FitchRatings

Insurance
Reinsurance
Global

Munich Reinsurance Company

And Operating Subsidiaries

Update

Key Rating Drivers

Very Strong Company Profile: Fitch Ratings regards Munich Reinsurance Company 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' company profile within the global reinsurance sector, we score its company profile at 'aa+' under our credit-factor scoring guidelines.

Very Strong Capital: 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 (end-2019: 'Very Strong'). The company's Solvency II ratio dropped to 208% at end-2020 from 237% at end-2019, but improved again to 231% as of end-September 2021, returning above Munich Re's target range of 175%–220%. Fitch expects Munich Re to maintain its capital strength in the medium term, assuming a normal level of major losses.

Low Financial Leverage: Fitch estimates Munich Re's financial leverage ratio (FLR) will remain broadly unchanged at end-2021 compared to end-2020. In May 2021, the company called a EUR1 billion subordinated bond, which had been issued in 2011. Munich Re issued a EUR1 billion subordinated green bond in August 2021, which matures in 2042. The FLR deteriorated to 18% in 2020 from 14% in 2019, a level that nonetheless remains low both in absolute terms and when compared with peers', and is supportive of Munich Re's ratings.

Strong Earnings: Fitch assesses Munich Re's earnings as 'Strong' and expects the company to improve its earnings in 2021 compared to 2020, achieving a net income return on equity (ROE), as calculated by Fitch, of more than 10%. Fitch believes the company will benefit from a decline in pandemic-related claims and better pricing in property and casualty. Investment income is set to remain under pressure from low reinvestment yields despite the recent pick-up in market interest rates.

Pandemic Weighs on 2020 Earnings: Munich Re reported a weaker, although still adequate, set of results for 2020 with a combined ratio of 106% in P&C reinsurance (2019: 100%) and an ROE, as calculated by Fitch, of 4.0% (2019: 9.6%). The results include EUR3.5 billion of pandemic-related claims, EUR370 million of which was booked in life and health reinsurance and EUR57 million at ERGO Group AG. Munich Re is exposed to the pandemic, particularly through its mortality book, and event-cancellation and business-interruption policies.

Rating Sensitivities

Weaker Capitalisation: A sustained material drop in the group's risk-adjusted capital position to below 'Very Strong', as measured by Fitch's Prism FBM, could lead to a downgrade.

Lower Profitability: A sustained drop in the group's net income ROE to below 7% could lead to a downgrade.

Higher Financial Leverage: A sustained deterioration in the group's FLR to above 25% could also lead to a downgrade.

Improved Capital and Earnings: A sustained improvement in the group's capitalisation to 'Extremely Strong', as measured by Fitch's Prism FBM, and in the group's net income ROE to above 12% could lead to an upgrade.

Ratings

Munich Reinsurance Company

IFS rating	AA
Long-Term Foreign-Currency IDR	AA-
Subordinated debt	A

Munich Re America Corporation

Long-Term Foreign-Currency IDR	AA-
Senior unsecured debt	AA-

Outlooks

Stable

Financial Data

Munich Reinsurance Company

(EURbn)	9M21	2020
Total assets	310.7	298.0
Total equity	30.1	30.0
Gross written premiums	44.6	54.9
Combined ratio reinsurance (%)	101	106
Net income	2.1	1.2

Source: Fitch Ratings; Munich Re

Applicable Criteria

Insurance Rating Criteria (November 2021)

Related Research

European Reinsurance Dashboard: 9M21 Results (November 2021)

Reinsurance Price Rises Will Support Improving Sector Outlook (October 2021)

Fitch Ratings 2022 Outlook: Global Reinsurance (September 2021)

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Latest Developments/Significant Changes

- Munich Re reported a net profit of EUR2.1 billion for 9M21, equalling an annualised reported ROE of 12.1% (9M20: 5.9%). Pandemic-related claims amounted to EUR206 million in property and casualty reinsurance, and EUR470 million in life and health reinsurance.
- The Solvency II ratio benefitted from the issuance of EUR1 billion of subordinated debt in August 2021 and reached 231% at end-September 2021.
- Property and casualty reinsurance was heavily affected by natural catastrophe losses, which added 13.7pp to the reported combined ratio of 100.9% for 9M21 (9M20: 106.1%).
- ERGO Life and Health Germany showed a much-improved net income of EUR206 million in 9M21 following better investment income and foreign exchange results. ERGO Property-casualty Germany could offset the negative impact of the summer floods on the underwriting result by a better investment income.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.