



Yuichiro Chino / Getty Images

Munich Re Group

Increase of stake in NEXT Insurance to 100%

20 March 2025







Key takeaways

- Acquisition of NEXT Insurance marks a big step to enter the so far untapped and attractive SMB¹ market in the US with a market premium volume of ~US\$ 175bn
- ERGO to become the business owner, gaining access to a relevant, digital-based technology with entirely digital underwriting
- Strong complementarities in underwriting and distribution will fuel future earnings growth and significant value creation
- NEXT's business effectively diversifies the Munich Re Group's global insurance portfolio, making it possible to drive the business in a highly capital-efficient way
- At the same time, Munich Re further expands its share of less cyclical and less volatile businesses – in the medium term, NEXT will contribute significantly to ERGO's net result

NEXT is an emerging leader in the US SMB insurance segment

Company background

 Founded in 2016 Headquartered in Palo Alto, California	 ~700 employees >600k customers
 Leading technology-first P&C insurer focusing on the specific needs of US small business owners	 Through its proprietary technology stack and its digital underwriting/pricing platform, NEXT offers simple, digital insurance coverage

Shareholder structure prior to the acquisition

ERGO
~29%



Other shareholders,
including large
insurance companies

NEXT transforms insurance experience for SMB owners

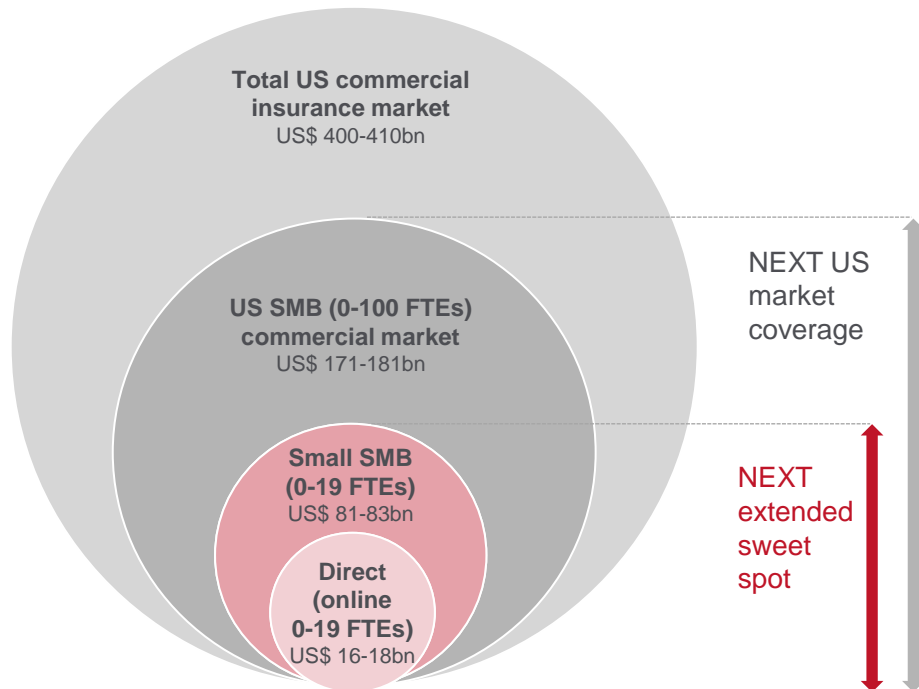
- Exceptional client experience
- Leading digital underwriting platform
- Strong multi-channel distribution
- Proprietary technology platform**

Mission:
to empower
small business
owners

- Traditional insurance has left small businesses underserved and, in some cases, underinsured due to complex products, unclear requirements, and outdated processes
- NEXT provides a digital “one-stop” insurance experience with on-the-spot underwriting/policy issuance, delivering simple and tailored insurance solutions for entrepreneurs

Small businesses make up 99% of companies in the US, playing essential roles across the country

US commercial insurance market (2024)



Main competitors

PROGRESSIVE

Thimble

The Hartford

USAA

biBERK
A BERKSHIRE HATHAWAY COMPANY

pie PIE INSURANCE

CHUBB

FARMERS
INSURANCE

NEXT's competitive advantage

- Exclusive focus on small businesses that legacy carriers – designed for higher-premium accounts – struggle to service efficiently
- The data-driven approach and its early adoption for small business insurance allows NEXT to tailor coverage and to build significant operational leverage

NEXT's product portfolio targets small business insurance and is evenly allocated across distribution channels

Target customers

Small businesses (<20 employees), representing 44% of the US GDP – NEXT is currently serving >600,000 active customers

Product portfolio

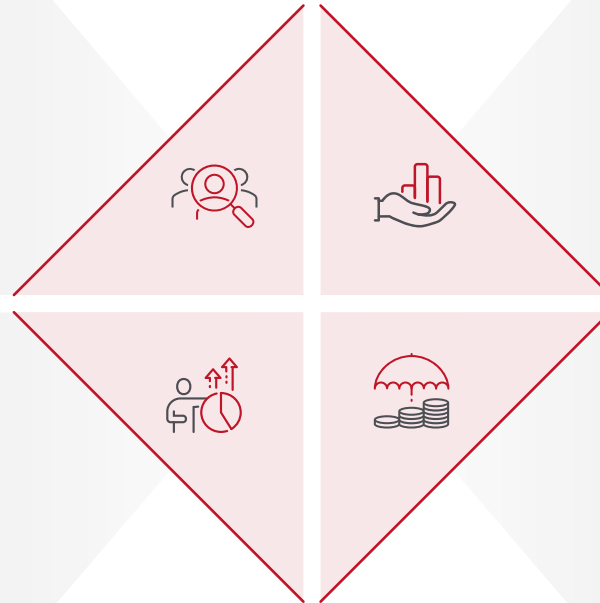
>300 different professions across various product lines with focus on general liability and workers' compensation

Distribution channels

Balanced mix of direct-to-business, embedded partnerships and agents

Reinsurance

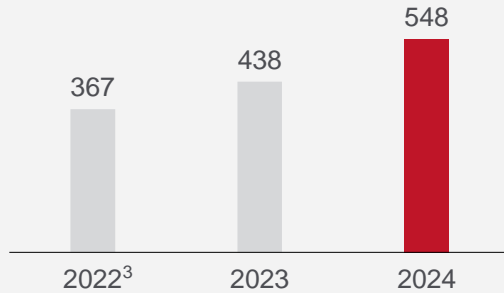
So far, NEXT has worked with a panel of reinsurers, including Munich Re – going forward, Munich Re America will provide substantially all reinsurance for NEXT's business



NEXT has successfully scaled its business, while further improving key KPIs

Top line^{1,2}

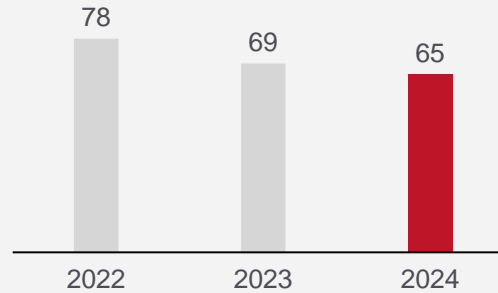
US\$ m



- Growth above market based on a clearly differentiated market position, with:
 - Market-leading brand awareness
 - Enhanced conversion rates
 - Higher customer feedback
 - Sustainable customer retention
- In addition, NEXT earns commissions for customers connected to third-party carriers, generating other operating income (US\$ 54m in 2024)

Loss ratio^{2,4}

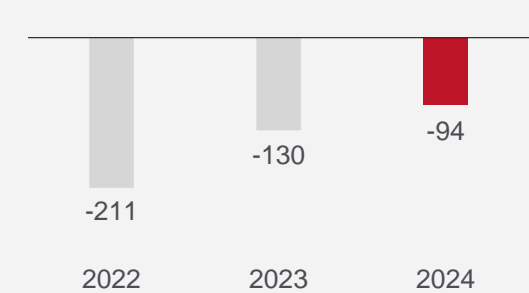
%



- Successfully enhanced underwriting over time
- Positive development in all major lines of business
- Exploiting further opportunities for improvement in close collaboration with ERGO and Global Specialty Insurance

Net result⁵

US\$ m



- Improved profitability while significantly growing above-average
- So far, NEXT has ceded a significant margin via reinsurance due to its capital-light business model
- Post acquisition, a substantial portion of this margin will be internalised, improving the profitability in addition to economies of scale

1 Insurance revenue and MGA premiums. 2 Calculation based on US-GAAP.

3 Non-insurance accounting applicable for MGA business. 4 On insurance revenue and MGA business. 5 According to US-GAAP.

NEXT strategically fits very well into Munich Re's interlocked business model – ERGO is its best owner

Strategic fit

- Attractive US SMB market that Munich Re does not currently have access to, providing a growth opportunity in a less volatile/less cyclical segment
- ERGO/Munich Re have a good understanding of the business model and the company as an investor in NEXT since 2017
- Viable ERGO footprint in the largest insurance market in the world
- Access to a relevant, digital-based technology with entirely digital underwriting
- Attractive return on investment to clearly exceed Munich Re's cost of equity

Synergies

- Capital efficiency, as NEXT business is effectively diversified by the Munich Re Group's global insurance portfolio
- Internalisation of reinsurance margin
- Unwinding of fronting business and access to available licences
- Operational integration into existing US structures, leveraging efficiency
- Capitalising on Munich Re's portfolio management experience to maximise return on investment

In the medium term, NEXT will contribute significantly to ERGO's net result

Net result ambition

- **Short-term**
Break-even
- **Medium-term**
Mid-triple-digit US\$ m
- **Long-term**
Further significant increase of earnings potential

- NEXT will continue its growth outperformance over the next few years, based on its differentiated market positioning and its broad business model
- NEXT has achieved a competitive loss ratio in recent years through targeted measures, and will continue to pursue this approach in the future
- Through its digital business model, NEXT will generate operational leverage and significantly reduce its expense ratio – in addition, business for which currently fronting fees are expensed will be fully written on its own books
- With the full support of ERGO/Munich Re, NEXT will increase its retention and internalise reinsurance margins

NEXT will be fully integrated into ERGO's management structure



Integration approach

- ERGO will fully integrate NEXT into its management structure, with direct functional reporting lines
- NEXT will have the necessary leeway to further develop the digital business model and leverage its positioning in the US SMB market
- Certain non-market-facing functions will be performed through service level agreements with Munich Re America Services



Financial impact

- Acquisition price is based on a valuation of US\$ 2.6bn for 100% shareholding
- Transaction will lead to a positive one-off accounting effect at ERGO International segment
- No impact on Munich Re's financial targets for 2025
- Acquisition will lead to a decline in Munich Re Group's Solvency II ratio of ~10%-points after closing



Transaction structure

- Munich Re America Corporation (MRAC) will legally acquire NEXT; ERGO will transfer its current shareholding in NEXT to MRAC, which will own 100% of shares in NEXT
- ERGO to become the business owner, Munich Re America will provide substantially all reinsurance for NEXT's business going forward
- Closing expected by Q3 2025

Disclaimer

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