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Fitch Affirms Munich Re's IFS Rating at 'AA'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 23 Jun 2021: Fitch Ratings has affirmed Munich Reinsurance Company's (Munich Re) Insurer Financial Strength (IFS) Rating at 'AA' (Very Strong) and Long-Term Issuer Default Rating (IDR) at 'AA-'. Fitch has also affirmed the ratings of Munich Re's core operating subsidiaries. The Outlooks are Stable.

A full list of rating actions is provided below.

Key Rating Drivers

The affirmations reflect Munich Re's 'Most Favourable' business profile within the global reinsurance sector, 'Very Strong' capitalisation and leverage and 'Strong' financial performance.

Fitch regards Munich Re as one of a select group of reinsurers that has the scale, diversity and financial strength to attract the highest-quality business in the global reinsurance market. Given Munich Re's 'Most Favourable' business profile within the global reinsurance sector, we score its business profile at 'aa+' under our credit-factor scoring guidelines.

Munich Re's 'Very Strong' capitalisation is measured by Fitch's Prism Factor-Based Capital Model (Prism FBM) based on reported numbers as of end-2020 (2019: 'Very Strong'). The company's Solvency II ratio dropped to 208% as of end-2020 from 237% a year before and rose to 217% at end 1Q21, remaining at the upper end of Munich Re's target range. Fitch expects Munich Re to maintain its capital strength in the medium term, assuming a normal level of major losses.

Fitch estimates Munich Re's financial leverage (FLR), as calculated by the agency, will improve to 15% at end-2021 after the company called a EUR1 billion subordinated bond, which was issued in 2011, in May 2021. The FLR deteriorated to 18% in 2020 from 14% in 2019, a level that nonetheless remains low in absolute terms and compared with peers', and is supportive of Munich Re's ratings. In September 2020, Munich Re issued EUR1,250 million of subordinated debt, which matures in 2041.

Fitch assesses Munich Re's financial performance as 'Strong' and expects the company to improve its financial performance in 2021 compared with 2020, achieving a net income return on equity (ROE), as calculated by the agency, of more than 10%.

Munich Re is exposed to the pandemic, in particular, through its mortality book and event-cancellation and business-interruption policies. However, Fitch believes the company will benefit from a decline in pandemic-related claims and better pricing in property and casualty (P&C). Investment income is set to

remain under pressure from low reinvestment yields that are still below average portfolio yields despite a recent pick-up in market interest rates.

For 2020, Munich Re reported a weaker, albeit still adequate, set of results with a combined ratio of 106% in P&C reinsurance (2019: 100%) and an ROE, as calculated by Fitch, of 4% (2019: 9.6%). The results include EUR3.5 billion of booked claims reserves related to the coronavirus pandemic, EUR370 million of which were booked in life & health reinsurance and EUR57 million at ERGO. For 1Q21, Munich Re reported a net profit of EUR589 million equalling an annualised ROE of 10.4%.

Fitch views Munich Re's non-life reserving as very prudent and supportive of ratings. Munich Re's reserving approach has been consistent and has led to a positive reserve experience for the past 10 years. Our analysis suggests that Munich Re reserves towards the higher end of the best-estimate range. In 2020, Munich Re released reserves equal to 4.2% (2019: 5.6%) of net earned premiums in P&C reinsurance.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

A sustained improvement in Munich Re's capitalisation to 'Extremely Strong', as measured by Fitch's Prism FBM, and in net income ROE to above 12%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Sustained deterioration in the FLR to above 25%.

A sustained material drop in risk-adjusted capital to below 'Very Strong', as measured by Fitch's Prism FBM.

A sustained net income ROE below 7% could also lead to a downgrade.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions


ENTITY/DEBT	RATING		RECOVERY	PRIOR
Munich Reinsurance Company	LT IDR	AA- 	Affirmed	AA- 
	Ins Fin Str	AA 	Affirmed	AA 
• subordinated	LT	A	Affirmed	A
Munich Re America Corporation	LT IDR	AA- 	Affirmed	AA- 
• senior unsecured	LT	AA-	Affirmed	AA-
Munich Reinsurance America, Inc.	Ins Fin Str	AA 	Affirmed	AA 
Hartford Steam Boiler Inspection And Insurance Company	Ins Fin Str	AA 	Affirmed	AA 
ERGO Group AG	LT IDR	AA- 	Affirmed	AA- 
Europaeiske Rejseforsikring A/S	Ins Fin Str	A+ 	Affirmed	A+ 
ERGO	Ins Fin Str	AA 	Affirmed	AA 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Vorsorge Lebensversicherung AG				
DKV Deutsche Krankenversicherung AG	Ins Fin Str AA 		Affirmed	AA 
ERGO Reiseversicherung AG	Ins Fin Str AA 		Affirmed	AA 

RATINGS KEY OUTLOOK WATCH

POSITIVE  

NEGATIVE  

EVOLVING  

STABLE 

Applicable Criteria

[Insurance Rating Criteria \(pub.15 Apr 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Third-party Model, v [\(15 April 2021\)](#)

Prism U.S. Non-Life Insurance Capital Model, v1.2.2 [\(1\)](#)

Reserve Adequacy and Volatility Estimator Model, v1.1.0 [\(1\)](#)

Prism Factor-Based Capital Model, v1.7.2 [\(1\)](#)

Additional Disclosures

Solicitation Status

Endorsement Status

DKV Deutsche Krankenversicherung AG	EU Issued, UK Endorsed
ERGO Group AG	EU Issued, UK Endorsed
ERGO Reiseversicherung AG	EU Issued, UK Endorsed
ERGO Vorsorge Lebensversicherung AG	EU Issued, UK Endorsed
Europaeiske Rejseforsikring A/S	EU Issued, UK Endorsed
Hartford Steam Boiler Inspection And Insurance Company	EU Endorsed, UK Endorsed
Munich Re America Corporation	EU Endorsed, UK Endorsed
Munich Reinsurance America, Inc.	EU Endorsed, UK Endorsed
Munich Reinsurance Company	EU Issued, UK Endorsed

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