Q1 2017 Earnings Call

Company Participants

- Christian Becker-Hussong, Head-Investor & Rating Agency Relations
- Jörg Schneider, Chief Financial Officer

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Michael Igor Huttner, Analyst
- Roland Pfänder, Analyst
- Thomas Fossard, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Munich Re Quarterly Statement for Q1 Conference Call. Today's conference is being recorded.

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

Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Good afternoon, everyone. Welcome to Munich Re's analyst and investor call on our Q1 earnings. Thanks for joining us. Today's speaker, Jörg Schneider, our CFO. We will go right into Q&A and my usual housekeeping remark. Please limit the number of your questions to a maximum of two a person. Thank you. And, yeah, let's kick it off.

Q&A

Operator

Thank you, sir. We will now take the first question from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah, hello. Good afternoon. My two questions. First on P&C Re, I think it's still the highest ROE segment, claims still benign; supply, all-time highest - second highest inflows ILS in quarter one. So I wonder to what extent the slowing of the rate reduction to 0.5% is mainly a function of - meaning are we getting more disciplined, cutting down more, or is this really what you also see market-wise? This is my first question.

And secondly, in Q1, we have seen a bit more activity in German Life runoff and some of your peers are actually involved in this. And so, I wonder to what extent this is an opportunity from Munich Re? Let's assume that we see such a runoff market emerging, would you consider giving away the two ERGO Life businesses into runoff because you have seen in other market that this can create a win-win situation?

A - Jörg Schneider

Thank you, Thomas. Good afternoon, ladies and gentlemen. First on Property-casualty reinsurance and slowing of the decline of rates to 0.5%, I cannot really give you a precise answer how much this is a function of Munich Re's disciplined approach. The decline of our premium volume is due to the expiring or the willing cancellations of major contracts. One can argue, on one hand, major contracts are also business and, therefore, it's also a sign of discipline, which has a price impact. On the other hand, in some cases, we can really isolate the effect to very specific situation. So, no clear answer, and I would rather call it a market-wide effect if I look also at the disclosures of our competitors.

Second question, German Life runoff. We do not exclude anything. We observe the market. We speak to people, but it's much too early to say something about it at the moment. This is an option definitely, but on the other hand, we do everything to have a positive and value-creative runoff of the businesses under our own management.

Thank you, Thomas.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you, Jörg. Maybe one follow-on, Jörg, if I may. Would you rule out the (04:13) just taking the two ERGO subsidiaries and adding two or three more portfolios to get a more efficient runoff yourself?

A - Jörg Schneider

We do not exclude even that. But at the moment, the probability is not very high because our valuation practices seem to be somewhat rigorous in comparison to other market players and, therefore, it will be very difficult to find a win-win situation. But on the basis of economies of scale, there's also a chance in that direction.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you very much.

A - Jörg Schneider

Thank you.

Operator

We will now take the next question from Michael Huttner from JPMorgan. Please go ahead.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you very much. Thank you. And so following also on Thomas' question on the runoff, and I noticed that Victoria Leben is at 259% and ERGO Leben is at 100%, and I was just wondering if that was the kind of the same work, so the decision whether to the close the business down or to continue, in other words, did you shut down the business, the new business (05:24) and if you continue, it stays at 100%? Is that the right way to look at it? And are you still happy given these numbers that you've decided to continue growing or at least growing business in ERGO Leben?

And then on Motor, I asked and some of your – one of your connoisseur IR colleagues gave me the answer, but Munich Re Motor seems to have a lot of excess capital, I would think actually slightly more than Health but, sorry, that's a bit cynic. The question is this as huge a profit of the Life Reinsurance book and this would indicate that the expected profits are really, really, really, really big, and I just wondered does this mean that the guidance we have or the numbers that you're reporting in Life Reinsurance are still very understated, if there's still in some Q2 an extra I guess €2 billion from the numbers of future profits, which isn't in the IFRS earnings (06:26) Thank you.

A - Jörg Schneider

Interesting questions, thank you, Michael. With regard your first question to the runoff, the number for Victoria Leben is much higher than that for ERGO Leben exactly for the reasons you mentioned. And taking the business in runoff is, in the long run, beneficial for the solvency ratio, so in a way, the portfolio recovers due to the fact that there are no longer any distribution costs involved. And overall, we want to continue participating in the German Life market with our third entity which was called (07:08) so the distribution forces of ERGO has the Life product, but they will sell it out of another legal entity.

With regard to Motor and the excess capital you correctly noticed here, and this is exactly like you described it, these are future profits from Life business, which cannot be repatriated, and that is the reason why the capitalization is so high there. To take that as sign of understatement of our IFRS results, this is in a way true, but this is not Munich Re specific, but rather the consequence of the rules of U.S. GAAP where you have to form portfolios, where you have to value these portfolios and where you are not allowed to show ongoing profits on the existing book before they are realized in a way, yeah? And that is the difference between economic valuation and IFRS valuation.

But there are also onerous contracts in the portfolio, which means the portfolio is a mixture of positive and negative deviation from accounting rules and therefore, overall, hence the economic valuation gives you a very good indication for it. The economic value is higher than the value which you can see under IFRS, so we expect future profits in the course of the runoff of this portfolio going forward.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you very much.

A - Jörg Schneider

Thank you, Michael.

Operator

We will now take the next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you. On your Group Solvency II ratio, Jörg, if we exclude the impacts of capital management, the ratio seems to have been flat through the quarter. And that's a bit disappointing to me because I would have thought you've generated some capital and I would have thought the market's impact would have been positive as well, and I wasn't aware of any kind of major modeling changes. I mean, I know that this is a difficult number that bounces all over the place, but can you just explain why that ratio is flat rather than up?

And then, secondly, without getting too bogged down in the detail, you've clearly flagged the German Life benefits from a high level of realized gain. That seems to be at the positive line profits as well as the operating profit, if anything, strangely, the tax rate in German Life seems low as well. Again, I thought when you were realizing gains to neutralize ZZR, that should be profit-neutral, not profit-positive. If you could help me understand that slightly. And if you have made a noticeable profit in the first quarter, have you kind of locked in losses for the next few quarters, given that you haven't really changed your ERGO guidance? So that was a long second question but, hopefully, has a shorter answer. Thank you.

A - Jörg Schneider

Yeah. Thank you, William. I'd start with Solvency II, why did we lose 24 percentage points which is in line with the dividend impact, buyback impact and redemption of the bond. So capital management overall fully explained the decline of the Solvency ratio, but we should have shown part of the normal economic earnings, our expectation, which is approximately €600 million for the quarter, and instead it is flat.

The reason is that there are some countervailing effects going in both direction. We have, on one hand, higher-than-expected basic losses, which exceed the lower-than-expected large losses in Property-casualty reinsurance. We had a tax ratio which was slightly higher than expected and we had several rather technical effects leading to some quarterly noise. Quarterly noise is also something – a word which I would use for this whole developments based on a quarterly basis. It's rather difficult to explain it even for us because small movements, small changes have a relevant impact here.

With regards to the economic variances, the capital market impact, we had interest rates going slightly up, stock markets going up both with positive impact but, on the other hand, there is a negative impact from the spreads widening because, as you know, Munich Re is not using volatility adjusters and that means that we are fully exposed in our external presentation to widening and tightening of spreads. That is one explanation for this slightly disappointing movement, but I'm not worried at all, because having looked after all these effects, especially I would like to mention the basic losses being higher than expected, this has to do with the U.S. catastrophes, which came up with losses here, which were lower than the €10 million threshold for major losses but which were substantial overall.

On your second question, German Life, we did a lot of realization of capital gains in the first quarter to fulfill already the requirements for the ZZR, and the impact on our bottom line is roughly 10% of the effect due to the policyholder participation. But since the ZZR does not exist under IFRS, it's a kind of overstatement. And the same will not repeat in the following quarters because we have already done some 70% of what has to be done in the close of the year. And that's the reason why we do not expect similarly high profits for German Life.

Q - William Hawkins {BIO 1822411 <GO>}

May I just follow up on (13:43) the economic variances, can you tell us if they were, in aggregate, positive or negative? I got your explanation. And then, given that you've had a strong first quarter for German Life, these are the risks, but there are losses in the next few quarters or is the overall performance still expected at least to build from the first quarter?

A - Jörg Schneider

Yeah. We do not expect losses in the following quarter. We will have the typical movements with regard to (14:11) impairments or increases in provisions, but we do not expect major moves, at least we do not know about them right now. We just expect a very low positive result. And with regard to the economic variances on balance, they were positive with some €200 million.

Q - William Hawkins {BIO 1822411 <GO>}

Lovely. Thank you.

A - Jörg Schneider

Thank you, William.

Operator

We will now take the next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Afternoon, everyone. Two questions, first one is on base leverage. So the ratios (14:52) just a shade over 9% at the end of the first quarter. Can you just talk about plans there whether you intend to increase this over time and kind of whether you'd aim to get back to the 15% you're out at the end of 2013? It's the first question.

And the second question, can you update on the developments for your German GAAP earnings? I couldn't see anything in the press release. Thank you.

A - Jörg Schneider

Yeah. Thank you, Kamran. The leverage is really extremely low. We showed the as-is number after the redemption of the hybrid bond of €1.4 billion in June, which is really 9% only of the sum of our strategic debt and the equity. Our intentions here, we could have replaced it by another instrument. We have plenty of capacity, as you can imagine. But on the other hand, our bottleneck is not the economic solvency. As you see with the 243%, we are still above what we call the green zone. And therefore, there's no reason to increase our economic capitalization for the time being.

So, we could consider a new hybrid issue for purely opportunistic reasons if terms get so attractive that we say we have to secure it in a way or we could have investments like major acquisitions of things like that where it could be a beneficial part of an additional financing. But if none of the two comes on the agenda, we are pretty happy with our current form of financing.

Then, the second was on the development of the – could you repeat the second because – sorry, GAAP earnings, so I couldn't read my own writing here, sorry. German GAAP earnings, very high, could be similar to last year. It's too early to say more. As long as the major losses are in line with our expectation, we expect a release of the equalization reserve as we had already predicted it since two years because WTC forced out of the 15-year observation period. And therefore, this is again a strong support for the German GAAP result, which anyway is highly protected on the underwriting side by the very high equalization reserve. The requirement for the equalization reserve comes down somewhat and that is beneficial here. So, this will not be a bottleneck for our current pace of capital repatriation.

Q - Kamran Hossain {BIO 17666412 <GO>}

Right. Thanks very much.

A - Jörg Schneider

Thank you, Kamran.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks.

Operator

We will now take the next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon, Jörg. I've got two questions. The first question would be related to the Ogden rate. Obviously no impact on your results Q1, but you have a lot things going behind the scene. So could you maybe shed a bit of some light of what was the Ogden rate you were reserved at before the move to minus 75%, how much was the move, or potentially also give us what has been the economic impact of the additional reserves you've made on a Solvency II basis. Maybe this is explaining also why, adjusted for the capital repatriation, your Solvency II ratio of the group was, I would say, more or less flattish.

And second question was on the higher basic losses on the U.S. side you mentioned in Q1. Just wanted to better understand if you've detected something wrong in your portfolio in terms of exposure or if it can be attributed to, I would say, basic randomness of the event? Thank you.

A - Jörg Schneider

Thank you, Thomas. First on the Ogden, we had been reserved already down to a level of 0.0% and the remaining range to minus 0.75% we could fill with our bulk reserve. But this is not just a deliberate action, but the bulk reserve was, inter alia, explicitly allocated not in the accounting, but in what we call here the reserve heat map. One of the items explicitly mentioned was the possibility of a further decline in the Ogden rate. And therefore, that didn't come as a surprise at all to us, which was for me very strong proof of the solidity of our reserving practices. And therefore, we did also not have any economic impact here because our economic reserve, except for the factor of discounting, are fully in line with the IFRS reserve for Property-casualty unlike in Life. In Life, it is different as we discussed before in the question of Michael. Therefore, no impact at all and no negative experience from Munich Re. Now, the reports of higher losses will come in from (21:16) for the first quarter, and we expect to have fully taken care of them by our IBNR.

Second question. On the basic loss experience, there was an impact from the very high level of net cat losses in the U.S., which are said to be the highest Q1 net cat losses in the U.S. and we were affected especially by our primary insurance entities in the U.S. like American Modern Insurance. This had an impact on our loss ratio in the order of 1%, which explains a large part of this so-called negative surprise.

And also, we have to take into account that the real expectation for major losses in the first quarter should be somewhat lower than the 12%. The net cat piece is lower than the 8%. That means that the adjustment, a little bit of the normalization – a little bit understates the – or overstates the normalized combined ratio. So we would rather think that for this year in total, we expect to end up in the order of roughly 100% normalized combined ratio, and that is fine and that fits to what we can measure in the various renewal round.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

A - Jörg Schneider

Thank you, Thomas.

Operator

We will now take the next question from Andrew Ritchie from Autonomous. Please go ahead.

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

Oh, hi there. Two very quick questions. First of all, can you just clarify, are you now shortening duration ERGO Life Germany? I think you said on the slide, I'm curious with that because you're positioning, because you think rates are going up or what's the rationale there?

Secondly, in ERGO Germany P&C, you launched a number of new products towards the end of last year, I think particularly in motor. It's quite hard to see from the premium income. I mean, have you got any qualitative information on how some of the new products are going down and how momentum is tracking in terms of sales? Thanks.

A - Jörg Schneider

Andrew, for your first question, shortening of duration. So we compare to the structure of the liabilities. We have already been somewhat short, but somewhat means much lower difference, much lower a mismatch than that of an average market player, which means now that we seem to be at the high end of the spectrum in the market with regards to the unrealized gains in our book.

And what we do now is we are shortening our duration slightly and move a little bit more to the market average with regard to duration because we regard the probability of higher rates going forward being – or higher interest rates going forward being higher than that of a further lowering. So this is a market position, but not an extreme one, and we are still most probably above – clearly above the average of the German market.

At the moment, with regard to the P&C product, we are positive about the momentum with regard to our sales forces. The qualitative reaction of the sales forces is very positive, but it is too early at the moment to see it in premium figures. So perhaps we should report rather with the Q2 numbers about the sales and the sales success. In some areas, they are clearly going up. In others, it's rather flat or slightly declining.

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

Okay. And sorry, are you going to further shorten duration or is that you're done for now?

A - Jörg Schneider

It's mostly done at the moment, but the discussion is naturally ongoing, as you can imagine. We are working in a market and we have to take a position. We are not just computers here.

Thank you, Andrew.

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

Okay, thanks.

A - Jörg Schneider

Bye.

Operator

We will now take the next question from Xin Mei Wang from Morgan Stanley. Please go ahead.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Hi, guys. Thank you. So two questions, please. First one was on a comment you made about the normalized combined ratio. So you said you expect to end by around 100%. Is that for the end of the year? Because I think at full-year 2016, the guidance for normalized combined ratio was 99%, so is that new and which one was taken into account when looking at the net income guidance for the year?

And then, my second question is on the Life Reinsurance business. How is the Australian Life book performing? I think I spoke to you one of your IR colleagues earlier, and they said it was negative, but wanted a bit more color on that, and how is the AMP transfer tracking to – the AMP transfer, how is that tracking to plan? Thank you.

A - Jörg Schneider

Thank you, Xin Mei. Non-Life normalized combined ratio 100%, last year, we – I think we gave guidance towards 99%, and now we gave guidance rather towards 100%. That is a price impact, including spillover from last year. Our prognosis is 97% due to the lower loss experience at the beginning of the year and due to the fact that we expect reserve releases to be 2 points higher than the 4% which we normalized for. One can argue whether this 4% is the right number when you have more or less constantly a higher experience, but as you know, we do not want to create more sensitivity. But we feel pretty confident with the 100% for the time being.

Second question, Life Reinsurance, the good technical result is a mixture of very positive and also, in some areas, negative experience. And one negative experience is really from Australia, not only from disability business, but virtually all lines of business were involved here. It is too early to determine whether this is just the normal volatility or whether this is something more structural. We continue observing it.

And on your additional question, the AMP deal was not affected. It's performing according to our expectation. Thank you, Xin Mei.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Okay, great. Thank you.

Operator

We will now take the next question from Frank Kopfinger from Deutsche Bank. Please go ahead, sir.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thanks. Good afternoon, everybody. I have two questions. My first question is on ERGO P&C Germany. And the personal expense segment continue to be the only part where you see volumes declining year-over-year. Whereas the entire portfolio grew by 2%, the personal expense declined by 2%. So how much of a stretch is this for your combined ratio targets due to the continued adverse portfolio mix here?

And the second question is on – can you elaborate a little bit on the potential impact of the U.S. tax or the potential U.S. tax reform and how big your U.S. profit base is on a normalized basis?

A - Jörg Schneider

Thank you, Frank. First on German P&C, personal accident declining, that is true. It is difficult to sell this product, but we are optimistic that we can stabilize that. It is not a stretch for our combined ratio target because the current portfolio mix has already been included in the procedure when we set up this combined ratio target. And we believe that we can keep the 99% for the year. And by the way, there's an impact from the further investments in the strategy in the expense ratio of that.

And the second question is about the U.S. tax reform. As you know, the U.S.A. is a very important market for us and we are very profitable there. Therefore we, as you can imagine, observe with a lot of interest the current debate there. We also cannot say what will be the outcome. There are two proposals out there, one is of the House of Representatives with the decline of the corporate tax rate from 35% to 20% and border adjustment tax, and the other is of President Trump with a decline of 35% to even 15%. And so we have these two models.

First on the border adjustment tax, and for us, we would be affected because we are also an importer of insurance into the United States and of reinsurance. But as you know, we have strong entities onsite in the United States, so mostly, we are doing our business out of U.S., how is it called, residential corporations, which are subject to U.S. American tax. So perhaps, we would have to change the one or the other structure of our business to even reinforce this. But overall, we would be beneficiaries out of a reduction of tax rates and we would be able to deal with the border adjustment tax.

Then we have another impact coming from the valuation of our deferred taxes, and I would have never thought that we are able to compensate our tax loss carried forwards, which we built up in the past through our difficult start with our current U.S. American subsidiary, but we managed to compensate it with very high earnings. And therefore, this DTA, the tax loss carried forward, had been compensated meanwhile. And meanwhile, we have a situation of a small deferred tax liability that would mean that there would be a small positive impact from the revaluation of this deferred tax liability in case of a reduction of the tax rate.

And our U.S. income would be subject to lower taxes and difficult to quantify. It can be a very high double-digit number, but it depends on the profitability of the U.S. business which, touch wood, has been profitable up to now, but it's also subject to the major loss experience and so on. So, difficult to quantify overall. For us, changes in the U.S. tax law should be positive.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you very much.

A - Jörg Schneider

Thank you, Frank.

Operator

We will now take the next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Oh, good afternoon. Thank you. So, one question, please, on the equity exposure which is obviously very mildly up from where we were in December, but if you take a longer - maybe even going back to 2010 or something, it is in fact one of the highest levels I can remember. Is there some more increasing appetite for equities or is it just a minor practical thing, just clarifying that?

And second question is - sorry, just - it's a follow-up, I apologize - just on the normalized combined ratio outlook, is it driven by your expectation of a seasonality increase? So what I mean is that you've got 101.3% now but to get to 100% for the year, we need just 99-point something. But is there a seasonality in 3Q that you're expecting, which gives you this confidence or is it just the weather you've seen so far in May or if you could just comment a bit more, please? Thank you.

A - Jörg Schneider

Yeah. Thank you, Vinit. First, our appetite for equity exposure has not structurally increased. There's a slight increase in Q1 by 0.3% to 5.0% of our whole portfolio, so this is moderate. It's an ongoing debate here whether we should increase our appetite for investment risks overall. We still like equities because we feel that we get an adequate consideration here but, as you know, stock markets are on a very high level, I do not expect us to go further in that direction at the moment. But it's rather a tactical move not structurally increasing appetite.

Second, normalized combined ratio starting with 101.3% and still being optimistic on one side, the 1 percentage point contribution from the too high losses coming from the U.S., which I described before below the major loss threshold of €10 million, this does not reverse in the quarter of the year because the second quarter and the third quarter and fourth quarter do not know anything about the loss experience in the first quarter. Therefore, this can be a positive or a negative increase by 0.25 percentage points for the full year.

But on the other hand, there is a seasonality effect because the major loss expectation is not 12% for each quarter. It's for the first quarter, as I said, lower than for the following ones. That means that tends to slightly lower combined ratios overall and, as you know, there's a lot of ups and downs in the course of the year coming from currencies and things like that. Therefore, we have no reason to correct downwards, especially we do not observe a lower profitability and also not a lower economic profitability of our business. There are some movements underway here, which are not visible from outside, which still lead us to the conclusion that this portfolio is still profitable and is still way above the cost of capital overall. Therefore, we are at the moment satisfied with our portfolio, but we do not want to talk too bullishly about it because we do not want to spoil our own markets.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Fair enough. Thank you, sir.

A - Jörg Schneider

Thank you, Vinit.

Operator

We will now take the next question from Michael Haid from Commerzbank. Please go ahead, sir.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. First question also on the normalized combined ratio and on Life Reinsurance. 100% if I adjust for the 1%, can you give us a breakdown into the normalized combined ratio for your primary insurance business out of reinsurance and into the pure reinsurance business?

Second question, I must come back on ERGO Leben and Victoria Leben, and I'm sorry if that question has already been asked or answered. The two different solvency ratios, the 100% versus the 259%, how is that explained? When I look at your local GAAP figures for ERGO Leben and Victoria Leben, I cannot immediately draw that conclusion that Victoria Leben is so much better than ERGO Leben. Is it because of a different liability structure, different asset mix or reinsurance contracts or is the runoff impact so much? What is it that explains this enormous difference?

And connected to that, my last question, can you tell us how, if at all and to what extent, these solvency ratios have been supported by internal reinsurance contracts?

A - Jörg Schneider

Thank you, Michael. Normalized combined ratio breakdown between pure reinsurance business and primary insurance written out of reinsurance segment. Primary written out of reinsurance segment is in the order of 96% or so, somewhere there, I don't have the precise figure because that is not how we look at it. And there's also many blurring lines between the two. Think of (40:01) reinsurance business and a very big chunk of business written by our brokerage unit here. So therefore, it's corporate insurance partners it is called, so it's very difficult to distinguish here and, therefore, this is not a number which is so important for us. But traditional reinsurance is clearly above 100%.

Then ERGO Leben difference to Victoria Leben. We put Victoria Leben in runoff some three-and-a-half years ago. And therefore, the company had time to recover without any strain from new business expenses, and this is the main reason for this surprisingly high difference.

Second question about how much or is it also influenced by group internal reinsurance, yes, it is. They are very effective forms of group internal reinsurance, which we can do dealing at arm's length between the reinsurer and the primary insurer because some of the risks are in our view over-calibrated and therefore – and they diversify away in the portfolio of the reinsurer and, therefore, we also offer this kind of business to other market participants and they can only advertise for this year. This is exactly the kind of business which is a win-win situation for both.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Thank you very much. Very helpful.

A - Jörg Schneider

Thank you, Michael.

Operator

We will now take the next question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Good afternoon. Just one quick one from me. So I just wondered where are the large volume treaties coming from in Life and Health Re. Could you give us a bit more color and what sort of ROEs are they coming on it versus the rest of the book? Thank you.

A - Jörg Schneider

They are coming from, more or less, all over the world. Pleasingly also from Asia and from other growing markets, but they also come from North America. And the ROE, we do not disclose here. Also from Canada, they are particularly from Canada. But they are performing pretty well, so we are very satisfied that just instead of having the huge deals we had in the past, it's rather midsized at the moment and very – it seems to be a very sustainable source of new business hopefully.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

A - Jörg Schneider

Thank you, Jonny.

Operator

We will now take the next question from Roland Pfänder from ODDO. Please go ahead.

Q - Roland Pfänder

Thanks. Good afternoon. Could you please update us on the restructuring costs you booked for ERGO in the first quarter, maybe also on the investment costs or the threats you see over the next three quarters to come?

Maybe second question, maybe you could give us some pricing outlook for the July renewals if you have some data already. Thank you.

A - Jörg Schneider

Thank you, Roland. Restructuring, almost zero in the first quarter, so it will all be absorbed by the expenses in the companies and nothing will be booked as extraordinary. Then, other investments were in the order of net impact €30 million on ERGO's result, a little bit more than €30 million. This is clearly below one-fourth of our expectation for 2017, which is €250 million. And this is, by the way, one reason why we do not increase the profit guidance for ERGO from the current €150 million to €200 million because we expect most of these investments to be only postponed a little bit instead of being redundant.

Does this answer your question, Roland?

Q - Roland Pfänder

Yeah, that's fine. Thank you.

A - Jörg Schneider

Thank you.

Operator

We will now take a follow-up question from Michael Huttner from JPMorgan. Please go ahead, sir.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much. And so this is mostly about you, Mr. Schneider. So if I think about Munich Re which is, as you said, clearly overcapitalized, huge excess debt capacity, has probably – you probably understated your solvency because, I don't know, the volume's shrinking quite fast. Presumably at some stage, we should see that in lower capital required and it's not come through yet. It reminds me a little bit of the period in 2006 when Munich Re did lots of deals, and I suspect that you are the only person acting as a break or as a slowdown or sixth man (45:46) on potential deals. How long can you hold out? And what would make you suddenly change your mind and say, okay, you go ahead, you give the money away, it doesn't matter anymore?

And then the second question is just I think the previous caller had asked on outlook for July renewals. Thank you.

A - Jörg Schneider

Yeah. That's a nice one, Michael. Don't overestimate my influence here. So the whole DNA of Munich Re is based on a lot of economic discipline. So we shy away from taking high bets with the positive IFRS or local debt (46:28) impact, which are not economically value-producing. This is so important for a reinsurance company because, otherwise, we could go for the very high risks with a high severity and low frequency and hope for a good outcome in the course of our own career. That is not how we look at it.

So we are actively looking for opportunities, and I'm personally, as good as I can, supporting it. The financing capability is there. We have a very strong economic capitalization. We have a lot of hybrid capacity. We have the willingness to invest, especially in organic growth and there could be areas – and that will be the art of the next couple of months. There could be areas where with a lot of historic experience about the real exposures with a lot of very good data we have at hand that we can slightly increase our risk appetite here and there, but not in a stupid way, in an innocent way and just go for higher risks and hope for a good outcome, but rather in an educated and very selective way. And that is also my impression what you are (47:54) stands for, very active search for this kind of opportunities, not just an appetite for increasing risk profile of the company.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Very good.

A - Jörg Schneider

Thank you, Michael.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

And July?

A - Jörg Schneider

And thank you to – yes, please.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

July, July?

A - Jörg Schneider

July, oh, okay, sorry. July renewal (48:19) I don't know. I'm personally convinced the more major losses just normalize, we do not need a major event, the more the price decline will come to an end. It is just against a human experience that after more than five years of such a benign major loss experience that discipline in the market can hold. So therefore, I assume a very sharp correction is perhaps a little bit exaggerated, but at least bottoming of the price declines, if we have another quarter like the last one, yeah. So therefore, I'm confident that we will have a good July renewals. July renewals stand for €2.1 billion premium income compared to April €1.7 billion, so it's a little bit more important than April and it's an important indicator where the market will go to.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Perfect. Thank you very much.

A - Jörg Schneider

Thank you, Michael.

And that's it, I think. Thank you very much from my side. I hand back to Christian.

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

Yeah, nothing to add from my side. Thanks to all of you for joining us, and please do not hesitate to get in touch with my team if you have further questions. Thanks.