Quarterly statement: Munich Re posts profit of €589m, on track for 2021 target

- Above-average major-loss expenditure, particularly due to cold snap in USA; COVID-19 losses as expected overall
- ERGO contributes €178m to Group result in Q1
- April renewals yield further premium growth (+17.1%) and rising prices (+2.4%)
- Munich Re expects gross premiums to increase to €57bn in 2021

"The pandemic has been testing our solidarity and self-discipline every day. The only way to really improve the situation, however, is a more rapid pace of COVID-19 vaccinations. We will do our part at seven Munich Re and ERGO locations in Germany as soon as our company medical staff is permitted to administer vaccinations. In business terms, we expect that the impact of the pandemic in 2021 will be limited for Munich Re. On top of the anticipated COVID-19 losses, there was an unusual cold snap in the United States early this year. We are nevertheless on track to meet our annual target of €2.8bn thanks to robust operating earnings. The April renewals confirmed that the market environment in reinsurance continues to be favourable, and ERGO's strong results help boost the Group's profit."

Christoph Jurecka, CFO

Summary of Q1 figures

Munich Re generated a profit of €589m (221m) in Q1 2021. The operating result increased year on year to €798m (397m), particularly owing to a considerably lower burden arising from COVID-19 losses – especially in property-casualty reinsurance, while the other non-operating result amounted to –€12m (–11m). The currency result totalled –€23m (144m) and the effective tax rate was 16.3% (53.5%). Gross premiums written increased by 1.9% year on year to €14,551m (14,284m).

Equity was slightly lower at the reporting date (€29,392m) than at the start of the year (€29,994m). The solvency ratio was approx. 217% (208% as at 31 December 2020), which is at the upper end of the optimum range (175–220%).

In Q1 2021, return on equity (RoE) amounted to 10.4% (3.9%).

Reinsurance: Result of €410m

The reinsurance field of business contributed €410m (149m) to the consolidated result in Q1. The operating result rose to €558m (298m) and gross premiums written totalled €9,389m (9,235m).

Life and health reinsurance business generated a profit of €52m (8m) in Q1. Premium income amounted to €3,058m (3,079m). The quarterly result was affected by COVID-19-related losses of around €167m. The technical result, including the result from reinsurance treaties with non-significant risk transfer, was €51m (56m).

In Q1, property-casualty reinsurance business contributed €358m (141m) to the result. Premium volume rose to €6,330m (6,156m), despite counter-effects from currency translation. The combined ratio was 98.9% (106.0%) of net earned premium.

Major losses of over €10m each totalled €892m (1,181m). These figures include gains and losses from the settlement of major losses from previous years. Major-loss expenditure corresponds to 15.5% (21.1%) of net earned premiums, and was thus above the long-term average expected value of 12%. Man-made major losses declined to €247m (973m), including COVID-19 losses of around €100m. Conversely, major losses from natural catastrophes rose to €646m (208m), attributable primarily to losses of some €450m resulting from the US cold snap in Texas.

In Q1, loss reserves of €230m (224m) were released for basic losses from prior years, which corresponds to 4.0% (4.0%) of net earned premiums. Munich Re continually seeks to set the amount of provisions for newly emerging claims at the very top end of the estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

In the reinsurance renewals as at 1 April 2021, Munich Re was able to increase the volume of business written to €2.3bn (+17.1%). It was possible to tap into growth opportunities, especially with global clients and in Asia – particularly in Japan and India. By contrast, Munich Re once again selectively discontinued business that no longer met risk/return expectations.

Prices were up overall in the sectional markets, with increases varying in connection with the specific claims experience and situation in each individual market. Prices for reinsurance cover rose considerably in some places, including Japan. By contrast, prices rose only slightly in regions and classes of business with low claims experience, such as Europe. All in all, prices for the Munich Re portfolio increased by 2.4%. This figure is, as always, risk-adjusted. In other words, price increases are offset if the underlying risk has increased and loss expectations are consequently elevated. Similarly, changes are offset by the composition of different classes of business in the portfolio so as to make valid comparisons possible.

Munich Re anticipates that the market environment will improve year on year in the next renewal round in July, as was the case with previous renewals.

ERGO: Result of €178m

ERGO posted a profit of €178m (72m) for Munich Re in Q1.

ERGO Life and Health Germany reported an improved result of €94m (5m), due to very good operational performance and an improved investment result. ERGO Property-casualty Germany increased its profit to €24m (21m), buoyed by strong growth in premium income. Thanks to ongoing good operational performance, ERGO International boosted its result to €60m (46m). ERGO's operating result totalled €240m (99m).

The combined ratios remain at a very good level, with a slight increase to 94.2% (93.4%) in Property-casualty Germany. Higher claims expenditure from man-made major losses was mitigated by a lower claims frequency associated with COVID-19, among other things, and by lower costs. The combined ratio for ERGO International improved to 93.8% (95.2%).

Overall premium income across all lines rose slightly in Q1 to €5,362m (5,253m); gross premiums written increased to €5,163m (5,050m).

Investments: Investment result of €1,691m

The Group's investment result (excluding insurance-related investments) decreased to €1,691m (1,920m) in Q1. Regular income from investments fell slightly to €1,429m (1,544m). The balance of gains and losses on disposals excluding derivatives increased to €983m (377m). The net balance of derivatives amounted to –€368m (1,600m). The very good net balance of derivatives in Q1 2020 was attributable to hedging of the Group's interest-bearing investments and equities, which gained significantly in value due to developments in the capital markets during Q1 2020. It was thus possible to almost entirely compensate for impairment losses and losses on the disposal of equities. As a result, the balance from impairment losses and reversals of impairment losses changed considerably to –€171m (–1,459m).

Overall, the Q1 investment result represents a return of 2.7% on the average market value of the portfolio. The running yield was 2.3% and the yield on reinvestment was 1.5%. By means of acquisitions in primary insurance and reinsurance – and aided by the positive market development – Munich Re increased its equity-backing ratio, including equity derivatives, to 6.9% as at 31 March 2021 (6.0% as at 31 December 2020).

The investment portfolio (excluding insurance-related investments) as at 31 March 2021 decreased slightly compared with the 2020 year-end figure, with the carrying amount falling slightly to €231,565m (232,950m); the market values amounted to €248,707m (252,789m).

The Group's asset manager is MEAG. As at 31 March 2021 – in addition to managing the Group's own assets – MEAG managed third-party investments totalling €64.9bn (69.6bn).

Outlook for 2021: Annual target unchanged at €2.8bn

Munich Re anticipates advantageous business prospects in reinsurance in 2021. This is evident in the projected gross written premium in this field of business, which has been adjusted upwards from €37bn to €39bn and, in turn, raises the forecast for the Munich Re Group to €57bn. The other targets communicated for 2021 in Munich Re's Group Annual Report 2020 remain unchanged. Munich Re is aiming for a consolidated profit of €2.8bn for the 2021 financial year.

All forecasts and targets face considerable uncertainty owing to fragile macroeconomic developments, volatile capital markets and the unclear future of the pandemic. As always, the projections are subject to major losses being within normal bounds, and to the income statement not being impacted by severe fluctuations in the currency or capital markets, significant changes in the tax environment, or other one-off effects.

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Munich Re

Munich Re is one of the world's leading providers of reinsurance, primary insurance and insurance-related risk solutions. The group consists of the reinsurance and ERGO business segments, as well as the asset management company MEAG. Munich Re is globally active and operates in all lines of the insurance business. Since it was founded in 1880, Munich Re has been known for its unrivalled risk-related expertise and its sound financial position. It offers customers financial protection when faced with exceptional levels of damage – from the 1906 San Francisco earthquake through to the 2019 Pacific typhoon season. Munich Re possesses outstanding innovative strength, which enables it to also provide coverage for extraordinary risks such as rocket launches, renewable energies or cyberattacks. The company is playing a key role in driving forward the digital transformation of the insurance industry, and in doing so has further expanded its ability to assess risks and the range of services that it offers. Its tailor-made solutions and close proximity to its customers make Munich Re one of the world's most sought-after risk partners for businesses, institutions, and private individuals.