Munich Reinsurance Company

Update

Key Rating Drivers

Very Strong Company Profile: Munich Reinsurance Company's company profile within the global reinsurance sector is underpinned by a leading, highly diversified franchise. It is the world's largest reinsurer by revenue. The group also has significant primary insurance operations through ERGO Group with a geographical focus on Germany, Europe and Asia.

Very Strong Capitalisation: Munich Re's Solvency II (S2) ratio was 292% at end-3Q24 (end-2023: 267%), well above its 175%-220% target and one of the strongest in the (re)insurance sector. Fitch Ratings' Prism Global model was an unchanged 'Very Strong' at end-2023. Management's intention to use excess capital to reward shareholders or fund growth opportunities, bringing S2 closer to around 220% over the long term, will not affect our view of the group's capital strength.

Very Low Financial Leverage: We estimate financial leverage ratio (FLR) increased to 11.5% at end-3Q24 from 10% at end-2023, following the EUR1.5 Tier 2 debt issuance in May. This remains a very low level in absolute terms and compared with peers, which is supportive of the ratings. We expect a modest and gradual increase in the FLR in the next 12 to 24 months to support capital distribution, bringing it to a level that would still be well within our 'aa' guidelines and compare favourably with similarly rated peers.

Very Strong Earnings: Munich Re reported a 31% increase in net result year on year to EUR 4.7 billion for 9M24, driven by reinsurance segments. This translate in a net income return on equity (ROE) of 20.1%. The Fitch-calculated net income return on equity (ROE) reached 16% in 2023 (2022: 20%), driven by sustained underwriting and investment returns, on the back of favourable market conditions.

The reported property and casualty (P&C) reinsurance combined ratio was very strong at 82% at end-3Q24 (end-2023: 85.2%). As in 2023, it benefited from sustained pricing and conditions at renewals but, unlike 2023, major losses were above budget for 9M24. Life and health business reported a 80% yoy increase in net income at end-3Q24, while primary business divisions showed further performance improvements.

Strong Financial Performance: Munich Re has been consistently profitable through reinsurance cycles. Reserves buffer management and earnings diversification brought by primary insurance operations contribute to earnings stability. Fitch anticipates that the company will maintain similar profitability in 2025, assuming within-budget large losses and stable capital markets.

Very Strong Reserve Adequacy: Fitch views Munich Re's reserving practice as prudent and supportive of its ratings. This is reflected in positive reserve experience (between 4% and 7% of the combined ratio), for over 10 years. Reserves releases remained stable for 9M24. We view Munich Re as the best reserved of the four leading European reinsurers. In 2023, Munich Re took advantage of strong underwriting results to add EUR900 million of reserves prudency (mainly for US liability and inflation).

Ratings

Munich Reinsurance Company

Insurer Financial Strength	AA
Long-Term IDR	AA-

Outlooks

Insurer Financial Strength	Stable
Long-Term IDR	Stable

Debt Ratings

Subordinated Long-Term Rating	A

Financial Data

Munich Reinsurance Company

(EURm)	End-3Q24	End-2023
Total assets	280,007	273,793
Total equity	31,425	29,772
Insurance revenue	45,510	57,884
Net income	3,593	4,597
Solvency II (%)	292	267

Note: Reported under IFRS 17.
Source: Fitch Ratings, Munich Re

Applicable Criteria

Insurance Rating Criteria (March 2024)

Related Research

European Reinsurers: 1H24 Results (August 2024)

Global Reinsurance Outlook (September 2024)

Munich Reinsurance Company (July 2024)

Fitch Rates Munich Re's Tier 2 Note 'A' (May 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A deterioration in capital position, with the S2 ratio falling below 180% or Prism score falling below 'Very Strong' for a prolonged period.
- A sustained decline in profitability with ROE below 8%.
- The FLR above 23%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A sustained strengthening of financial performance above that of 'AA' rated peers. The following would have to be met on a sustained basis:
  - The S2 ratio above 230%.
  - ROE above 15%.
  - The FLR below 11%.

Latest Developments

Munich Re's S2 ratio increased to 292% at end-3Q24 from 267% at end-2023, driven by Tier 2 subordinated debt issuance and very strong earnings. We expect the group to maintain its capital strength over the next 12 to 24 months thanks to prudent risk management and sustained net capital generation. An S2 ratio falling to 220% would not affect our view of capitalisation.

The group issued EUR1.5 billion Tier 2 debt in May 2024, consistent with its intention to gradually increase leverage and resulting in the FLR increasing to 11.5% at end-3Q24 from 10% at end-2023. We expect FLR to increase gradually in the next 12 to 24 months to a level that would still compare favourably relative to our 'aa' guidelines and similarly rated peers.

Net income rose to EUR4.7 billion in 9M24 from EUR3.6 billion in 9M23, driven by very strong operational performance in all business segments and a high return on investment (3.4%). We expect net income ROE to be around 15% or better for 2024.

The P&C reinsurance combined ratio was a low 82% in 9M24 (9M23: 83%). The ratio includes a discounting benefit of 8pp. Major losses, primarily natural catastrophe losses (notably EUR0.5 billion from hurricane Helen in 3Q24) burdened combined ratio by 15.9pp (9M23: 12.5%), exceeding the 14pp budget. Munich Re revised its combined ratio target for 2024 to a still very strong 83% from 82%.

The life and health technical result increased significantly to EUR1.6 billion in 9M24 (9M23: EUR1.1 billion). These were driven by healthy profitability of the mortality and morbidity core portfolio, "financially motivated reinsurance" (e.g. capital relief), as well as no excess mortality related to the pandemic. A steady release of CSM, broadly consistent with long-term expectations, remains the main contributor of L&H earnings. Munich Re reported a positive "experience variance" in CSM development and reinsurance service result. CSM stock increased in 9M24, driven by a significant increase in new business CSM, far exceeding CSM release and indicating an expected growth in profitability of the L&H reinsurance book.

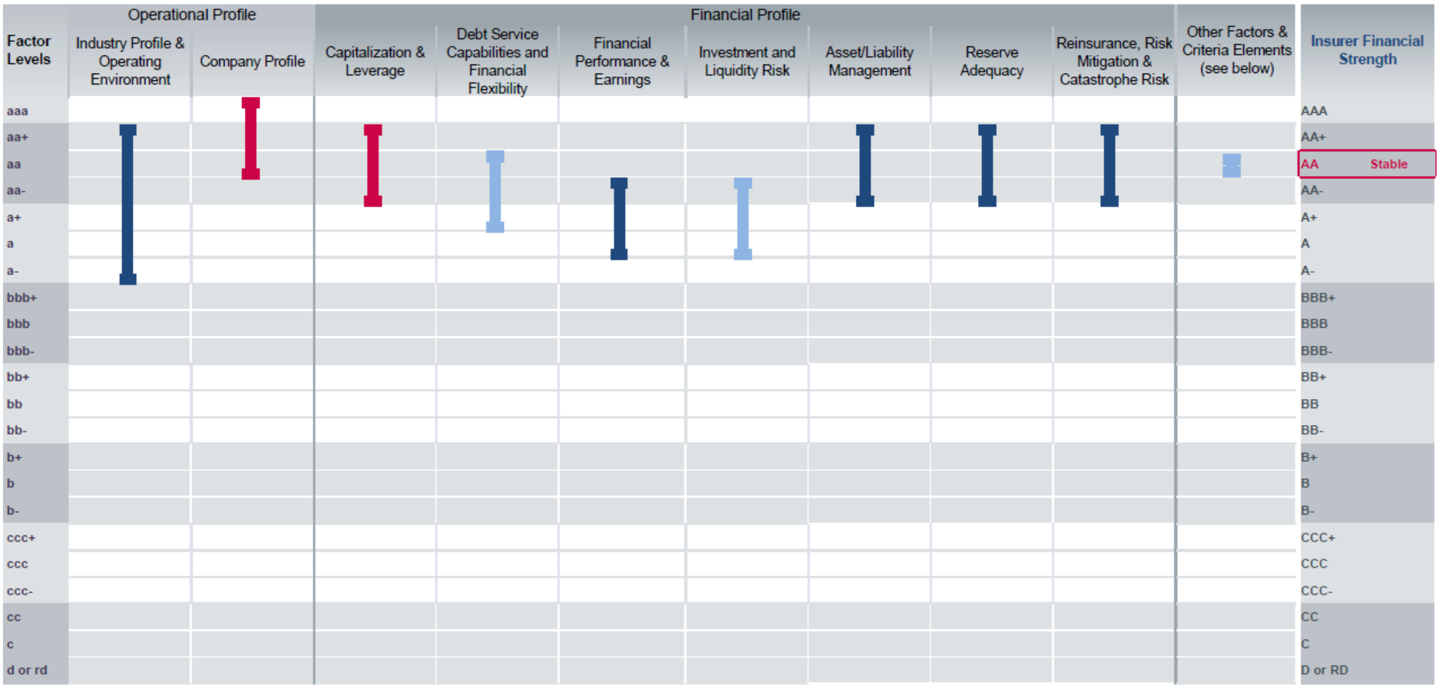
ERGO's net income in 9M24 increased by 9% yoy to EUR699 million, making a strong contribution to group's earnings. ERGO's earnings were robust in Germany, both in P&C and L&H, while international business was affected by natural catastrophe losses, mainly flooding in Austria and Poland (storm Boris in 3Q24).

Key Rating Drivers - Scoring Summary

Munich Reinsurance Company

ESG Relevance:

Insurance Ratings Navigator
Global Re (Composite)



Other Drivers & Criteria Elements				
Provisional Insurer Financial Strength Rating				AA
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength Rating			Final:	**AA**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**AA-**

Bar Chart Legend:

Vertical Bars = Range of Factor

Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ☐ Stable

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