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CORPORATE PARTICIPANTS

Christian Becker-Hussong *Munich Re - Head of IR & Rating Agency Relations*

Christoph Jurecka *Munich Re - CFO*

CONFERENCE CALL PARTICIPANTS

Kamran Hossain *RBC Capital Markets - Analyst*

Andrew Ritchie *Autonomous Research LLP - Analyst*

Jochen Schmitt *Metzler Equities - Analyst*

Vinit Malhotra *Mediobanca - Analyst*

Vikram Gandhi *Societe Generale - Analyst*

Michael Haid *Commerzbank - Analyst*

Thomas Fossard *HSBC - Analyst*

Michael van Wegen *BofA Merrill Lynch - Analyst*

Paris Hadjiantonis *Exane BNP Paribas - Analyst*

Darius Satkauskas *Keefe, Bruyette & Woods - Analyst*

PRESENTATION

Operator

Good day and welcome to the Munich Re outlook for 2020 and 2021 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Becker-Hussong. Please go ahead sir.

Christian Becker-Hussong - *Munich Re - Head of IR & Rating Agency Relations*

Thank you. Hello to everyone. Thanks for joining us on this call, on the outlook for 2020 and 2021, including some news flow on COVID-19 this morning. And the procedure is as always straightforward. I will hand it over to Christoph and then we will go right into Q&A. Thank you. Christoph, please.

Christoph Jurecka - *Munich Re - CFO*

Good afternoon also from my side and thanks a lot for joining this call. We are aware that this being very much on short notice, so sorry for the inconvenience. But we trust you understand that it was just not possible for us to invite earlier as the Board of Management decided on the financial outlook 2020 and 2021 only this morning. And then it was a legal requirement to publish the release immediately after the decision.

So, by the way, this is then also the reason why we released the outlooks today and did not wait for our Investor Day, which is a week from today. Also please be aware the numbers for 2021 are still subject to the approval of Munich Re's Supervisory Board.

Now as usual, I will not go through the release in detail. It's anyway pretty much detailed. But what I would like to do is to give some introductory comments before we then have ample time for Q&A.

To start with I think the release today is good news. Why is that? There are three reasons basically in my view. First of all, despite the ongoing COVID development, the impact -- the financial impact, which is significant, is clearly manageable for us. So, first good news.

Second, we have further strengthened our COVID-19 provisions, including explicitly our big market share which we have in contingency. And third, we will be back on our pre-corona earnings trajectory all the way to next year, despite the expectation that we'll have COVID-19 claims also next year.

So, how did we manage to come up with the outlook now? Well, we intensively looked into basically everything over the last couple weeks, gained additional insights. And then also very thoroughly assessed the various COVID-19 loss scenarios by line of business. And also took into account the still considerable uncertainty due to the still unclear development of the pandemic.

We also analyzed the financial impact beyond claims. So, just as an example, premiums or costs on investment income at ERGO, and now we are sufficiently confident to present a forward-looking indication for COVID-19 financial impact, at least as much as it concerns this year or next year. But then -- sorry, for that always disclaimer. All numbers published today are, of course, best estimates and the best knowledge we currently have. But the actual future outcome, of course, might deviate significantly from that.

And as mentioned earlier also, we can only reserve for claims which incurred already or reserving for claims not yet incurred. It's just not possible due to our accounting standards, so this is unchanged.

But -- and that's something I'd also personally like to underline is that we have and will set the provisions for COVID-19 consistently prudently and in accordance with the established conservative reserving (inaudible) we have elsewhere and which we have for many years in place already. So, that is completely consistent.

In the slide deck we just published you can then find in some detail the underlying assumptions behind the results we have been setting up for the various lines of business and also the approach how we came up with these best estimates.

Looking at the result, I think the profit of EUR1.2 billion, this is good news, as I said, given the large amount of COVID-19 losses this year. I'd like to highlight that in this number there is a large loss budget included for the remainder of the year of EUR225 million. Deviations from the actual claims from that budget, of course, will lead to either higher or lower profit. So, the EUR1.2 billion might then be higher or lower depending on actual claims until year end.

On an underlying basis our business is fully on track. And without COVID-19 I think it's very obvious that we would have been able to hit our original target for 2020. Now going forward, thanks to our strong balance sheet, we are in a very good position to exploit market opportunities also going forward.

In 2021, despite the COVID-19 losses as mentioned, we plan to meet a profit target of EUR2.8 billion. In the reinsurance segment this reflects the ongoing profitable growth and price increases which compensate for the expected COVID-19 impact of EUR550 million in reinsurance also in 2021.

ERGO expects EUR500 million next year's net income, and this includes already EUR100 million impact COVID-19 for next year. So, you can see that without COVID-19 ERGO would've achieved a target profitability level of the ERGO strategy program which now comes to an end.

Now please just let me advertise again that we'll present our business strategy and our midterm financial targets at our Investor Day next Tuesday. With that, I'm very happy to now take your questions. Thank you.

Christian Becker-Hussong - *Munich Re - Head of IR & Rating Agency Relations*

If I just may add please, as always a maximum of two questions per person, please. Thank you and go ahead, please.

QUESTIONS AND ANSWERS

Operator

Kamran Hossain, RBC.

Kamran Hossain - *RBC Capital Markets - Analyst*

A couple of questions. One is on, I guess, the combined ratio for next year. You were aiming for 97% underlying this year. You've said the combined ratio X COVID next year should look like 95%. Is there anything else going on apart from best pricing? So, that's question one. Does that bake and high reserve releases, etc.?

And the second part of that question is, assuming that you've got this 95% as a starting point for 2021 with improving 1/1 renewals, should we expect the quantum of improvement in the following year to be similar?

The second question is just on, I guess, claims at this stage. I mean, it is a remarkably high level of IBNR that you've got for your COVID-19 claims. How does that compare with your book in a normal year? I know there's no such thing as a normal year, but how does that compare to your book in the first year view? Thank you.

Christoph Jurecka - *Munich Re - CFO*

First of all comment ratio. So, you're looking for the miracle; there is none. So, what happened between the 97% and 95% clearly is improving -- improved pricing environment, of course some growth. Maybe a little bit of shift in business mix, a little bit more risk solution business where traditionally margins are a little bit higher. But all in all this is just organic business development in the current environment which is responsible for the improvement from the 97% to the 95% underlying.

And then we add again on the 95% COVID claims and that is how we end up with the guidance of 96%. Reserve releases are expected completely in line with what we had in the past as well. So, nothing spectacular to add on that side.

Claims IBNR, I mean it is obviously not uncommon that reinsurers have a large amount of IBNR, first of all to cope with uncertainties, but also because reporting sometimes is much more delayed than when you look at binary insurers. So, in that sense, obviously, this is something which is -- we'd be used to anyway. Having said that, the COVID-19 situation is special.

Why is that? Because the uncertainties also looking backwards in time continue to be very high with all these card holdings just coming in and then you have some appeals in some markets. And I would say in this area the amount of IBNR is proportional. If you look at it compared to what we have as case reserves, this is quite extraordinary. Also because clearly this is not long tail liability business we are talking about here.

Operator

Andrew Ritchie, Autonomous.

Andrew Ritchie - *Autonomous Research LLP - Analyst*

I just wanted to understand a bit more about the increase in COVID nonlife claims in Q4. I guess I'm not sure how to interpret the paragraph on slide 2 with respect to BI which says, our reserving follows our legal assessment on a case-by-case basis. Meaning that if court decisions -- that paragraph there.

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I don't know, does that mean though that you have or have not reflected court decisions that have emerged since the end of Q3, which I guess is predominantly two jurisdictions? Or are you still holding out that your legal opinion is different and that ultimately those court decisions may get reversed? That's why I'm not sure what you mean by that paragraph. If you could clarify that and what happened on BI reserves in Q4 and what the assumption is for 2021.

And the second question is a simple one I think -- or maybe not. The technical result guidance for life for 2021 is EUR400 million after EUR200 million of expected COVID, so a EUR600 million kind of underlying run rate, I suppose, which is higher than the EUR550 million which was the original guidance. Is that just natural growth of the business? I'd assumed in 2021 there would still be some low rate effects, particularly in Canada where you have seen some noise from that. But maybe just clarify why that isn't the case. Thanks.

Christoph Jurecka - *Munich Re - CFO*

Andrew, thank you for the questions. And often the simple questions are the difficult ones, so I'll start with life. In this case it is simple indeed. So, yes, I mean the EUR400 million guidance excludes the COVID effect of EUR200 million. So, normalizing for that it would be EUR600 million. You're coming from EUR550 million, which was the original guidance this year, and the plus EUR50 million then more or less reflects the growth of our book.

As you know, it normally takes anyway some time until the (inaudible) book translates into higher IFRS earnings, and that's what's happening here. So, it's already the growth we had over this year and also more recently and in the more recent past. This translates into higher earnings then going forward. So, nothing really to add.

Andrew Ritchie - *Autonomous Research LLP - Analyst*

And there's no more Canadian drag effect on -- I think there was a change in discount rate I think was the effect this year.

Christoph Jurecka - *Munich Re - CFO*

Yes, there's always some effects. Given with guidance, of course, we have a fair view on -- we have a very fair view on what potential downsides are and where we might have even upside or potential for outperformance. And this is reflected in here. But, of course, it does not exclude that one or the other assumption we would have to change then over time like interest rates or whatever.

And then, again, accounting principles in life are a little bit asymmetric. So it is much simpler in IFRS to show downside than upside, even if economically you are sound or stable. So, this is also what came on one or the other time in the past. But going forward, as I said, this EUr400 million guidance we feel comfortable with and conscious of everything I was just saying.

Now your first question, COVID claims nonlife, BI, what does that mean? Obviously all the court rulings we are aware of are fully reflected in what we are having here in the presentation. But if you look back where we are coming from, and that many of these court decisions are not final yet, we just have to be aware that in many places legal interpretations are not final at this point in time, which might result in material upside or downside. And I think that's what's mentioned here.

But then again, talking about upside and downside, I think the reserve position, and that's what I was saying in my introduction as well, is being set up in the prudent and conservative way like we always do.

Operator

Jochen Schmitt, Metzler.

Jochen Schmitt - *Metzler Equities - Analyst*

Thank you, good afternoon. I have one question on the outlook for reinsurance premium income of EUR37 billion in 2021. Would it be reasonable to assume that the sales non-proportional business is likely to increase whether it's in your nonlife reinsurance book in 2021? That's my question

Christoph Jurecka - *Munich Re - CFO*

Well, I think my answer would be not necessarily. Because finally that's not the way we see or we look at our business in the first place. So, it's also not the most important planning dimension when we look into how we plan our business. We are rather looking into markets and into segments where we think attractive growth opportunities are. And therefore the dimension is not the most relevant for us.

And would we be happy to take on more proportional or nonproportional business? Yes, both. And the mix, how it will be realized pretty much depends on business opportunities which we will find. So, the answer, finally, is it could be, but at this stage it's clearly too early to tell.

Operator

Vinit Malhotra, Mediabanco.

Vinit Malhotra - *Mediobanca - Analyst*

Thank you very much for this opportunity. So, my two questions -- first one is just on the Solvency II. Because now we have two quarters where the COVID losses are coming out a bit worse than what we could have imagined or what was initially thought. And I remember you talked about the aggregator on top kind of buffer or bulk reserve buffer, meaning that no effect is needed on Solvency II.

But are you -- is there any update on that thinking? Is it that -- because what it looks like is that Solvency II buffers are then a bit lower because obviously they are being used to provide backup on COVID. Any update on that given that COVID has surprised negatively two quarters? First question.

The second question is I noticed also the pickup in ROI in fourth quarter while full year being 3% and nine months was 2.7%. Could you just comment on what's happening there? The gains might have been realized. And also will that hamper more the investment deal in the future?

Christoph Jurecka - *Munich Re - CFO*

First of all, Solvency II, you are referring to the discussion we had I think in the Q3 call where the question was, especially for life reinsurance, if we did additionally reserve for Solvency II purposes on top of the existing Solvency II provisions. And my answer back then was that we don't have to because we have a global reserve covering that already sufficiently.

Now what's happening at year end is that we are doing our usual reserve review process in both life as well as nonlife. And in that course we review also the assumptions. And technically what happens then is that we adapt assumptions also in our Solvency II provisions, and increase it where needed. But to finance that we can reduce the global reserve, the global on top reserve we're having.

So, technically the answer is we increased the bottom up calculated reserves, but we financed that to a large extent by a decrease of the on top reserve. So, I think the high-level answer is, yes, what I said in Q3 is still valid. The existing reserves are high enough, but they will be now a technical rebooking between two buckets happening at Q4.

Vinit Malhotra - *Mediobanca - Analyst*

And also I meant P&C and life, sorry, just to be clear. I didn't mean life only, sorry.

Christoph Jurecka - *Munich Re - CFO*

Okay, that was life on the P&C side. Anyway, our IFRS reserves are the same like what we use for Solvency II purposes, so there is no deviation. But also in P&C with a global on top reserve that's unaffected by COVID-19.

Yes, our ROI, on the ROI what can I tell you? I think Q4 so far has not been very spectacular. The market environment pretty constructive but not overly. Interest rates continue to be low. So, short-term I think nothing spectacular I could talk about. Long-term obviously low interest rate environment will remain.

Our strategy is how to cope with that and how to really manage that environment also going forward is something we will be excessively talking about at our Investor Day next week where then also on the card side our Chief Investment Officer will be holding a presentation covering asset management. I think it will be much better to wait one week and get a more profound answer than only asking the CFO.

Operator

Vikram Gandhi, Societe Generale.

Vikram Gandhi - *Societe Generale - Analyst*

Just one from my side. I'm just trying to think how should we really see the EUR2.8 billion figure next year in context of what the original guidance or the target for FY20 was, which is exactly EUR2.8 billion the pre-COVID world? And next year you kind of expect EUR500 million additional COVID impact pretax, so that's about EUR400 million post-tax and ERGO is about EUR0.5 billion post-tax impact from COVID. So, that's being offset by something.

And it appears to me that clearly it cannot just be the organic growth and the better pricing. So, there has to be a bit more explanation. But perhaps I'm wrong. So, all I'm trying to say is does it mean the EUR3.3 billion is the new base for the Group's earnings power? That's my simple question. Thank you.

Christoph Jurecka - *Munich Re - CFO*

Okay. I'll try to run you a little bit from 2020 to 2021 and what the main deviations are. Starting in reinsurance, obviously, the constructive market environment is a key driver. We have two main elements here; one is growth and the other is also the margin improvement. And we had already this year quite good renewals with an overall 1.8% price increase which will partly spillover into next year. And then we also expect a constructive environment in the upcoming renewals next year, which is also incorporated into the guidance here.

On top of that we have business mix effects, so we expect an even higher growth in our risk solution business, where traditionally margins and structurally margins are better than on, let's call it, core reinsurance business. So, business mix will also help. Even in the core business a slightly higher share of property business will additionally support this development.

I think we covered reinsurance life already where we have the COVID effect. But outside of the COVID effect also an attractive earnings growth which is incorporated in the result here. ERGO with the EUR500 million ends up exactly at the number like what we had for 2020 as well.

So, yes, there is EUR100 million COVID impact, but this is more or less only eating up the additional profitability ERGO achieved until today by finalizing the ERGO strategy program now. So, that's not something I think you could really deduct from the 2020 guidance, because there's upside which ERGO would have delivered in 2021 if not COVID-19 -- and COVID-19 would now reduce it again.

So, that's this effect. I think reserve releases, everything else is stable. The usual planning assumptions like what we always use, so nothing to report on there. Also on the investment result side, only slightly decreasing result, maybe stable result in a difficult environment. But we don't expect a big downside there. And then we have various other smaller positive effects, fee income business, stuff like that which adds up then finally.

And so, if you add up all these components you end up with exactly the numbers I was mentioning before. Now coming back to your question is the EUR3.2 billion the new normal. Well, again, we'll talk about the midterm ambition anyway next week, so there's nothing I have to cover today. But I think the one remark I'm very happy to make already today is that, of course, our target for next year is a stretched ambition, it is culturally for something which is important that we give ambitious targets also into the organization. And that's I think also a way you should look at the EUR2.8 billion, that's quite a stretch in there.

Operator

Michael Haid, Commerzbank.

Michael Haid - *Commerzbank - Analyst*

Two questions on ERGO. First 2021 and 2020. 2021 you had a negative impact of EUR100 million. What assumptions did you take on or expectations? What did you take on motor insurance globally? Presumably many insurance companies have seen frequency benefits, so competition may increase. And so, I just wondered how did you arrive to the minus EUR100 million. And similar for 2020 the minus EUR65 million, where does it really come from? It's investment income and how do frequency benefits play into that?

Christoph Jurecka - *Munich Re - CFO*

Well, let's start maybe with 2020 then and then I can also make the transition to 2021. In 2020, also if you look at the slide 3 we have been delivering, it's three major drivers. It's claims, it's premiums and then it's a number of other effects which drove the ERGO impact from COVID-19.

On the claims side ERGO is also affected by the famous event cancellation and business interruption topic. But then that's a point you mentioned, ERGO was also benefiting from some frequency benefits on the motor business. And so that I can confirm. Overall claims impact from COVID-19 is still a burden overall.

Then on the premium side, many lines of business are affected premium wise in a COVID-19 environment. The most important one we mentioned here is of course the travel insurance. We obviously after Q1 turn over the premium level or drastically reduced as the travel activities overall were much lower than in the year before.

Also in international business we have lower premium volume in a number of markets -- Austria, Baltics, Poland. So, that's a little bit across-the-board. Everywhere more or less a little bit but then adding up also being part of the EUR65 million for 2020.

And then we have other effects. We have investment effects, things like lower rent, for example, if you have real estate investments, retail mortgages, default, in that area for example. But then also volatility of capital markets to some extent as well of course. And then this is partly compensated by cost-saving measures which ERGO implemented early on during the crisis and whereby dampening the effect. And all in all we end up with this EUR65 million of COVID effect for the year 2020.

Now the year 2021, and the obvious question is why is it higher, the EUR100 million in 2021 versus EUR65 million in 2020. Well, first of all, I mean in 2020 the whole thing started after Q1 only more or less. So, in Q1 everything was normal in 2020, which we do not expect for 2021. So, in travel insurance, for example, the first-quarter 2020 was a normal quarter for travel insurance. The first quarter in 2021 we don't expect anybody to travel really. So, that's a big difference, for example.

On top of that we still expect some claims, but a much bigger impact in 2021 will be from the premium side. Where over time lower premiums are also lower new business and some lines of business accumulates so that the effect over time is increasing. And this is true for a number of lines of business. Travel again most importantly, but also then international health business, for example, where we have a very similar impact.

And then there are number of other smaller effects which also add up. For example, also the investment result. As you know, ERGO is having significant businesses which are run as joint ventures where ERGO is having less than 50%. India, China, for example, are the ones -- are the smaller ones as well.

But India, for example, is also an entity which is highly affected by COVID-19. So, from the Indian business we would also expect lower income next year, which is then also incorporated into the minus EUR100 million we have for -- as the COVID impact for next year.

Again, it's a little bit different. Reinsurance where you have three large lines of business adding up to the most -- the large number of the overall effect already. In ERGO it's a little bit more distributed across various lines of business, various markets.

But then if you end up one after the other of these comparatively relatively small effects, you still end up with a number which is from a group perspective maybe not that material. But on an ERGO level it counts and makes a difference between EUR500 million and EUR600 million for next year.

Operator

Thomas Fossard, HSBC.

Thomas Fossard - *HSBC - Analyst*

First question would be on the EUR200 million of additional contingency claims you expect in 2021. Could you remind us on which basis or which assumptions you formulated the EUR200 million? And if potentially this is now taking into consideration events which actually could duplicate (inaudible) place if the vaccine is -- or what sort of prudence are you taking into this EUR200 million?

And the other question would be related to the claims environment quarter to date. There is still one month to go, but maybe you could maybe qualify how the quarter has been so far. Thank you.

Christoph Jurecka - *Munich Re - CFO*

The contingency, yes, we have covers, obviously, which are covering also the period next year. And we even concluded new covers until March in 2020. So, it's not -- I don't think it's a surprise that there's still an exposure. Now how did we come up with the estimate of EUR200 million, and I underline estimate. What we did is more or less that we treaty-by-treaty, contract-by-contract assessed the mutual risk. Also looked into potential risk mitigating measures and came up with a quantification.

So, what are risk mitigating measures, for example? Indeed if you are talking about a sports event, if you're of the opinion that it will happen just without spectators in a stadium but with television broadcasting the event, then our assumption obviously is that it will be held that way, like we are seeing in many football leagues anyway already right now. Similarly to large music events, we took certain assumptions what we think what will be possible during the year and so on and so forth.

And I remind you that these covers are often structured in a way that not only cancellation but already postponement would trigger certain payments. But then also the way it is, either postponed or canceled. So, the earlier the better from a claims perspective, for example. Therefore it has to be very individual assessments given the specific risk situation cover by cover. And that's what we more or less did here coming up with this EUR200 million number.

So, I mean your question was will there be deviations from that? Yes, for sure, but again this is our best estimate. And then depending on if the vaccine will be a success, will it be available early to a large part of the population or later, obviously the numbers will deviate a little. But again, there again are many factors as well. So, in that sense I think I can only reconfirm that's our best estimate set up in a prudent way like what we always did, but obviously there's a lot of room for deviation from that.

Q4 to date -- second question was on the large loss developed in Q4 to date. I mean it's still early and the difficult thing is if you sliced down the quarters into smaller, smaller, smaller pieces, the idea of your budget doesn't make so much sense anymore because you don't have a daily budget because you do not -- just do not expect a hurricane to happen every day. Having said that, so far the quarter has been relatively benign when it comes to large losses outside of COVID-19 and this is also reflected in our outlook for 2020.

Operator

Michael van Wegen, Bank of America.

Michael van Wegen - *BofA Merrill Lynch - Analyst*

Two questions, please. First is basically a follow-up on the previous question about the large losses. When I try to back solve the 2020 106% combined ratio and the 97% underlying and taking into account your COVID guidance, then indeed either October-November have been very benign and I think there's an element of that that you just highlighted. But it also suggests that PYD could be considerably higher than we perhaps have seen in Q4, so in prior years.

Can you help me understand a little bit -- well, A, if that's a correct assessment; but, B, what would be driving substantially higher PYD versus other years Q4, which tends to be seasonally a bit higher?

And the second question -- it's been very helpful the disclosure you've provided on COVID losses by category for the full year. But can you help a little bit understand what happened in Q4? Because the EUR900 million or so P&C Re COVID losses are the highest quarter year to date.

I'm just trying to understand to what degree a second wave is a material contributor to that or which categories from the first wave are very important to that. And why did it take relatively long for that to come through since the start of the pandemic? Thank you.

Christoph Jurecka - *Munich Re - CFO*

Yes, Michael, thank you for the questions. So first of all, PYD large losses and so on and so forth. We are generally publishing the development of the large losses always net, so including PYD developments. And this is also what we have been doing in the past.

So, already from a methodological point of view it's consistent. And therefore also I wouldn't be -- I'm not sure if I would follow your assumption that in the past PYD has been lower, just based on the fact that we haven't been really speaking about it that much.

But what is correct is that we are always talking about net numbers. And indeed you were mentioning two drivers. One is a very benign quarter and the other driver is very good PYD. And as often in life, the answer is somewhere in the middle. So, the quarter has been good but maybe not that exceptionally good as we might have indicated.

At the same time also PYD is constructive but also maybe not that out of range compared to what we've seen in the past. And when you add it together then you end up with a quarter which, outside of COVID-19, looks relatively good. So, that's something I can absolutely confirm.

Your question was what happened in Q4 on the COVID side -- or on the reserving side more generally. I think this question relates very nicely also to the PYD question. I mean, November generally is the time of the year where we invest a lot of time and effort into our reserve revenue.

And as part of the reserve revenue, of course, PYD for large losses is something we are considering a lot and discussing a lot. But then as part of this reserve review obviously also we had another deep look into our reserve possessions. And among these reserve position obviously the COVID-19 reserve is a very relevant part.

So, having said that, we just used the time in November to very thoroughly assess our reserve positions and then came up with something which also I said in my introduction already -- is what we think a really prudent reserve. And then we also took the opportunity to strengthen the reserves maybe again. And so, that's what you can see in the numbers here.

Michael van Wegen - *BofA Merrill Lynch - Analyst*

Okay, thank you. And is that related to any particular area within the COVID exposures or just across the board where you saw that potential strengthening of reserves?

Christoph Jurecka - *Munich Re - CFO*

Well, I think the prudency level overall is pretty equally distributed across the lines.

Operator

Paris Hadjiantonis, Exane BNP Paribas.

Paris Hadjiantonis - *Exane BNP Paribas - Analyst*

A couple of questions from my side. Firstly, Christoph, thanks for the detail on the split of the COVID losses. But I would be asking again on contingency and specifically on a world I understand to be probably your largest exposure, which is the Olympics.

I assume from what you said before that the assumption is that such an event will be taking place but without spectators. Is that the case? And if we get a complete cancellation, I think you've talked about this before, but can you give us an idea of how the level of contingency claims changes for 2021?

And then secondly, on the dividends, you don't provide detail today. Let me ask you -- given your discussions or your regular discussions with the regulators, are you at all concerned that (inaudible) might be stricter this year than before? Or is your Solvency II position and your ability to withstand shocks the only thing that matters to them? Thank you.

Christoph Jurecka - *Munich Re - CFO*

Yes, so first of all Olympics, well, I think it's public knowledge that we are one of the insurers of the Olympics. But independently of that fact, I cannot comment on individual events, even if it is a big one and a well-known one. I am sorry for that.

Dividends, what can I tell you? We were going to decide on dividends anyway in Q1 only. So, I can speculate a little bit around the fact if our regulator is going to be more or less constructive this year after having been very constructive last year. But I've been pretty optimistic. Why should they change their behavior, at least I wouldn't expect that.

From a numbers perspective I think Solvency II was fine anyway. IFRS, the outlook is largely in line with a dividend payout. Local GAAP is a different kind of story anyway, so local GAAP result, as you know, can deviate significantly from IFRS results and did so in the past in both directions. But we are not that dependent on local GAAP result anyway because we have a stock of distributable earnings readily available to be paid out.

So, in that sense everything unchanged. So, clear intention to pay out the dividend like we did the last 50 years. It's the core part of our capital management storyline and strategy. And everything else then remains to be seen in Q1, I think.

Operator

(Operator Instructions). Darius Satkauskas, KBW.

Darius Satkauskas - *Keefe, Bruyette & Woods - Analyst*

So, question one, in the few percentage points combined ratio improvement, can you give some color how much you are assuming from better pricing and what are your latest views on the January renewals?

Second question, you might not be able to comment on this, but maybe you could give some color. So, Munich Re has a history of being conservative. However, you are guiding to 2 percentage points combined improvement when most of your peers are talking about 1 percentage point. Do you think you are more optimistic about the pricing improvements or our peers are simply building more prudence in their loss specs? Any explanation there? Thank you.

Christoph Jurecka - *Munich Re - CFO*

Yes, thank you. Well, I'll start with the future renewals. Obviously I cannot give you any number, that's something we don't do regularly. So, I would rather -- I'm not in a position to either -- to neither tell you what our expectation for 1/1 is nor what we incorporated in our plans. But we do that generally with a certain grain of caution as well. So -- yeah, but nothing as I can comment on that. But I think it's a reasonable assumption we have in here.

On the 2%, I mean obviously I cannot comment on what peers are doing. When we are releasing renewal results, I think what we have been telling you all the time is that the price changes or that we're always talking about real margin improvements here. Because we already include business mix effects, we include claims inflation most importantly. So, what we see as a price effect is a real margin improvement.

So, the average over the year was 1.8% what we saw as a margin improvement. Therefore if we would not have included 2% as a difference in our combined ratio guidance most probably I would've gotten the question today where has the rest gone? Where did you lose that money? So, therefore, frankly, we thought it was no choice to come up with any other guidance than fully reflecting the better pricing we realized already this year. And that is where the 2% difference is coming from.

Operator

At this time there are no further questions in the queue.

Christian Becker-Hussong - *Munich Re - Head of IR & Rating Agency Relations*

So, I guess we are done for today. We will meet again, although just virtually, next week. Looking very much forward to that. Thanks a lot for joining us today. Stay healthy and speak to you soon. Bye-bye.

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Operator

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