

Munich Reinsurance Company  
**Annual General Meeting 2019**  
Report of the Chairman of the Board of Management,  
Joachim Wenning – 30 April 2019

# Report

# 2019

# Key figures (IFRS)

## Munich Re at a glance

		2018	2017	2016	2015	2014
Gross premiums written	€bn	49.1	49.1	48.9	50.4	48.8
Net earned premiums	€bn	45.7	47.2	47.1	48.3	47.4
Net expenses for claims and benefits	€bn	-35.1	-41.6	-38.5	-38.7	-39.7
Net operating expenses	€bn	-12.6	-12.2	-12.3	-12.4	-12.0
Operating result	€m	3,725	1,241	4,025	4,819	4,027
Taxes on income	€m	-576	298	-760	-476	312
Consolidated result	€m	2,275	392	2,581	3,122	3,170
Attributable to non-controlling interests	€m	-34	17	1	15	18
Earnings per share	€	15.53	2.44	16.13	18.73	18.31
Dividend per share	€	9.25	8.60	8.60	8.25	7.75
Dividend payout	€m	1,342	1,286	1,333	1,329	1,293
Share price at 31 December	€	190.55	180.75	179.65	184.55	165.75
Munich Reinsurance Company's market capitalisation at 31 December	€bn	28.5	28.0	28.9	30.8	28.7
Carrying amount per share	€	180.86	185.19	200.86	188.40	178.13
Investments	€bn	216.9	217.6	221.8	217.6	218.9
Insurance-related investments	€bn	8.4	9.7	9.6	9.2	8.5
Equity	€bn	26.5	28.2	31.8	31.0	30.3
Return on equity	%	8.4	1.3	8.1	10.0	11.3
Off-balance-sheet unrealised gains and losses <sup>1</sup>	€bn	16.1	15.0	17.3	16.0	17.4
Net technical provisions	€bn	208.3	205.8	202.2	198.5	198.4
Balance sheet total	€bn	270.2	265.7	267.8	268.9	265.6
Staff at 31 December		41,410	42,410	43,428	43,554	43,316

## Reinsurance

		2018	2017	2016	2015	2014
Gross premiums written	€bn	31.3	31.6	31.5		
Investments (incl. insurance-related investments)	€bn	85.6	85.8	91.9		
Net technical provisions	€bn	72.4	68.1	67.1		
Major losses (net)	€m	-2,152	-4,314	-1,542	-1,046	-1,162
Natural catastrophe losses	€m	-1,256	-3,678	-929	-149	-538
Combined ratio property-casualty	%	99.4	114.1	95.7	89.7	92.7

## ERGO

		2018	2017	2016	2015	2014
Gross premiums written	€bn	17.8	17.5	17.4		
Investments (incl. insurance-related investments)	€bn	139.7	141.4	139.4		
Net technical provisions	€bn	135.9	137.6	135.2		
Combined ratio property-casualty Germany	%	96.0	97.5	97.0	97.9	95.3
Combined ratio International	%	94.6	95.3	98.0		

<sup>1</sup> Including those apportionable to minority interests and policyholders.

*Munich Reinsurance Company  
Annual General Meeting 2019  
Report of the Chairman of the Board of Management, Joachim Wenning  
30 April 2019*

*Check against delivery*

**Dear Shareholders,  
Dear present and former colleagues,**

Welcome to Munich Re's Annual General Meeting!

It is with great pleasure that I report to you today about the 2018 financial year and Munich Re's strategic priorities for the coming years. But before I do, allow me to address a few words to you, Mr Pischetsrieder.

Today is a special day. You have been a member of the Supervisory Board of Munich Re since 2002, and its Chairman since 2013.

You have worked with the Company with circumspection and commitment for seventeen years. In all these years, you have shown consistent and tireless dedication – both in good times and in more challenging times. And you have always kept your focus on the big picture. You have helped Munich Re and me personally very much.

This February, the fund manager Union Investment gave Munich Re top ranking for corporate governance among DAX 30 companies. Good corporate governance strengthens investor confidence in our shares. And that is also down to you.

We could always reach you – regardless of the day or hour or topic – either on the phone or in person. All that is remarkable. You never let anything upset you. You have been a critical but cheerful advisor – with a good sense of humour and a sympathetic ear. You drew parallels and analogies based on your own experiences in other industries and companies. You explained the world of cars to me. And I returned the favour by explaining insurance and reinsurance. But, above all, you placed your trust in me. Most personally, and also on behalf of all shareholders and members of staff, as well as my colleagues on the Supervisory Board and the Board of Management, I would like to sincerely thank you for many years of dedication and close collaboration.

**Ladies and Gentlemen,**

2018 was a good year for Munich Re. We increased our profit to €2.3bn and achieved our result target. All parts of the Group contributed to this outcome.

I am pleased to say that ERGO is picking up pace, and is consistently and successfully pursuing its Strategy Programme: ERGO exceeded its result target in 2018. Product sales increased by 20% year on year. New business

grew by around 10%, with new business in life insurance even expanding by 25% thanks to attractive new products. ERGO improved profitability in core markets – especially in Poland, the Baltic States, Spain and Austria. And ERGO also generated much higher premium income in the growth markets of India and China. All of this sharpens ERGO's competitive edge.

In reinsurance, we wrote profitable new business and saw appreciable growth. In the life and health segment, we posted a result that was considerably above expectations. This was due above all to very favourable claims development in the United States. We also posted good earnings in property-casualty reinsurance. This is remarkable given that natural catastrophe losses were high in the fourth quarter, not least because of the wildfires in California. This segment nevertheless accounted for around half of our consolidated profit.

What's more, we weathered the effects of volatile capital markets in 2018 and emerged strong.

In short, we delivered on our promises.

Over 41,000 employees were instrumental in making this happen – thanks to their great personal commitment and outstanding work. I would like to express my thanks to them for this!

#### **Dear Shareholders,**

Your Company earned good money, and so should you. We want you to participate in our success through a higher dividend. We intend to increase our dividend materially to €9.25 per share – provided that you give your approval, which I am cautiously optimistic that you might.

In addition, today we will launch a new share buy-back programme with a volume of €1bn. Under the share buy-back programme for 2018–2019 that has now ended, we repurchased a total of 5,220,616 shares at an average price of €191.55. This represents around 3.5% of the share capital. As announced, we will retire these shares after today's Annual General Meeting – once again without reducing our share capital.

Ever since we issued our first share buy-back programme in 2006, we have returned over €27bn to you by way of dividends and buy-backs.

So your Munich Re shares continue to provide you with strong and sustained returns. A comparison with the leading eight global reinsurers and European primary insurers confirms this. Our total shareholder return was again one of the best in 2018.

And you can rest assured that by investing in Munich Re you are backing a Company that plays a significant economic and social role. After all, it is only because we make risks insurable that people are prepared and in a position to

take on new challenges with an uncertain outcome. That is our business. It benefits society and engenders progress. It contributes to the prosperity we all depend on.

The very purpose of our undertaking instantly becomes clear when disaster strikes: we alleviate human suffering. People experience first-hand what it means to be insured. Disasters are moments of truth in our business.

Imagine you own a home that has just been destroyed by a hurricane. You have been evacuated and may not even know yet how bad the damage is. To you, having an insurer that provides rapid assistance becomes invaluable.

And that is precisely what we enable primary insurers to do by utilising artificial intelligence. In the aftermath of a hurricane, we use aircraft to take high-resolution images of the affected areas. Algorithms automatically calculate the damage to buildings. And we make these results available to insurers very quickly.

This allows them to start settling claims rapidly – often even before those affected have returned to their damaged homes. In this moment of truth, insurers can provide help to their customers – either by making payments, providing services or repairing damage. This is using artificial intelligence to benefit the insured.

We are marketing this in the United States and selected countries in the Caribbean this year. It became clear just how much potential there is here during a pilot project with a few clients when Hurricane Michael made landfall in north-western Florida last October.

Within nine days after the disaster, 85,000 km<sup>2</sup> of the affected area had been photographed and analysed. With respect to over 40% of the building damage, we contacted the insurers before the policyholders were even able to notify them. In dozens of cases, the insurers were able to rapidly compensate their customers for the insured damage to their buildings – on the basis of automated analyses and without deploying any loss adjusters.

This example demonstrates the opportunities that digitalisation offers. But it is just one example among many.

We systematically integrate sustainability aspects into our value creation. And this commitment has been rewarded with top ranking in key external ratings. A central pillar here is our climate strategy. We believe that the greatest leverage can be gained by driving forward new technologies to achieve a low-carbon economy in power generation, transportation, energy storage, and industrial production. We offer insurance solutions through which we partially bear the burden of these often unusual risks. Two examples here are performance guarantees for photovoltaic systems and – just recently – battery storage. Munich Re has once again extended the boundaries of insurability. We are a pioneer in this field!

But that alone is not enough. We are convinced that monetary incentives are needed to reduce the emission of greenhouse gases. In all sectors of the economy, there should be a clear price to pay for emitting carbon dioxide. We hope that a suitable market mechanism is launched soon and can become a powerful driver for change. Competitive strength retention and distribution effects across society must be kept in mind at the same time. All this will make it possible to gradually have a successful switch to non-fossil fuels.

### **Ladies and Gentlemen,**

2018 was a good year, not only in terms of our result – it was also a year of transition: We have set ourselves a medium-term profit target of €2.8bn for 2020.

The focus of our endeavours is to further develop our business. We have a clear view of what we can achieve and earn in which markets. Implementing these objectives has nothing to do with magic – it requires discipline day in and day out. We are guided by three strategic priorities: We drive digital transformation forward. We reduce complexity. We drive forward ambitious growth initiatives in reinsurance and primary insurance.

We have made good progress with all three strategic priorities. Let me explain this in more detail.

### **Firstly, Munich Re is becoming more digital, quicker, and more flexible.**

Friedrich August von Hayek would probably have referred to digitalisation as a “weasel word”. Weasel words suck the meaning out of sentences the way that weasels suck eggs – leaving nothing but empty shells that merely appear to be intact. The same applies to digitalisation. Everybody is talking about it, but nobody really defines what this word actually means.

So let me be more specific. For us, the focus of digital transformation is creating a product for a real need. We want to solve the specific problems of our clients and sales partners. Let me give you three examples:

Example one: Private customers expect both personal *and* digital products and services. They want a seamless service consisting of personal advice that is provided either in person, on the phone or by video, and they also want the digital offers and services of a digital insurer. ERGO has already made good progress in seamlessly connecting all these factors with its integrated customer database. At the same time, it is streamlining and automating its processes in order to provide its customers with optimal service – for instance, by processing claims much more quickly.

Example two: For industrial clients and small and medium-sized enterprises, we can offer solutions facilitated by the Internet of Things.

Industrial clients want to minimise downtimes at their plants, increase the number of manufactured units, and improve the quality of their products. One way to achieve this is connected manufacturing. The purpose of our collaboration with Bosch, for example, is to help these clients do just that: We provide insurance coverage for the operational risks involved in connectivity, and secure the requisite financing.

Companies want to reduce the time-to-market for new products. Together with KUKA and the consulting company MHP, we offer Smart Factory as a Service. We relieve companies of the high investment costs involved in building and running their own production plants. We take risks such as business interruption off their hands, and allow them to focus on developing new products. This enables them to reduce development time by up to a third!

Small and medium-sized enterprises want to increase their relevance. Our new Group subsidiary, Relayr, can help with this. Relayr is a technology company that evaluates data from legacy and new versions of equipment and software in real time, thus enabling these enterprises to anticipate production downtimes and raise productivity. Companies appreciate this solution, and so do we: we invested over US\$ 250m in the acquisition of Relayr last year.

Example three: Enterprises and individuals are increasingly falling victim to cyber crime, data theft and sabotage in the digital economy. Worldwide losses are today estimated at \$600bn a year, and this figure is rising. Insurance coverage and the provision of comprehensive services ranging from preventive measures to the recovery of lost data are becoming increasingly important. We offer all this and more. We are a leading provider of insurance cover and services in the field of cyber risk.

Digital transformation has become tangible in many other ways: In 2018, our purely online insurer nexible more than doubled the number of policies sold, and is now also active in the Austrian market. A second product is in the pipeline. ERGO enables its customers to buy travel insurance using Amazon's Alexa voice assistant. We insure algorithms developed by partners, and help online traders to check for suspicious transactions more quickly and effectively. A digital platform enables primary insurers to market new products within a matter of a few weeks rather than taking up to a year.

You will find further examples displayed in the foyer. The number of digital undertakings we have become involved in underlines our ambition. We are using digital transformation to enhance our competitive strength, expand our leading position in the markets, and also secure new sources of income.

Our goal is to harness the opportunities arising from changes in the markets and in value creation. To achieve this, we want to modernise the purpose of the Company as set out in the Articles of Association and make it more flexible.

Dear Shareholders, you will be deciding on the relevant management proposal today. In doing so, you will provide the specific basis we need in order to leverage the potential of the digital business models I have described to you.

**With regard to the second strategic priority, Munich Re is getting leaner.**

Last year, we systematically reduced costs in reinsurance and across the Group as a whole. Munich Re is now much more focused and efficient.

ERGO has already saved over €170m in costs in Germany. We are thus fully on track to cut our costs in Germany by around €280m by 2020.

And in reinsurance we are making progress with our cost-reduction plan: we aim to decrease our spending by €200m by 2020. Our staff reduction programme in Munich was voluntary and went very smoothly. The International Organisation is becoming leaner as well.

We have also consolidated our portfolios: Since the beginning of 2018, ERGO has sold 17 international companies. In reinsurance, we sold two specialist companies in the United Kingdom. This allows us to focus on what is strategically relevant.

What have these measures achieved? We now do more business at lower cost. With these savings, we can channel further resources into investments in digitalisation. Both of these factors make us more competitive.

**Thirdly: Munich Re is generating more money.**

You have heard about our result ambition: By 2020, we want to increase our consolidated result compared with 2018 by €500m to €2.8bn. Along the way to achieving that goal, we envisage a profit of around €2.5bn for 2019. A total of €2.1bn will come from reinsurance, and €400m from ERGO.

ERGO will rigorously pursue the successful path it has taken so far. The focus is on enforcing cost discipline and sustainable profitable growth.

We are modernising our IT infrastructure, as you already know. The productivity of our sales agents will continue to rise. Our products are becoming simpler, and will be available both online and offline. This is exactly what we mean by our new business model for hybrid customers. Internationally, we intend to expand our position in core European markets. We also want to seize opportunities in the growth markets of India and China.

In reinsurance, we want to continue to grow profitably. The deciding factor here is our technical excellence. And, even more importantly, we will stick to our requirements regarding the profitability of the business!

In traditional property-casualty business, we want to see targeted growth in those areas of mature markets – such as the USA – where our market share is low in relation to our global position. Our focus in emerging markets is mainly on Latin America and Asia.

We also aim to grow our share in the cyber insurance market: Globally, this market is expected to grow to \$8–9bn by 2020, which would be twice as much as in 2017. We want to be part of that expansion, but with purpose and understanding.

We will also strengthen the profitability of our investments. Our goal is to generate higher returns from our investments without taking on more risk. To do so, MEAG must focus more strongly on managing and specialising in the most important asset classes in our portfolio, and using specialised external providers for managing all other assets. Both areas require expertise, and these asset management responsibilities need to be overseen by one member of the Board of Management. With effect from 18 March 2019, these responsibilities now rest with Nicholas Gartside.

#### Dear Shareholders,

Munich Re is becoming more digital, quicker, and more flexible. Munich Re is getting leaner. And: Munich Re is generating more money. In spite of the many challenges that lie ahead: we do not want to scaremonger or to play anything down. Nor do we want to make any promises we cannot keep. But we do want to explain why we are looking forward with optimism, and I hope I have shown this to you today.

On behalf of my colleagues and myself, I would like to thank you personally for your trust and support along the way.

We greatly appreciate your loyalty to Munich Re.

Thank you very much.



# Imprint

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## Responsible for content

Financial and Regulatory Reporting

The official German original of this report is also available from the Company. In addition, you can find our annual report and interim reports, along with further information about Munich Re, on the internet at [www.munichre.com](http://www.munichre.com).

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All the facts and figures for the 2018 financial year can be found in our Group Annual Report. More at [www.munichre.com/annualreport2018](http://www.munichre.com/annualreport2018)

## Important dates 2019

20 March 2019

Balance sheet press conference  
for 2018 financial statements

30 April 2019

Annual General Meeting

8 May 2019

Quarterly Statement as at 31 March 2019

7 August 2019

Half-Year Financial Report as at 30 June 2019

7 November 2019

Quarterly Statement as at 30 September 2019

## Important dates 2020

18 March 2020

Balance sheet press conference  
for 2019 financial statements

29 April 2020

Annual General Meeting

7 May 2020

Quarterly Statement as at 31 March 2020

6 August 2020

Half-Year Financial Report as at 30 June 2020

5 November 2020

Quarterly Statement as at 30 September 2020