Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Ritchie, Analyst
- Antony Wang, Analyst
- Ashik Musaddi, Analyst
- Darius Satkauskas, Analyst
- Iain Pearce, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

Good day, and welcome to the Munich Re Half Year Financial Report 30th June 2021 Conference Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Mr. Becker-Hussong, please go ahead, sir.

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Simon. Ladies and gentlemen, dear friends, good afternoon, good morning wherever you are. A warm welcome to our conference call Munich Re's second quarter 2021 results. Pleasure to have you all with us, and very happy to welcome our today's speakers Joachim Wenning, our CEO; and Christoph Jurecka, Munich Re's CFO.

The two gentlemen will start this call with a short statement based on the slide deck we provided on our website. Afterwards there will be ample opportunity for Q&A as always. And with that I hand it over to you, Joachim.

Joachim Wenning {BIO 16273429 <GO>}

Thank you, Christian, and good afternoon, everybody. Thanks for joining the conference and I hope you're all doing well. Let me talk you through some important achievements of

ERGO and Reinsurance in the first half year on the way to meet our 2021 group earnings commitment.

ERGO had a good start into the first year of the five-year Ambition 2025. Top line shows strong growth in Germany plus 5%, and internationally plus 7%. In Germany we are seeing strong new business development both in P&C and in Life and the hybrid customer approach responding to on and offline needs of customers has been effectively supporting this good business development. This strongest growth at ERGO International could be seen in P-C in Poland and in the health business mainly in Spain. So ERGO bottom line shows very strong numbers so far. As expected, various initiatives targeted to continuously increase the level of process excellence in Germany and abroad contribute to further improve efficiency and the technical quality of the business remains remarkably strong with stable and attractive combined ratios despite above average major losses.

On the Reinsurance Slide, I'm on Slide 6 just in case in Life and Health, we continue to grow our portfolio and key contributors are strong new business development in the US and ongoing growth in our financially motivated reinsurance business. And I should also mention the interesting acquisition of GroupHEALTH.

GroupHEALTH is a leading TPA and the Canadian Group life business allowing us deeper and broader access into a what we consider low risk, high return market. And besides that, it's really shame we cannot see the beauty of the life and health reinsurance development due to ongoing COVID losses, which are affecting this line of business.

On the P-C reinsurance side, we seize the tailwind from a hardening market environment by substantially growing both our core and the risk solutions business. Growth currently is clearly double digit, and we are actually leveraging our leading market position. However, we aren't rushing, while strongly expanding in attractive markets, we are more reluctant and more selective in other areas like US casualty.

At the same time we are paving the way for future growth by creating and developing new business opportunities. In many cases based on digitalized models. And of course I should not miss to add that the investment results have been very strong with attractive returns on investment.

In addition to that, our captive asset manager, MEAG is also progressing well with regard to their TPA, sorry TPAM, third-party asset management business, it's been growing and Morningstar rankings show MEAG in top positions compared to their peers. So, bottom line insurance, reinsurance and investments altogether have contributed to a strong first half-year result of EUR1.7 billion totally in line with our 2021 earnings commitment. On Slide 7, I would now turn our attention to the 1/7 renewal experience and results so far. Overall, the price change for our book was 2%, plus 2% as always fully risk adjusted. We benefited from this by growing our book by 11.1%. The most powerful impact was observable in the US, there practically in all lines of business. In casualty due to social inflation and low interest rates and in property due to cat losses. Outside the US, so in Latin America and in some Asian markets we also saw rate increases driven by loss experiences.

Against this background, Europe showed the mildest price momentum. Our takeaway from this renewal, or I would say from all the renewals in the course of this year is that the trend of rate increases is unbroken. We do appreciate this in some areas by improving the technical margins, in other areas by compensating for interest rates and loss inflation.

However, it's also true that in the (Technical difficulty) increasing. With close to a billion US dollars of cyber premium income we have a global market share of close to 10%. Despite the various tax with high media attention and primarily since the outbreak of the pandemic last year, our cyber performance is still fully in line with our expectations.

Their impact on us was very limited and compensated by price increases. We are well on track to achieve 85% to 90% combined ratio going forward. And going forward, we would also expect demand to grow faster than available capacities. This should create further momentum to increase transparency provided by clients and customers and improving terms and conditions. We will prioritize our capacities towards those areas where diversification is the highest, wordings the strongest and interest alignment the most pronounced. We regard Munich Re as key driver to further foster resilience throughout the global cyber market, and to accomplish this we will continue to further invest in expertise, technologies, cyber services and cyber partnerships.

Just a few comments on inflation as well, Slide 9. The consumer price index has indeed increased recently starting in the US and then with the delay and probably at lower levels in other regions like Europe as well. But we aren't worried about it. First, many lines of business (Technical Difficulty) business and issue true also for the shorter-term property reinsurance businesses.

Second, in P-C business in many cases index clauses are protecting against inflation. Third, in new business, we always price for the most recent trends. And fourth with regard to the back book, we are broadly hedged against consumer price index through inflation bonds. That said CPI however has only limited significance insurance. There is more specific phenomena like medical inflation, social inflation and others which can matter more or less. We take all of these factors regularly into account when it comes to adjusting our pricings and reviewing our reserves likewise.Plus, we have additional hedging potentially available on the asset side through asset classes like real estate, infrastructure invest, equities and others.

With Slide 11, I would like to miss mentioning ESG. I should remind you of our non-financial Ambitions 2025 above all our climate Ambition 2025, and our social ambition to have 40% female managers by 2025. The necessary governance to reach all of this is set up, and respective execution and monitoring are taking place, and I think that we will report our progress probably on an annual basis and probably starting next year. Yet, I'd like to highlight already today that we are well on track to also reach our non-financial targets. Finally a quick look at the outlook 2021 Slide 12 with EUR1.7 billion in the first six months, we have already earned 60% of the earnings commitment. From a growing book of business, we believe that EUR2.8 billion earnings this year is still doable and we are fully confident this view has not changed.

ERGO and Reinsurance have grown their topline to now EUR58 billion, EUR1 billion more than what we indicated last quarter, and the recent flood event in Germany and the neighboring countries in the Netherlands, Belgium, France and Austria will probably mean a mid three-digit million euro loss burden to us, still all in line with our expectations for the EUR2.8 billion result in 2021.

I do not want to miss to express my deep sympathy with all people and families affected by this terrible catastrophe, and thank for the immediate and extensive support and solidarity from all corners of our society.

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

Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Joachim. Warm welcome also from my side. It's a pleasure to run you through the Q2 figures today. As usual I will not go through the presentation as you were able to look at that in advance anyway, but start with a few personal remarks on the development. As already indicated, in the pre-announcement, we achieved a net result of EUR1.1 billion and the return on equity of 19.2% in the quarter.

While the COVID-19 related claims at ERGO and P-C Reinsurance were in line with the expectations we had high mortality rates in some emerging markets which left their mark on Life and Health reinsurance. Apart from the good operating profitability in all fields of business, the strong Q2 result was also driven by comparatively low major losses, and by a sound investment result.

Starting with the investment result in Q2, we achieved a return of 3.1%. This result was supported by a disposal gains from typical portfolio turnover and some sets at our financing, as well as seasonal dividend effect. The derivatives we use for hedging made a small negative contribution while the related positive impact on equities was only partially realized as a profit, so we're able to build up unrealized gains. Additionally, we also benefited from commodity derivatives, Joachim just been speaking about the way how our assets also one way of coping with inflation. The reinvestment yield further increased to 1.7%, thereby somewhat easing the pressure on the yield attrition but of course on a very low level.

Now turning to Reinsurance. The Life and Health technical result including fee income of EUR64 million fell short of the pro rata annual ambition. The higher than expected COVID-19 losses of EUR140 million were driven by the high mortality in South Africa and in India. For 2021, we are now expecting COVID-19 losses of around EUR400 million and therefore the probability of missing our annual guidance of also around EUR400 million for the technical result was all plus fee income has increased.

Adjusted for the COVID-19 however, the performance and Joachim was mentioning that was even better than expected, and this was due in particular to retroactively agreed premium increases in Australian disability business and to one-off effect in a major reinsurance treaty in North America.

More generally, overall the positive experience in Europe and Asia, got largely compensated for the negative experience and United States, including a few large losses. On the same level as in Q1, the fee income continues to show very strong contribution. Now P-C reinsurance, and property-casualty reinsurance we posted below average major losses. COVID-19 losses of around EUR100 million fully in line with our expectations, so the initial expectation that now over the year the COVID-19 claims would gradually reduce, this trend is still intact.

Overall, the combined ratio of 90.1% benefited from a low major loss ratio of 6.8 percentage points. And including the usual reserve releases of 4 percentage points our normalized combined ratio amounted to 95.3%, fully in line with our full year guidance, considering that the number is expected to improve further as we continue to earn through the rate increases achieved in the recent renewals.

Now if we joined to look at ERGO, ERGO continued its pleasing financial performance posting a strong net result of EUR155 million. If you look at that in the context of the annual guidance of 500, you'll easily see that that's highly above the run rate. In all lines of business the underlying performance was healthy, cost all ERGO operations, and on the COVID side ERGO was only showing a marginal effect EUR6 million in the quarter.

The German Life and Health business within ERGO posted net earnings of EUR33 million driven by a good operating performance in health and some lower claims also in travel, which contributed to the solid result. In Life, a large part of the assets that are has already been funded in the first half of the year and in this context, also the disposal gains in Q2 were lower than in Q1.

Now P-C Germany the combined ratio is 92.6, and came in slightly higher than anticipated, but looking at the large losses both in nat cat as well as in man-made side, I think it's still an excellent result, because what we see is that strong growth and a very good operating performance could nearly fully compensate this above average nat cat and man-made development.

But I mean, looking at the half-year numbers and also looking at the usual uncertainties plus the flood event Joachim was sort of talking about already and we have to say that it's become more challenging for ERGO to achieve the combined ratio target for the full year.

In the international business there is an ongoing favorable development and a net result of EUR41 million in the year, which underlines the successful strengthening in our core markets. Again we had a very strong quarter in Poland and Greece, which contributed to a combined ratio of 92.2%. The health business was stable with the continuously strong operational performance in Spain.

Now some remarks on capitalization. The Group's economic position remains strong. Also obviously 2 ratio increased to 225% in Q2 slightly exceeding the upper end of our optimal range. If we look at the development, what were the main drivers of the development well, on the positive side, we have the strong operating economic performance across all segments, and we have positive market variances. On the negative side, we have an increase of the ZZR both on the investment as well as on the business side and of course the redemption of our subordinated bond from May this year.

Now I'd like to conclude with the outlook for 2021. In light of a strong business growth both in Reinsurance, as well as in ERGO, we now expect EUR1 billion higher premiums, Joachim mentioned that already, and the first half year result is now a pretty good basis, a pretty good path towards achieving the net income target of EUR2.8 billion.

As mentioned, the usual uncertainty with respect to large losses, and on top of that the flood events in July this year, make it a little bit more ambitious for equity to achieve the 92% combined ratio target and on the reinsurance life side the COVID-19 development we saw so far and the expectation for the remainder of the year will challenge the EUR400 million technical result guidance as given at the beginning of the year.

So that pretty much concludes my introduction. Joachim and I are now looking forward to answering your questions. But first, I'll hand it back to question.

Christian Becker-Hussong {BIO 19080254 <GO>}

Yeah, thanks Joachim, and Christoph for your introduction. I'm aware that some of you out there have technical issues listening to this call. From a technical standpoint, it would be an option to switch to the webcast at least for those of you who do not intend to ask questions. Otherwise, we hope we can fix the issue soon. Otherwise, just send me an email, if you can't ask the questions you would like to ask. So, let's try it anyway, and let's go right into Q&A.

May I please remind you to limit the number of your questions to a maximum of two per person. And you can of course rejoin the queue for another round of questions if you wish. So, please go ahead with the first question.

Questions And Answers

Operator

Thank you very much, sir. We'll now move to our first question over the phone, which comes from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello, good afternoon, everybody. I hope you can hear me all right. It's Vik from SocGen. I've got two questions. One on COVID, the other on renewals. Firstly on COVID reserves, the IBNR level of 68% looks particularly strong and even more so considering nearly 57% of those reserves are related to contingency lines. If I do a simple math and assume even a theoretical maximum of 100% IBNR for all other lines of business except contingency, it implies contingency lines of an IBNR of about 45%. So in reality the IBNR on is contingent is probably above 50 which looks really high for a short tail line of business. So probably you can share with us what's driving that high level of IBNRs? And secondly on the renewals not just the mid-year but considering even the April renewals, can you tell us how the PMLs or the peak risks have moved versus last year not just the US but even Australia and Japan? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Vikram, Christoph here. I'm happy to take both of your questions. First of all the IBNR level. Indeed the numbers are still a significant and we are feeling comfortable with that given that the one-off of the business of the claims adjustment both as I must say is still not as quick as I would personally have expected. I think we had the conversation already in Q1. Since then, I think we made some progress in claims adjustment. But if you would have asked me half-year or three quarters ago, I would probably have said well we'll be much more advanced by now which we are not.

So therefore, we feeling confident with the level of IBNR we are still having. On the numbers and the calculations you provided us with, I think it's important to notice that we basically have two different kinds of IBNR, if you want. One is, IBNR which is already kind of allocated very specifically towards a line of business thoughts sometimes even a treaty or a client relationship, and on top of that we have more general IBNR to cover more general uncertainties, and obviously this more general IBNR, we call it bulk IBNR, the bulk IBNR. I mean allocation to put lines of business is to some extent, I wouldn't say artificial but I mean there's a lot of leeway if you want, and therefore I mean if we provide you with the figures that are booked but I would not over interpret. I mean, probably, let me put it that way over interpret the allocation at this point in time given the uncertainties which are still around based on the very slow claims adjustment process.

That's probably the answer on the first question. The second question the PML. I cannot give you numbers at this point in time, that's may be something we could also then discuss offline, but the growth has not only been sitting in our peak scenarios. I think that's important to notice. So if you only look at the growth and only looking for growth in the peak scenarios then you would miss substantial part of our growth, which is also growth we are having in our pure re business is, for example also growth we're having in some less peak event affected lines, other than proportional covers where we have additional growth. So in that regard I think independently now of the precise numbers I think my general answer would be it's growth pretty well diversified across the various businesses we are having.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much.

Operator

We'll now move on to our next question over the phone, which comes from Will Hardcastle from UBS. Please go ahead. Just to confirm, Mr. Hardcastle not receiving any audio across the line? You might be on mute.

Q - Will Hardcastle {BIO 16346311 <GO>}

I was indeed. So thanks very much for taking the question. Two questions. The first one on solvency. We've got a 225% print which is very strong, and it is beating consensus by nearly 10 points, I guess. What we are doing wrong from the outside or is just benefited the ratio that we couldn't have forecast externally, and did these benefits come on the SCR or all eligible own funds?

And the second one is on the reinvestment yield. Clearly I guess you've gone up 20 bps, Q-on-Q, which is quite sharp and just can't really understand what asset reallocation or duration shifts have been taken and which segment is that likely to benefit. So all this all through Life and Health for example. Thanks.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, well, Christoph again here. Solvency, I think outside in it's pretty hard to predict precise numbers on the Solvency II figures for a number of reasons. First of all, let's focus on the quality. As I mentioned business SCR increased what you cannot really see from the outside perspective is that the amount of diversification in that growth, because it very much depends on also how broadly you distribute your growth across the various lines of business.

That's one example where it really hard outside into come up with the precise numbers. The other topic is also operating economic earnings. As you know, there are certain elements where this economic earnings concept is pretty close to IFRS, but there are other areas where it's completely disjoint to IFRS. For example account already for the full expected future earnings in the economic earnings in opposite to IFRS, so you only have the first year in your earnings and these are just elements which are not at all accessible from the outside perspective. On the sensitivities we also have to say and I think reiterated couple of times already in the past but also the sensitivities the linear approximations but their convexity of effects on top of that.

So even the sensitivities on capital market parameters are not always 100% precise. It's also something we have to keep in mind, especially in a situation where we also might change hedging strategies and ALM mismatches because in all these sensitivities in this economic world everything is fully mark to market but then obviously you very quickly see change hedging approaches, you quickly see ALM mismatches which are changing. You see different FX exposures, and you know the sensitivity people provide you at the beginning of the year they obviously based on the status quo back then.

So having mentioned all that if you combine a few of these effects and they all go into the same direction then you end up with a comparatively big gap like in this quarter where the consensus, I would agree is pretty far away from 25 now we have now been releasing and let's say more normal quarter some of the effects are offsetting each other. And then the consensus estimate is sometimes much closer to where we actually are. But fundamentally, these differences are always the same.

The second question reinvestment yield. Well, I mean you know the interest rates especially in the Euro zone. They increased little which was helpful in this quarter. But on top of that what we also did is we again looked into the duration of our reinvestments and also slightly increased the amount of investments into some emerging market bonds versus maybe more covered bonds or more Eurozone fixed income instruments.

So I think it's a mix of the both which led to the fact that the 1.7 is now a little bit higher than the 1.5 last quarter. In any case, I mean the reinvestment volumes are never huge. So, the marginal impact is not massive and what I said in my introduction is that it's just some easing effect from the 1.7 versus the 1.5 years last quarter. We shouldn't over estimate that and again we are on a very low level. All in all, the investment risk is, if you compared to also the insurance risk. So the balance is unchanged and the slight increase of SCR also on the investments side, I've been mentioning before (Technical Difficulty) -- is fully within the limits of our risk strategy. So fundamentally no change.

Q - Will Hardcastle {BIO 16346311 <GO>}

Thanks a lot. Just one very quick follow-up on that. Just, I guess, it has a bit reallocation and better duration is there more to go, or have we sort of caught up of the mix that you're looking to achieve here?

A - Christoph Jurecka {BIO 17223019 <GO>}

I think it's just a -- if you want it's a little bit arbitrary what you invested one quarter to the next, and so I would not see any strategic irrelevance in this volatility from one quarter to the other with respect to new investments.

Q - Will Hardcastle {BIO 16346311 <GO>}

Very clear. Thanks.

Operator

Thank you. We'll now move on to our next question over the phone which comes from Andrew Ritchie from Autonomous Research. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Could you just focus first of all on the gross premium growth in P-C Re. I mean, it was exceptional in Q2, 37%. Was there anything particularly lumpy or unusual about that? Is there, I mean it's a fronting business in there or something, and I guess linked to that relative to the outlook you gave both of the Investor Day and at the beginning of the year, but does seem to be a lot more growth in P-C Re than expected than you expected. Although it doesn't look like pricing is particularly stronger. So what is driving that stronger growth? Is it much more meaningful expansion of risk solutions? I'm just trying to understand what was changed as to why you're seeing a lot more than maybe you thought you would.

Second question, on investment income. When I look at the recurring investment income, particularly in P-C Re, there's still quite a sharp decline 20-30 bps in terms of yield year-on-year even though I would have expected some recovery in, I think our dividends et cetera. Is there anything unusual in that, or is that level of investment income, run rate given where reinvestment rates were obviously very depressed last year?

A - Joachim Wenning {BIO 16273429 <GO>}

Hello, Andrew. This is Joachim. Hi. So with regard to P-C reinsurance growth, is there any things special about this spectacular 1/7 growth, the straightforward answer is no. Nothing special, no underwriting policy has changed. There is no one single large transaction that explains it all. So it's a blend of new businesses or extended client relationships and the rate development nothing else, nothing special release just a great growth outcome. You are rightly alluding to the growth expectation, end of last year or even last quarter for this year was slightly less bullish.

You're right. So, what we had to learn luckily this year is that the hardening environment as we for sure last year actually is at least as strong as we expected it to be, and together with the capacity that we are willing to hand out to the market, we see there also some complementary growth that comes with that.

If you like that is higher than what we had expected end of last year. That's true. The second question, Christoph can you take it?

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah. Andrew you founded the technical topic. Sorry, we have a noise here. Okay, ahead. Andrew you found that the technical one-off hit in the investment result of the P-C Re business. What's happening there is that I agree you would have probably expected a little bit higher running yield given also that the dividend season is in very much in Q2. The offsetting one off in here is that we have a lower regular income from associated companies compared to prior year, and that's a non-recurring effect.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Can I just ask on the P-C re growth. There must also be an effective from risk solutions being stronger than you expected, because we can see the renewal of the reinsurance premium in recent renewals. Okay there is a timing issue as to when that flows through. I get that, but we can see that 10%,11% growth the most will be a quite a big impact from risk solutions is stronger as well. Is that what the case?

A - Christoph Jurecka {BIO 17223019 <GO>}

Andrew there is growth coming from both, from core P-C Reinsurance business, but also from risk solutions business. And with regard to the latter at this point I wouldn't say that we had underestimated or overestimated the growth outlook back last year is rather than already end of last year, we expected this to grow with 10% CAGR. And this is what we have seen to-date, slightly more.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Alright. Thanks.

Operator

Thank you. We move on to our next question over the phone, which comes from Vinit Malhotra from Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon and thank you very much. So, I had two questions on growth and investment can do, but I'll just rephrase. So on the growth side thank you for the answers on the P-C re, but from the ERGO P-C Germany as well when I see the numbers, it seems that there's growth in various lines, including in liability lines. Now as there we've heard from you how you're cautious. I know in the US casualty side, but if you could just comment a bit about ERGO's growth as well in this quarter in the P-C Germany area that be.

So second question is just could you update us on the derivatives and commodities in particular. So you know you mentioned how real assets are employed by the group to manage inflation. And then in the P-C investment income, I see a derivative gain of EUR107 billion in 2Q and it seems to becoming a lot from commodities as well. Could you just help us understand where they because, and the reason I ask you because, if -- ask you because it used to be a topic a few years ago, but then I thought it was the commodity exposure was lower. But could just help us understand. Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

Good afternoon,Vinit. This is Joachim. So I take the first question. Christoph takes the second one. So ERGos, P-C Germany growth that comes from a couple of reasons. Before I come to the reasons I would like to highlight ERGO P-C Germany is growing faster than the market.

So they are making market share, which is a very, very good and strong sign. They did that last year, and it seems continuing to-date. Where does it come from? One is new products, which very successful launches something that ERGO in the very past was slightly weakened, now there are very strong in that, they sell.

The second thing is the productivity of the sales forces, both in P-C, but also on the Life and Health side has been increasing. That's part of this sales approach of ERGO. That's also a result of the hybrid customer strategy of ERGO which integrates off and online approaches of one and the same client. It's this, it's not like on the reinsurance side, the market environment it's this. And with regard to the casualty business of ERGO in Germany, I would suggest you cannot possibly compare it at all with US casualty business. It's totally different market, it's totally different market dynamics. I would say the German casualty business is plain vanilla business.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

And Vinit your question on derivatives and the commodities. First of all, I can confirm that there is a significant positive result impact from commodity derivatives that's something I mentioned already in my introduction to give you an order of magnitude. It's a very -- it's a high double-digit million euro numbers. And this is part of our overall investment strategy where we try to hedge inflation as much as we can. Of course, there's always some basis risk.

But we really look into our liability position also from an innovation perspective, and then set up an asset portfolio, which as much as possibly really, really hedges, then the disinflation exposure. And to do that we are relying on various asset classes. You were mentioning real assets and equities also part of that, but also obviously commodities and one way to invest into commodities is by using derivatives, but then it's also inflation-linked bonds for example. That's also part of that investment universe where we are using for this inflation kind of hedges.

In the reinsurance portfolio altogether, it's about 25% of our assets which are inflation sensitive to give you an order of magnitude.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Christoph sorry to ask. Is there any -- as there been an increase in commodities, basically because of inflation or was it just stable and now we are seeing the result?

A - Christoph Jurecka {BIO 17223019 <GO>}

I mean this is commodity position is not a static position per se. So in that regard, we are always looking into opportunities, and then also given on the opportunities we see on the opportunistic base, increasing the portfolio, if we think it's a right environment to do so. So as it does not tell the hedge, I'm a little bit -- I'm just struggling a little bit what is the basis for comparison, but indeed we have been benefiting quite a lot this quarter from commodities. Maybe let's put it that way. And I think that's about it what I can say about that.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much.

Operator

Thank you. We'll now move onto our next question over the phone which comes from Antony Wang from RBC. Please go ahead.

Q - Antony Wang

Thank you. Just question here. So first one on the Life and Health Re, could you provide some color on the US and non-US fleet after of the mortality claims, please. I think it'll be helpful to understand like the biggest exposure, other than US going forward.

And the second question is on P-C Re growth. Given the outlook on price momentum, what -- could you give some comment on business lines where you would think to overweight and underweight in terms of growth going forward? Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

So on Antony, this is Joachim. So on the life and health reinsurance side where is the potentially bigger loss potentials or claims potentials sitting. On the mortality side it's always there were seeing the largest event is a pandemic actually, if it's not a pandemic it could be a natural catastrophe just causing a high number of this.

And then it is single large risks. So individuals passing it away with very high sums. What are the amounts. I mean a pandemic can cost you know our modeling the one in 200 (Technical difficulty) years loss that goes in excess of EUR1 billion for our account. The single large losses for one individual depending on the client relationship they can make up EUR10 million, EUR20 million. They can make up EUR30 million, EUR40 million, EUR50 million per person. That is roughly my answer, if I got your question,fully right. On the P-C --

Q - Antony Wang

Sorry, I just one follow up. Sorry just follow up on that. I guess it's just if you could provide any color on US and non-US fleet of the COVID claims, would be helpful.

A - Joachim Wenning {BIO 16273429 <GO>}

You mean the COVID claims only. Sorry then on the COVID claims for the US these were in the first half year around, Christoph was it around 300 around?

A - Christoph Jurecka {BIO 17223019 <GO>}

Well the point is we have EUR140 million in the quarter. I think you were referring to the full half year, but for the quarter EUR140 million, and what I cannot give you or what we do not provide you with the exact split between the emerging markets and the mature markets, so your North American markets.

But if you -- give you an order of magnitude, the expectation we had initially for the mature markets, is this pretty the actual development is pretty close to the initial expectation of the initial guidance but pretty well have covered what the actual development was in the United States and then other mature markets.

So what comes on top must be then, if you do the math coming from India and South Africa.

Q - Antony Wang

Sure. Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

So I take the second question, which was referring P-C reinsurance growth appetite, and you asked for where do we have an overweight appetite, where do we have an underweight appetite. I need to be a little bit careful and generic my answer, because of course this response is highly interesting also to the competition.

But broadly, I would say there is sort of a natural limit of how much is P-C reinsurer, you can have in the big exposures because of one client wouldn't give all of it to one reinsurer. And if we assume that this is sitting somewhere around 25% in many cases when it comes to very high exposures it may be sitting somewhere of 15% per reinsurer, not more than I would say in markets with a high nat cat exposures like the US, like in Japan, like Australia and some others more we are relatively close to how far a client, and how far we ourselves would go.

And with regard to the non-peak businesses there is appetite to grow it as much as possible as long as it diversifies and as long as the market environment or the rates look attractive to us that we follow, really a transactional more opportunistic approach. And then there is some underweight areas where we would say we wouldn't like more of that, that is typically those areas where we have seen industry issues or company-specific issues with regard to the quality of the business or with regard to the appropriate rates of these business. Yes, we had been more reluctant in the US casualty business in the past years, but as we see the original market catching up for its deficits in this, if you like we are open to it, but still cautious and selective.

On the Life side, for example, with regard to the Australian DI business, I don't need to repeat that was to be fixed area for us for many, many years and there we would have an underweight appetite. So its underweight is mostly where we had issues.

Q - Antony Wang

Sure. Thank you.

Operator

Thank you. And we'll now move to our next question over the phone, which comes from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, thank you. I just have a couple of questions. First of all, in terms of capital return, I mean I think you mentioned earlier the solvency capital has been very strong and has been largely supported by strong diversification benefit. So if I think about it, I mean, last time I remember you mentioned that the reason why you are not willing to do the share buyback this year is because you plan to grow faster. Now the growth is coming, but not very capital intensive. So is there any update on potential capital return plans? And can it be revisited in, say, third quarter results this year or early next year? So, that's the first question.

Second thing is, I mean, clearly, EUR1.7 billion of your EUR2.8 billion earnings is already done. So you're left with EUR1.1 billion to be done. Now clearly, I agree that the uncertainty around cat is high as we enter the hurricane season. But how would you classify the reason why you're not upgrading the guidance? Is it because of the cat that has already happened, which is the July flood losses? Or would you say that's not really the problem. The problem is we just don't know what is going to come. So how would you classify not increasing the guidance here?

And thirdly is, any thoughts on cyber business if you can give? I mean, clearly, some of your peers -- one of your peers, smaller peer has recently reported, and they were talking about like prices doubling in cyber market. So what would you say? I mean, is the cyber market, you would say, getting better in terms of loss frequency severity pricing? I mean, is it getting more profitable? Or would you say there remains a constructive uncertainty around cyber in next, say, 2 to 3 years? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Okay, Christoph speaking here. First of all, the capitalization, the growth and the potential share buyback. Well, first of all, yes, indeed, we are pleased with the growth, and we are pleased with the diversification. And we are also pleased with the capitalization that we have achieved so far. At the same time, it's only midyear. And we usually do not talk about share buybacks midyear. Anyway, there's a lot of development still ongoing. And one important base for share buybacks is also just the earnings of the year and how the final result will be evolved.

So therefore, we don't see the need to immediately go into these discussions. But at the same time, beginning of next year, once we know what the year-end result will be and how the second half of the year has evolved, and very obviously, it will be on the agenda that we will sit together and discuss if and to what extent another share buyback should be done.

Result wise, I think that's your second question, EUR1.7 billion out of EUR2.8 billion. Well, I mean, our business is volatile sometimes. And we are ahead, but we are ahead as large losses have been below expectations in the first half of the year. And that's a pattern that's not completely unusual. And we should be really careful in extrapolating that already until year-end. So as much as we are pleased by the head start, we are still continue to be a little bit cautious. And that's basically the reason why we think it would be premature to talk about higher earnings target for this year. Having said that, operationally, we are really pleased for the developments.

So really, wherever we look into the business, the underlying profitability, the underlying development of the business from an operational perspective is really outstanding. And the third question, I think, Joachim, do you want to take that?

A - Joachim Wenning {BIO 16273429 <GO>}

I will take it in, Christoph. Ashik, this is Joachim. Is the cyber market getting better? So I would say the cyber market started pretty much as an immature market in various sensors immature in the sense of although individuals and companies were cyber exposed there was no or very little demand in the very beginning and also from a risk area perspective there was little, if not any data and even if you had historic data what the historic data tell you in terms of the cyber risks going forward.

So since then, I think the industry -- the cyber industry -- the cyber insurance industry has matured. Mainly market leaders, and we are among them, have invested a lot of resources into a proper cyber risk understanding and properly assessing our risks. And since then, the market leaders have defined their underwriting policies accordingly.

And the main point about the underwriting policies is, to me, not primarily pricing, whether you price 100 for risk or 103 or 91, it is that you expose yourself to those type of cyber risks where you believe that they diversify or have the potential to diversify across regions and across clients, and to make sure that the accumulation risk is under control because cyber, of course, has a very systemic component and a very toxic one and you better make sure is it risk area that you don't get involved into this one.

And with these policies, the market leaders have been growing with a growing demand. And so far we see the market as good in the sense, responsive to a change in losses, responsive in terms of, I would say, risk management requirements that the risk areas suggest to their clients, and that would be my comprehensive qualitative answer to your question at this point.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Thanks a lot.

A - Joachim Wenning {BIO 16273429 <GO>}

Thanks.

Operator

Thank you. And we'll now move on to our next question over the phone, which comes from Thomas Fossard from HSBC. Please go ahead, your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon, everyone. Two questions, please, on the Life and Health reinsurance business. Actually, we talked a lot of growth coming from P-C, but can you explain us a bit more what's going on the Life and Health Re side in terms of top line growth. In your financial statement or report, you're pointing in Q2 some loss of treaties in Europe and Asia, if I remember well. So I was wondering why this was the case?

And second point, in another slide, you're pointing to very strong growth in new business. But of course, in IFRS terms, we are not seeing that. So I would be interested to better understand the dynamic here. And also if you could quantify how much is the new business growth?

And second point would be more relating to the underlying profitability of the life and health re book. It seems to be that it's going from strength to strength on a quarterly basis, stripping out COVID. I know that there is a bit of one-offs into that, but it seems to be that you're very, very satisfied with the underlying performance of the Life Re book. So I was wondering if actually you're not too conservative -- too prudent as well as it stands now regarding your technical margin, including fee income guidance for maybe over the next two years? Thank you.

A - Joachim Wenning {BIO 16273429 <GO>}

So Thomas, thanks for your question. This is Joachim. The Life and Health reinsurance business is expected to grow in the next years with a CAGR of 4%. In this year and in this quarter, we have seen a slight premium decrease, I mean, a marginal decrease which doesn't break the expectation or doesn't change our picture. It is simply due to mainly FX effects, which in other quarters may just go the other way around. And it's also thanks to a couple of transactions that have run off. It's not transactions that we have canceled. It is like when you have, for example, a 5 years capital relief transaction and there is no longer a need for a capital relief, then this transaction runs off, and that decrease in premium is taken into account. Nothing else than that with regard to the numbers.

Then how is the business growing? It is growing through, again, financially motivated reinsurance needs of our clients. That is nothing new, but it is continuing to be a big need, both in the North American markets, but also in Asia. And there is a value proposition that has been extending every year more and that is the predictive analytics capabilities of our life colleagues, which they offer and build into their cedent propositions, which allows them then to take our proportional reinsurance business. That's mainly a US growth reason.

And then the underlying profitability is stripping out COVID, you're right. It's a nice thing, and I said in my introductory remarks, it's a shame that there are COVID losses because this is just covering how beautiful the underlying is. But you want a better commitment with regard to the results. I was in charge of the Life reinsurance business. I have seen that every year, if not every -- but every other year, there was something in the way of showing growing IFRS earnings. But if you ask us, we do believe that once these extraordinary effects like COVID losses are done, that the underlyings will provide a very nice bottom line impact to the group, and the fee income, I would say, if you expect going forward, then that will be around EUR100 million earnings per year. Then that it would be a pretty appropriate guess. Thanks.

Operator

Thank you. We will now move on to our next question over the phone, which comes from Ian Pearce from Credit Suisse. Please go ahead, your line is open.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks for taking my questions. I just had one on a follow-up on cyber. I'm just wondering if you could add a little bit more detail as to sort of what sort of rate increases you're seeing on your cyber book? What your sort of growth expectations are there if you're deploying capital and sort of growing ahead of rate? Just sort of thinking about that as what you're seeing in the market in terms of claims trends? And also how much cyber is contributing to the overall very strong growth that you delivered?

And then my second one was just on, there was a bit in the presentation that talks about monetizing digital business investments. I was just wondering if you could elaborate on this, if this is related to sort of monetizing the investments you made in some of the digital partners investments? How you think about going about that? Whether that's sort of exiting investments that you've made? And should we think that this is a sign of less investment going forward? Or is it very much that you expect the digital partners franchise to continue to grow, but that sort of first cohort of investments that you've made is now sort of ready to start showing some gains.

Thanks.

A - Joachim Wenning {BIO 16273429 <GO>}

Okay. I will take. Iain, this is Joachim. Good afternoon. I take the first one with regard to cyber. You asked about the rate increases that we are seeing. We have seen this year rate increases very clearly, double digit. Is that good or is that bad? Is that enough? Or is that insufficient? It was at least it was good enough to cover the higher losses, which we have seen since the outbreak of the pandemic and the related increase of cybercrime.

And going forward, we, as Munich Re, we would expect that demand grew faster than supply because there is that much capacity that the whole industry can altogether offer to the market. And we believe the demand in the end will extend that, and there is no capital market capacity available. So my expectation would be that the pressure on rates upwards is going on.

Second question. Can you -- Iain, we have a difficulty in this room because the quality was a little bit poor of the transmission when you asked your second question. And we are not exactly sure what it was. Would you mind just repeating it?

Q - Iain Pearce {BIO 19522835 <GO>}

Yes, sure. Sorry about that. Yes, it was just around the line in the presentation around the monetization of digital investments. I was just wondering if you could elaborate on how you're thinking about going about monetizing those digital investments.

A - Joachim Wenning {BIO 16273429 <GO>}

And this is -- first of all, we are keen to make these investments with the intent to improve our strategic position going forward, allowing us access to the original market, which we would never have as a pure classic a traditional reinsurer. And we are not going for the quick money or the quick gains, but we are going for a strategic positioning for some sort of what others call stickiness, et cetera. And with that is working, we are also happy to increase our investments and not yet the earnings from that, if that further improves that strategic strength.

And so in total, we have, in the meantime, at least a handful of digital investments, which have transformed into concrete business plans, which are providing at this point in time, still relatively small earnings contribution with regard to our P&L size. But by 2025, they will already deliver 3-digit million earnings. Beyond that -- beyond 2025, we haven't planned anything. But if you ask me, are we more keen to increase those earnings or to even do further investments? I would say, if we can do good further investments, I will be happy to do that.

Q - Iain Pearce {BIO 19522835 <GO>}

Perfect. Thank you.

Operator

(Operator Instructions). We'll now move to our next question over the phone, which comes from Darius Satkauskas from KBW. Please go ahead, your line is open.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Hi, two questions, please. You spoke about hedging on the asset side for inflation. Just a question on inflation on the liabilities side. So given a notable amount of COVID stimulus, what are you seeing in terms of general claims inflation in the US, if you kind of attempted to exclude social inflation trends, if possible? And are you cautious about the general inflation outlook at all? And the second question is, any update on South African right losses for yourselves and the industry? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Christoph here. I'll start with your second question. There's nothing I can give you today on the South African losses. It's too early to tell finally. And on the inflation on the liabilities side, social inflation, I think that's a topic we covered quite often already in the recent calls as we -- as you know, I had to adjust liabilities in some of our books over the last few years, never really to an extent that, that it was something which was visible on the overall reserving level. And we were always still able to achieve our positive runoff targets. But in certain pockets of our books, we here and there had to also strengthen the liabilities based on the social inflation experience.

So what we're doing going forward very obviously is to reflect that in underwriting wherever we can. We are very cautious when it comes to social inflation, bond exposures on the US casualty side. We tried to implement it in the structure of the treaties wherever we can. We have obviously tried to reflect the most recent estimates and also pricing assumptions looking at the individual treaties, at the renewal dates. And again, we are not renewing quite a lot of business.

Going forward, the difficulty with the long-term assumptions like that always is that it sometimes takes quite some time until you really know that you are at the end of a development or if it's still ongoing. And what makes it particularly difficult this time is that we saw quite a reduced activity in courts across the United States during COVID, which will pick up again. And there we are very much convinced that the reduced activity should not misinterpret it in a way that the social inflation fundamental is already gone or is already fully digested by the industry.

But we give the current development, which is slightly better. We give that really no credibility at all going forward. So I think that's the overview on the social inflation. Obviously, on the social liabilities side, there are other pieces of inflation, which also play a role. But again, we have annual contracts to be reflected in pricing as soon as we can. We have some index clauses for certain tariffs, also certain treaties, certain tariffs, certain covers also in place. So all in all, we feel well prepared for inflation.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Apologies, I think I misphrased my question. I'm essentially asking about the monetary stimulus driving the inflation. So I'm talking about general claims inflation rather than social inflation. So I'm just curious if you're cautious about the outlook for material prices going into cat season and things like that, what is your view? Thank you.

A - Christoph Jurecka {BIO 17223019 <GO>}

I think the general answer is the same that we feel well prepared. Part of our cat models are already the post-claim amplification of prices. So that there is a certain increased price of material after a big cat event is something which is anyway part of our model assumptions. Now you could still ask to what extent and so on and so forth. But I think the general answer is we feel well prepared also for that piece of inflation. Maybe that I was talking more about social inflation is a signal that if you would ask me personally what is the more difficult part or the more difficult piece of inflation, it continues to be the social inflation more than anything else.

A - Joachim Wenning {BIO 16273429 <GO>}

And then I'd like to maybe add one comment with regard to Thomas' question before asking for some life and health reinsurance background. Gratefully both Christoph and Christian, they made me aware that one of my statements maybe was not precise enough. I correct it. I said that you could expect like EUR100 million of fee income going forward. The correct statement would have been that in this first half year 2021, we have actually seen a EUR100 million fee income. Now you cannot just double it to have an annual figure. But going forward, we-- as, in the past, we would expect this number to grow over time.

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

Okay. I guess there are no further questions. May I ask Simon to confirm?

Operator

No, sir. The queue is clear. Thank you.

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

Okay. Thanks. Then thanks to everyone for joining us today. Sorry for the inconvenience due to some technical issues. I think they were resolved in the course of the call. Should you have further questions, please don't hesitate to get in touch with us with the IR team, as always. And we are very much looking forward to meeting you soon again. Have a nice day, and goodbye.

Operator

Thank you to our speakers. Ladies and gentlemen, this does conclude today's call. Thank you very much for your participation. You may now disconnect.