nothing else to add to what Joachim was saying. I think I can refer only to my elaborations last year, and that is that if and where we have scale, we could look at an acquisition in which we leverage that scale, which in my judgment we'll basically say that if we ever were to do an M&A in an ERGO area, it would have to be in a country and a segment in which the scale exists or we basically create a significant, and let me underline, significant footprint in a growth market. That's all I really can say about this.

On a run-off book, I think the rationale for us not to pursue a sale opportunity was that we believe that we can create the value within the ownership of the ERGO-Munch restructure. And I think that actually speaks for itself. We have a situation in which already over the last 12 months we see a positive reaction when it comes to the SCR capital requirements. We see positive elements in the eligible own funds already to start. But it is absolutely right for you to say that we have not incorporated all of these effects fully into our five-year plan.

It's a situation which we are going to evaluate in the course of this year. We feel no rush of doing that. But given the fact that our capitalization of our traditional life back books is already quite good, has been increasing over the last years and will increase going further, given the fact that now the decision of the ceasing of the new business is more or less fully implemented, we have a situation in which there is room for improvement for higher dividend or dividend at all from the life books, and that is something we have yet to fully incorporate into our business, but let me - in our business plans, but let me also make very clear that this is a cautious and long-term process and that we have a lot of adverse developments, which could obviously hit us, so don't get your hopes up in terms of this showing up too early or too high of a volume, but a general direction you have in mind that is the direction I can confirm.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. And can I ask a follow-up? As you touched it that the release of capital going forward, can you quantify it on how much this is per year from the run-off portfolio?

A - Markus Rieß {BIO 1835270 <GO>}

We don't want to do it on a per year basis. If you look at just at the numbers of the internal model of our SCR 2016 versus 2017, you see an element of €1 billion risk capital that we have less allocated to ERGO Leben (01:46:40), for example. But this is also effect of the macroeconomic and capital markets environment which are not – we are not being able to forecast for the foreseeable future. So, I would commit to releasing risk capital over the course of the years, but I would not feel comfortable with the quantitative indication as of now.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

We'll go next to James Oram with Citigroup.

Q - James R. Oram {BIO 19736003 <GO>}

Hi, good afternoon. It's James Oram from Citi. I've got two questions left, please. The first one is on economic earnings. In the presentation, it states that economic earnings for 2018 are likely to be slightly above the IFRS guidance range. And I was just wondering whether it's a drive from a stronger euro that you might be normalizing for in the economic earnings assumptions, or if there's something else going on in there. And with that in mind, where would you expect economic earnings to come out by 2020, presumably they'd be around that €2.8 billion level that you commented on earlier on?

And the second one is on ERGO International. You mentioned the potential for further divestments from that business. I can see that the Turkish combined ratio is very high again for the second year in a row. I know that you pulled back quite a lot there already, I wondered if that was the market you would consider getting out of or is there any other sort of more pressing priorities? Thanks very much.

A - Markus Rieß {BIO 1835270 <GO>}

On the economic earnings, the difference between IFRS and economic earnings is minor for 2018 and also we expect parallel movements going forward because what we plan for by 2020 is real hard earning from business and they are equal in IFRS terms as in economic earnings terms.

With regard to the strong euro, it effects as well as the SCR as the eligible own funds. Therefore, we expect that the impact from the FX should also be within the lower range here. So as the best guess I would take the assumptions for 2017 plus small impact upwards from all numbers then we have the economic earnings for 2018 and also for 2020.

Q - James R. Oram {BIO 19736003 <GO>}

Thank you.

A - Markus Rieß {BIO 1835270 <GO>}

If I understood correctly you were asking about ERGO Turkey. Is that correct?

Q - James R. Oram {BIO 19736003 <GO>}

Well, the international business in general and I was just wondering if Turkey would be one of the main areas you'd look to divest from or if there will be other markets as well.

A - Markus Rieß {BIO 1835270 <GO>}

Well, thank you. The general situation on ERGO International is that we still have too many companies which are sub-critical and those sub-critical companies, they just eat up management capacity and that's why we believe that we would be more or less naturally trying to look into the opportunities to divest then. Now ERGO Turkey would not be one of those companies, because it is significant. It's number 10 in the market. It's a three-digit million book of business.

Obviously, all of our companies would have to be falling into one of those categories that I have just outlined in the beginning and reiterated from last time and these categories would (01:50:11) need to have scale in the market. They need to be globally applicable or they need to be a part of a growth market.

Now Turkey would be into this in the third category, a part of the growth market. Now we all know on Turkey that there is a huge regulatory intervention that is currently kept on the motor prices. We have really significantly put up reserves over the last couple of years into the Turkish books. So this is not hitting us in the same way as one might have anticipated. That means there's no urgency in terms of Turkey at the moment. It will be part of general agro international revenue (01:50:53) and in that I could neither rule out nor confirm that they will be part of divestment program. But I would more or less say to say for all of our entities, which are not immediately allocated in one of those three buckets. I know it's a bit of a generic answer and I do apologize for that. But as of now, that's sort of the only answer I can give in this context.

Q - James R. Oram {BIO 19736003 <GO>}

Great. Thank you.

Operator

We'll go next to Guilhem Horvath of Exane.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good afternoon. Thanks for taking my questions. The first one is coming back to the price changes in P&C reinsurance and the impact on the normalized combined ratio. If I got it correctly, but maybe I'm wrong, Torsten, you said that the plus 0.8% was the number, which would fit through the common ratio improvement. If it is the case and I'm looking at the normalized combined ratio of 2017, which was in the range, I mean, not too far from the 100% normalized combined ratio, but it was above, it was 100.9%, you don't get to a 99%. You also mentioned that you had quite a lot of large losses, which were not classified as large losses because they were below the threshold, but if address that - for that I would like to understand if you feel you were below 100% this year? And maybe what am I missing to reach 99% in 2018?

And second question is regarding your scenario of stable pricing going forward in 2019 and then you said 2020 as well I think. Looking at what happened in the past with the alternative capacity, et cetera, it looks like when prices are going up and business becomes more profitable, well, these market participants, they tend to actually compete a bit more and put pressure on prices. So I'd like to understand if this scenario assumes somehow a higher pricing in lines outside property and if it's the case why would be the reason for that? Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

You are right. I mean, to your first question, normalized combined ratio, in 2017, normalized for everything, it's 100%. You are right. It's 100.9% or so, but when you then take what you mentioned is above expectation of cat losses below our threshold into account, if you take this one-off reserve strength into account for U.S. motor, you are - exactly it's 100%. Exactly it's 100%. And then the price change, which we already achieved in January, which is a less cat exposed business than in the coming renewals of 0.8%, then you come easily to the 99%. So here we are very optimistic that this is well achievable from what we have seen already today. So that is not the big thing in my opinion.

The other question is, did we take into account, let's say, sustainability of further increase of alternative capital, and therefore, capacity in the coming years? Yes of course, we at least try to anticipate that, but I would put it this way. The alternative capacity has not been and in my opinion is not the driver for price reduction and price erosion that they come into the market with cheap pricing. No, no. They are in the market, let's say, increase the pricing pressure in the traditional markets indirectly. That is one thing. Then we mentioned expanding of our portfolio is not primarily driven by expansion into the cat business in the coming years. Yes, we anticipate that we take some additional cat business into the portfolio, but the initiatives are not mainly cat initiatives.

Bringing that together with pricing always with the capacity (01:55:01) if you will, competitiveness in the reinsurance business, it's not a contradiction because the alternative capital is focused to cat business. That has not changed or other initiatives or other business model what - (01:55:15) how were they called, hedge fund reinsurance business models, which went more after the sort of long-tail motor businesses and long-tail businesses have not been successful. So I am very optimistic in that sense that alternative capital will not play a role in the coming years in other lines of business, other segments out of the cat business. So with this in mind, based on these assumptions, I think a sort of flattish pricing environment for the years beyond 2018 and 2019 or 2020 is not completely out of sense in my opinion. Therefore, I think that it is neither optimistic nor pessimistic.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Thank you.

Operator

We'll go next to the Vikram Gandhi of SocGen.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thank you for taking my question. I've just got one question, which is on the nice management reserve margin of about €2.5 billion, that the group has in its back pocket. And I refer this to the figure disclosed at the first Solvency II briefing. Can you share what's the latest figure as of the end of 2017 or as of today? Thank you.

A - Jörg Schneider

Become a little bit higher, but still in the same range, and it is difficult to identify the various buckets here. So I assume that our overall loss reserving practices are of a conservative nature. That means we do not have only this management margin, but this is an explicit one. It also has some denominations like it had the Ogden rate explicitly before the Ogden rate decline was executed and there are a couple of other items, which I explicitly mentioned here, but apart from it there's general conservatism in the reserve setting practices.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you. Can I just follow-up? If and when the revised Ogden rate settles, should we expect then some reserve releases on that account?

A - Jörg Schneider

If we can't avoid it, yes.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

A - Jörg Schneider

Thank you.

Operator

We'll go next to Michael Huttner of JPMorgan. Thank you.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. Thank you. Just a couple of follow-up questions. (01:57:54) Jörg, you keep meeting and you're not rising the target. So should we kind of implicitly assume going forward that you will just continue beating? And here the number which keeps surprising positively is Germany combined ratio.

And the second question is on the – you've increased your annexation to real investments to 15%, I think, from 12%. And – but the guidance is low realized gains. So, I'm just wondering, the higher profits that you expect from these assets, where we will they go? Thank you.

A - Markus Rieß {BIO 1835270 <GO>}

Well, on the Germany side, I believe that, yes, we have had two strong years opposed – compared to our expectations. Now, I would not be saying that we can take the trajectory going forward is guaranteed in terms of beating our expectations. So, let me be very clear. I still think that the targets that we have ahead of us are ambitious. But obviously, while they'd be interpreted as being extremely ambitious three years from now, we have no more confidence that we can achieve them, because we are two years down the road.

I mean, as I told you, we are in September, the first half is behind us. First half of our Strategy Program was very much cost-driven. We are quite successful in implementing those costs. So, I am optimistic that we achieve those targets. And obviously me being more optimistic increases the likelihoods of also overachieving the targets. But I don't want to get my or anybody else's hope up. This is a real ambitious five-year program. We have to be very respectful of the challenges ahead. And I believe my confidence is great that we achieve the targets and there is a chance of overachieving them, but by no means is there a guarantee or explicitly built-in buffers which make the achievement easy. So, I thank you for your confidence. We'll do everything to can over – to be able to overachieve, but there's no guarantee or an increased likelihood that we would give a very optimistic proposition on this.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Jörg Schneider

Michael, one driver of the gains from disposal in the last couple of years was the ever-declining yields, yeah, because unrealized gains were piling up just as a consequence of that. And if reinvestment yields now only stay flat, then unrealized gains will slowly disappear without being realized explicitly and we are very happy that we can keep the higher coupon for a long while. But this is the driver of our expectation that going forward there will be lower disposal gains. It's only coming from the fixed income side and not from the equity side.

Q - Michael Huttner {BIO 1556863 <GO>}

Perfect. Thank you very much.

A - Jörg Schneider

Thank you, Michael.

Operator

We'll go next to Jonathan Denham of Morgan Stanley.

Q - Jonathan Denham {BIO 19972914 <GO>}

Hi. Thanks. Just one question for me. Given the balance sheet strength of Munich Re, could you briefly elaborate on why you're looking to run the new ERGO platform for third-party administration in the future instead of acquiring place book portfolios? Thank you.

A - Jörg Schneider

This is not our business, yeah. So, we have, perhaps compared to others, a quite rigid measurement of economic values, and that means that we put a relatively high capital requirement to the market risk, which is involved in these primary life books and, therefore, we are not the ideal company to run these risks on their own balance sheet. We are happy with what we have at the moment and we are in principle prepared to offer our administration capabilities, but not to leverage our balance sheet further to that risk.

Q - Jonathan Denham {BIO 19972914 <GO>}

Very clear. Thank you.

A - Jörg Schneider

Thank you, Jonathan.

Operator

We have no further questions in the queue.

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

Okay, then, thank you very much to all of you for joining us this afternoon. Further questions, we are of course happy to answer and we are very much looking forward to seeing all of you soon. Thanks again. Bye-bye.

Operator

That does conclude our conference for today. We thank you for your participation.