

## RATING ACTION COMMENTARY

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

Wed 30 Nov, 2022 - 09:07 ET

Fitch Ratings - Frankfurt am Main - 30 Nov 2022: Fitch Ratings has affirmed Munich Reinsurance Company's (Munich Re) and its core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'AA' (Very Strong). Fitch has also affirmed Munich Re's Scandinavian travel insurer Europaeiske Rejseforsikring A/S's IFS Rating at 'A+'. The Outlooks are Stable. A full list of rating actions is provided below.

The affirmation reflects Munich Re's 'Most Favourable' company profile within the global reinsurance sector, 'Very Strong' capitalisation and 'Strong' financial performance.

## KEY RATING DRIVERS

**Most Favourable Company Profile:** Fitch views 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' company profile within the global reinsurance sector, we score its company profile at 'aa+' under our credit-factor scoring guidelines.

**Very Strong Capitalisation:** Munich Re's unchanged 'Very Strong' capitalisation is measured by Fitch's Prism Factor-Based Capital Model (Prism FBM) based on reported numbers as of end-2021. The company's Solvency II (S2) ratio improved to 254% at end-September 2022 from 227% at end-2021, above 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.

**Low Financial Leverage:** The company's financial leverage ratio (FLR) improved to 17% in 2021 from 18% in 2020 on retained earnings. This level is low in absolute terms and compared with peers' but is supportive of Munich Re's ratings. Fitch expects Munich Re's FLR to remain largely unchanged at end-2022 as the repayment of two subordinated notes in May 2022 of GBP450 million and EUR900 million, respectively, was offset by a green subordinated bond issue of USD1.25 billion in May 2022.

**Strong Earnings:** Fitch assesses Munich Re's earnings as 'Strong' and expects the company to maintain similar profitability in 2022. It benefits from very good premium rates in property and casualty (P&C) reinsurance and an increase in market interest rates. This should offset increasing inflationary pressures on claims and lower asset values.

Munich Re reported resilient results for 9M22 with a combined ratio of 97% in P&C reinsurance (9M21: 101%) and a return on equity (ROE) of 10.3% (9M21: 12.1%). P&C reinsurance benefited from better pricing and higher business volumes. The net result of life and health (L&H) reinsurance staged a recovery in 9M22 as Covid-19 claims fell to EUR323 million (9M21: EUR470 million). The segment's reported net profit rose to EUR492 million (9M21: EUR239 million). Fitch expects Covid-19 mortality claims to decline further in 2023.

**Very Important Subsidiary:** Europaeiske Rejseforsikring A/S's rating reflects its ultimate 100% ownership by Munich Re and is classified as 'Very Important' to Munich Re under Fitch's insurance group rating methodology. The company has been part of Munich Re for decades and its rating benefits from a three-notch uplift from its standalone credit profile. The latter reflects its 'Very Strong' capitalisation, but is constrained by its small size.

## **RATING SENSITIVITIES**

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

-- A sustained improvement in the group's Prism FBM score to 'Extremely Strong' and in the group's net income ROE to above 12%

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

-- A sustained material decline in the group's Prism FBM score to below 'Very Strong'

-- A sustained decline in the group's net income ROE to below 7%

-- Sustained deterioration in the group's FLR to above 25%

## 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](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅		PRIOR ⇅
Munich Reinsurance Company	LT IDR	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
	Ins Fin Str	AA Rating Outlook Stable	AA Rating Outlook Stable
	Affirmed		
subordinated	LT	A	Affirmed
			A

Munich Re America Corporation	LT IDR	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
senior unsecured	LT	AA- Affirmed	AA-
Munich Reinsurance America, Inc.	Ins Fin Str	AA Rating Outlook Stable	AA Rating Outlook Stable
	Affirmed		
Hartford Steam Boiler Inspection And Insurance Company	Ins Fin Str	AA Rating Outlook Stable	AA Rating Outlook Stable
	Affirmed		
ERGO Group AG	LT IDR	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
ERGO Vorsorge Lebensversicherung AG	Ins Fin Str	AA Rating Outlook Stable	AA Rating Outlook Stable
	Affirmed		
DKV Deutsche Krankenversicherung AG	Ins Fin Str	AA Rating Outlook Stable	AA Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

**Robert Mazzuoli, CFA**

Director

Primary Rating Analyst

+49 69 768076 167

robert.mazuoli@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

**Christoph Schmitt**

Director

Secondary Rating Analyst

+49 69 768076 121

christoph.schmitt@fitchratings.com

**Federico Faccio**

Senior Director

Committee Chairperson

+44 20 3530 1394

federico.faccio@fitchratings.com

**MEDIA CONTACTS****Athos Larkou**

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

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

Prism Factor-Based Capital Model, v1.8.0 (1)

**ADDITIONAL DISCLOSURES**

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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
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