Talanx lifts profit by 31 percent and generates record net income of EUR 923 million

- Gross written premiums increase by 13 percent to EUR 39.5 (34.9) billion
- Group net income up 31 percent year-on-year at EUR 923 (703) million
- Profit increase in all divisions, particularly in Industrial Lines and Reinsurance
- Board of Management and Supervisory Board again propose dividend increase by 5 cents to EUR 1.50 per share
- Outlook for 2020 reaffirmed: Group net income for 2020 in the range between “more than EUR 900 million” and EUR 950 million

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The Talanx Group grew substantially in the financial year 2019, generating record net income of EUR 923 million. The proposal to the General Meeting is to increase the dividend by a further 5 cents, to EUR 1.50 per share. Premium income rose by 13 percent to EUR 39.5 (34.9) billion, or 12 percent after adjustment for exchange rate effects. Operating profit (EBIT) increased to EUR 2.4 (2.0) billion. Group net income climbed 31 percent to a new record of EUR 923 (703) million. This figure is based on increased earnings in all four divisions, with Industrial Lines improving by a particularly large amount. The “20/20/20” programme, which aimed to lift profitability in the area of fire insurance, has been successfully completed. At 9.8 (8.0) percent, the Group’s return on equity was above the forecast of “more than 9.5 percent”, which had been revised upwards in the course of the year. Talanx reaffirms its 2020 forecast of Group net income in the range of “more than EUR 900 million” to EUR 950 million.

“We grew premiums by 13 percent and profits by 31 percent in 2019, generating record net income of EUR 923 million. In other words, our ambitious Strategy 2022 initiative already bore its first fruit last year”, said Torsten Leue, Chairman of Talanx AG’s Board of Management. “Encouragingly, all four divisions contributed to the rise in profits. Retail

Germany, Retail International, and Reinsurance all continued their strong performance, while Industrial Lines recorded an impressive improvement. The latter significantly exceeded its price adjustment target of 20 percent for fire insurance and is now clearly generating an operating profit again. Our growth initiatives are having an effect. For example, HDI Global Specialty lifted its premium income by more than 30 percent to EUR 1.4 billion. The commercial business in the Retail Germany Division recorded growth of 8 percent. We also made substantial progress in modernising our IT in 2019 by retiring the BS2000 mainframe system. We are convinced that we will position Talanx for even greater growth and stronger profits in the coming years by encouraging an entrepreneurial mindset and independent action among our employees. This is expressed in our new Talanx Purpose: ‘Together we take care of the unexpected and foster entrepreneurship’.”

Large losses exceed annual budget

Total large losses amounted to EUR 1.3 (1.2) billion, due above all to events in non-life reinsurance. This figure was slightly higher than in the previous year and in excess of the annual budget of EUR 1.2 billion. A total of EUR 363 (394) million of this amount was attributable to primary insurance, while reinsurance accounted for the remaining EUR 956 (850) million. Whilst the first half of the year saw extremely moderate large losses from natural disasters, the second half was well above expectations. At 98.3 (98.2) percent, the combined ratio was flat year-on-year due to higher large losses from the hurricanes on the Bahamas and in the USA, and the typhoons in Japan. Large losses also pushed down the underwriting result by 11 percent to EUR –1.8 (–1.6) billion.

Net investment income grew by a clear 15 percent to EUR 4.3 (3.8) billion. Extraordinary net investment income increased from EUR 392 million to EUR 898 million. The rise was primarily due to a one-time effect in the Life/Health Reinsurance Segment resulting from the restructuring of the shareholdings in the Viridium Group, along with the year-on-year rise in the realisation of hidden reserves to finance the renewed increase in the Zinszusatzreserve (ZZR – additional interest reserve) in the Retail German Division. As a result, the net return on investment rose slightly to 3.5 (3.3) percent. Talanx intends to maintain its investment strategy of limiting market risk in 2020. It will continue its conservative investment policy while steadily expanding its infrastructure investments.

Proposal to distribute 41 percent of profit

A proposal will be made to the General Meeting on 7 May 2020 to increase the dividend to EUR 1.50 (1.45) per share. This corresponds to a payout rate of a good 41 percent of the IFRS profit. The dividend yield, based on the average share price in 2019, is 4.0 (4.3) percent. Since Talanx's IPO in 2012, the dividend has been increased year for year by more than 40 percent overall from the original figure of EUR 1.05 per share.

Fourth quarter: gross premiums up 18 percent

Gross written premiums for the Group totalled EUR 9.2 (Q4 2018: 7.8) billion, an increase of 18 percent. The combined ratio rose in comparison to the prior-year quarter to 97.8 (97.2) percent as a result of arge losses. The underwriting result fell to EUR –551 (–223) million, primarily due to life insurance customers' participation in the higher net investment income, which rose by 35 percent to EUR 1.2 (0.9) billion. Operating profit (EBIT) for the quarter was on a par with the previous year at EUR 567 (562) million. Group net income fell to EUR 181 (215) million due to the year-on-year increase in income taxes.

Industrial Lines: Restructuring of fire insurance business exceeds expectations

Industrial Lines lifted its gross written premiums in 2019, recorded substantial progress in the area of fire insurance, significantly improved its combined ratio and made a positive contribution to Group net income. Gross written premiums for the year as a whole rose by 33 percent to EUR 6.2 (4.7) billion. The main reason for the rise in premium income was the acquisition of a majority interest in HDI Global Specialty, which is experiencing rapid growth. However, even without HDI Global Specialty, the Industrial Lines Division would have grown by 5 percent. Roughly 72 percent of premium volumes were generated abroad last year, exceeding the division’s 2019 target of 65 percent. Retention fell to 50.2 (58.6) percent as a result of HDI Global Specialty’s high reinsurance cessions.

The “20/20/20” programme, which was designed to restructure the fire insurance, was successfully completed and contributed to Industrial Lines’ improved profitability even though, at 101.4 (109.1) percent, the combined ratio is still in excess of the target of less than 100 percent. The expected premium attrition resulting from walking away from inadequately priced risks was more than offset by rate increases. The underwriting result improved substantially to EUR –40 (–240) million even though the large loss budget was exceeded. The strong improvement is reflected both in a tangible improvement in the frequency loss ratio and in a better large loss ratio for fire insurance. A combined ratio of less than 100 percent, and hence a positive underwriting result, is expected for the current financial year.

Net investment income increased by 18 percent to EUR 285 (242) million in 2019, despite the continued decline in interest rates. Industrial Lines generated a full-year operating profit of EUR 159 (11) million. The segment contributed EUR 103 (–16) million to Group net income.

Fourth quarter: year-on-year comparison strongly influenced by HDI Global Specialty

A clear rise in gross written premiums to EUR 1.3 (0.9) billion was recorded in the period from October to December. This is due above all to the transfer of HDI Global Specialty. The combined ratio fell to 101.2 (102.3) percent. The underwriting result improved by 38 percent to EUR –10 (–16) million thanks to the better frequency loss ratio in the area of fire insurance. Net investment income rose by 19 percent to EUR 70 (59) million. A conservative reserving approach resulted in an operating profit for the quarter of EUR 26 (42) million. The contribution made by the division to Group net income declined by 10 percent to EUR 18 (20) million.

Clear earnings improvement in Retail Germany

Operating profit in the Retail Germany Division rose by 28 percent to EUR 230 (180) million, already close to the minimum target for 2021 of EUR 240 million. Both the Property/Casualty and the Life Insurance segments contributed to the improvement in profit, with EUR 29 million and EUR 20 million respectively. At EUR 133 million, the contribution to Group net income was up 31 percent on the prior year. Implementation of Talanx's "KuRS" growth and efficiency programme yielded further positive effects. This can be seen among other things from the combined ratio, which recorded a further decrease to 99.0 (99.3) percent. After adjustment for investments in 2019 in connection with "KuRS", which negatively impacted earnings, the ratio improves even further to 96.9 (97.1) percent.

Property/Casualty Insurance segment sees growth in corporate business

The positive trend in the Property/Casualty Insurance Segment continued, with premium income rising 1.6 percent to EUR 1.6 (1.6) billion. Strong growth in the segment's business with small and medium-sized enterprises and freelance professionals, and in unemployment insurance more than compensated for the decline in motor insurance. The underwriting result also improved, rising to EUR 15 (11) million. Net investment income rose by 32 percent to EUR 119 (89) million. The clear (42 percent) increase in operating profit to EUR 98 (69) million largely reflects increased investment income, the clear improvement in the loss ratio and growth in the business with small and medium-sized enterprises and freelance professionals.

Fourth-quarter EBIT up significantly

Gross written premiums were on a level with the previous year in the final quarter of the year, at EUR 251 (251) million. The combined ratio fell to 100.8 (102.7) percent, due among other things to a lower level of claims. The underwriting result improved to EUR –3 (–10) million. Net investment income rose by 38 percent to EUR 33 (24) million. Operating profit for the quarter jumped to EUR 20 (3) million.

Life Insurance Segment: clear improvement in new business

Talanx continued its disciplined strategy of scaling back its business with non-capital efficient products in 2019. Nevertheless, premium volumes were up year-on-year at EUR 4.6 (4.5) billion. New business in the area of life insurance products – measured with the annual premium equivalent (APE), the international standard – rose 5 percent to EUR 409 (389) million. The proportion of total new business premiums accounted for by capital-efficient products rose from 71 percent to 76 percent.

The underwriting result declined to EUR –1.6 (–1.4) billion. The main reason for this were greater additions to the provisions for premium refunds resulting from the clear increase in net investment income. The latter rose by 13 percent to EUR 1.8 (1.6) billion due to the higher realisation of hidden reserves to finance the Zinszusatzreserve (ZZR – additional interest reserve). The decrease in the reference rate led to higher financing requirements of EUR 443 (301) million. The segment’s operating profit improved by substantial 19 percent in 2019, to EUR 131 (111) million.

Fourth quarter: operating profit up year-on-year

The segment saw a slightly positive premium trend for life insurance in the fourth quarter: gross written premiums rose by 1 percent to EUR 1.2 (1.2) billion. The underwriting result, which was impacted by the additions to the provision for premium refunds, declined to EUR –493 (–270) million, while net investment income was EUR 544 (329) million. Operating profit was up year-on-year at EUR 25 (21) million.

Retail International continues on its profitable growth path

The Retail International Division continued its dynamic and profitable growth in 2019. Activities in Poland, Italy and Mexico played a particularly large role here. The division supplemented its business by acquiring Ergo Sigorta in Turkey. In addition, the motor insurance joint venture with Banco Santander in Brazil commenced operations. By contrast, the sale of HDI Seguros in Peru streamlined the Latin America portfolio.

Gross written premiums in Retail International saw double-digit growth in 2019, rising 10 percent to EUR 6.1 (5.6) billion. Adjusted for currency effects, the increase was 12 percent. Overall growth in Europe was double-digit at 13 percent (15 percent after adjustment for currency effects), while in Latin America the figure was 3 percent (6 percent adjusted). The combined ratio rose to 95.5 (94.3) percent as a result of higher acquisition costs caused by structural portfolio changes and reporting adjustments designed to ensure uniformity. The loss ratio was stable year-on-year. The underwriting result decreased to EUR 33 (91) million, primarily because life insurance customers participated in the higher net investment income. Full-year operating profit rose 6 percent to EUR 283 (268) million. The division’s contribution to Group net income rose to EUR 164 (161) million.

Fourth quarter: higher premium income due to Ergo Sigorta

Premium income for the division rose by 16 percent to EUR 1.6 (1.4) billion in the last quarter of the year, or by 18 percent after adjustment for currency effects. This was due not least to the new acquisition in Turkey. The combined ratio increased to 96.5 (94.0) percent for accounting reasons. The underwriting result dropped to EUR –1 (34) million. Net investment income was up 20 percent to EUR 95 (79) million. Operating profit declined by 17 percent to EUR 56 (68) million due to the impact of the damage associated with the demonstrations in Chile, while the division's contribution to Group net income was down on the prior-year quarter at EUR 32 (37) million.

Reinsurance lifts contribution to Group net income

The Reinsurance Division hit its growth and earnings targets in 2019 despite large losses exceeding expectations. Gross premiums rose by 18 percent, or 15 percent after adjustment for currency effects. Operating profit improved 12 percent to EUR 1.8 (1.6) billion despite above-average losses from natural disasters. In addition, the 14 percent rise in net investment income to EUR 1.8 (1.6) billion was very encouraging. The contribution made by the division to Group net income increased to EUR 619 (540) million.

Non-Life Reinsurance: high level of claims in second half of the year

Whereas the loss experience in the first half of the year was extremely modest, the second half saw a clear rise in large losses in the Non-Life Reinsurance Segment. Gross written premiums in the segment rose by 23 percent to EUR 14.8 (12.0) billion. At constant exchange rates, growth would have amounted to 20 percent. The combined ratio deteriorated year-on-year to 98.2 (96.6) percent. Apart from the high losses during the financial year, this was due to delayed claim notifications for prior-year losses, and in particular for Typhoon "Jebi". As a consequence, the underwriting result declined to EUR 186 (333) million. Net investment income for the segment increased slightly to EUR 1.1 (1.1) billion. Operating profit fell by 8 percent to EUR 1.3 (1.4) billion.

Fourth quarter sees sharp jump in premium income

Premium income rose by 35 percent to EUR 3.1 (2.3) billion in the last quarter of the year. The combined ratio increased to 96.9 (95.9) percent due to losses that were substantially in excess of the pro rata large loss budget. As a result, the underwriting result declined to EUR 97 (102) million. Net investment income increased to EUR 276 (259) million. Operating profit for the quarter amounted to EUR 368 (339) million.

Life/Health Reinsurance Segment doubles operating profit

The segment was able to increase its profit due to its strong underlying business performance. Without the significant one-time factors impacting it in the previous year, operating profit rose to EUR 562 (262) million. Premiums for the year as a whole rose by 9 percent to EUR 7.8 (7.2) billion, or by 7 percent after adjustment for currency effects. The underwriting result almost matched the prior-year level at EUR 411 (416) million. Net investment income rose to EUR 682 (491) million.

Fourth quarter: clear rise in operating profit

In the period from October to December, gross written premiums increased by 11 percent compared to the prior-year period to EUR 2.1 (1.9) billion. The underwriting result fell to EUR –136 (–59) million, while net investment income was up year-on-year, at EUR 156 (122) million. Operating profit declined to EUR 90 (117) million.

Outlook 2020: Group net income of between "more than EUR 900 million" and EUR 950 million

Talanx is reaffirming both the outlook for 2020 that it published in autumn last year and its medium-term targets in full. The Group is expecting gross premiums to rise by roughly 4 percent in the current financial year after adjustment for currency effects. The net return on investment under the IFRSs is forecast to be approximately 2.7 percent, with the even lower interest rate environment being expected to impact Group net income by roughly EUR 25 million. Despite this, Talanx is aiming for improved Group net income of between “more than EUR 900 million” and EUR 950 million, in line with its strategic measures to improve Group profitability. This should correspond to a return on equity of between “over 9.0 percent” and 9.5 percent. A decrease of 0.5 percentage points compared to 2019 is likely due to the interest-rate driven increase in equity.

As usual, the targets for financial year 2020 are also subject to the proviso that large losses remain in line with expectations and that no greater turbulence occurs on the currency and capital markets than is currently being seen as a result of the coronavirus. Talanx’s other stated goals include distributing 35 to 45 percent of Group net income in dividends for the 2020 financial year, as in the past, and ensuring that the dividend payment remains stable at the least year-on-year.

In the period up to 2022, the goal is for earnings per share (EPS) to rise by an average of at least 5 percent per year, starting from the original outlook of EUR 850 million for Group net income in 2018.

Key figures from the Talanx Group income statement, financial year 2019, consolidated (IFRS)

EUR million	2019	2018[1]	+/–
Gross written premiums	39,494	34,885	+13.2%
Net premiums earned	33,054	29,574	+11.8%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[2]	98.3%	98.2%	+0.1% pps
Net investment income	4,323	3,767	+14.8%
Operating profit/loss (EBIT)	2,430	2,032	+19.6%
Net income (after financing costs and taxes)	1,671	1,359	+22.9%
Group net income (after non-controlling interests)	923	703	+31.3%
Return on equity[3]	9.8%	8.0%	+1.8% pps

Key figures from the Talanx Group income statement, Q4 2019, consolidated (IFRS)

EUR million	Q4 2019	Q4 2018[1]	+/–
Gross written premiums	9,169	7,794	+17.6%
Net premiums earned	8,868	7,733	+14.7%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[2]	97.8%	97.2%	+0.6% pps
Net investment income	1,166	866	+34.6%
Operating profit/loss (EBIT)	567	562	+0.9%
Group net income (after non-controlling interests)	181	215	-15.7%
Return on equity[3]	7.1%	10.0%	–2.9% pps

1) Adjusted in accordance with IAS 8.
2) Including net interest income on funds withheld and contract deposits.
3) The ratio of (annualised) net income for the reporting period excluding non-controlling interests to average shareholders’ equity excluding non-controlling interests.

Full documents relating to the annual report:

Full online 2019 Annual Report [PDF]
Further information on 2020 annual results
Financial calendar
Media library

About Talanx

With premium income of EUR 39.5 billion (2019) and more than 21,000 employees, Talanx is one of the major European insurance groups. The Hannover-based Group is active in more than 150 countries. Talanx operates as a multi-brand provider with a focus on B2B insurance. Under the HDI brand, which can look back on more than 100 years of tradition, Talanx operates both in Germany and abroad in industrial insurance as well as retail business. Further Group brands include Hannover Re, one of the world's leading reinsurers, Targo insurers, PB insurers and neue leben, the latter all specialised in bancassurance, as well as the Polish insurer Warta. Ampega is one of the top asset management companies in Germany and manages the assets of the Talanx Group. It is also an experienced provider of solutions for non-group institutional investors. The rating agency Standard & Poor's has given the Talanx Primary Group a financial strength rating of A+/stable (strong) and the Hannover Re Group one of AA–/ stable (very strong). Talanx AG is listed on the Frankfurt Stock Exchange in the SDAX as well as on the stock exchanges in Hannover and Warsaw (ISIN: DE000TLX1005, German Securities Code: TLX100, Polish Securities Code: TNX).

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