S&P Global Ratings

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Research Update:

Munich Reinsurance Co. Upgraded To 'AA' On Continued Strong Earnings And Diversification; Outlook Stable

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Overview

- Operating performance at global reinsurer Munich Reinsurance Co. (Munich Re) remains sound and underwriting performance across its various operations is strong, giving it diversification comparable with 'AA' rated peers such as Allianz, Zurich, and Chubb.
- Munich Re has demonstrated its ability to optimize its market-leading position in global property/casualty (P/C) reinsurance, while continuing to offer life reinsurance and primary insurance, including specialty P/C insurance.
- Therefore, we raised our issuer credit and insurer financial strength ratings on Munich Re to 'AA' from 'AA-'.
- The stable outlook indicates that we expect the group to preserve its excellent competitive position and conservative capital management over the next two years, supported by its strong and diversified earnings profile.

Rating Action

On July 26, 2024, S&P Global Ratings raised to 'AA' from 'AA-' its long-term issuer credit and insurer financial strength ratings on the entities within the Munich Re group listed in the ratings list below. The outlook is stable.

Rationale

Munich Re's overall profitability and earnings diversification has improved significantly over the past couple of years. Our base case indicates that its strong and well-diversified earnings will remain in line with 'AA' rated peers such as Allianz, Zurich, and Chubb for the next two years. The group switched to International Financial Reporting Standard 17 (IFRS 17) in 2023, and reported net income of €4.6 billion and a return on equity (ROE) of 16.1%. Its combined ratio of

86.3% included consolidated results for Ergo Germany (its P/C reinsurance unit) and Ergo International. These strong results were backed by sound earnings in the first quarter of 2024, when the group reported net income of €2.1 billion.

Munich Re's earnings diversification benefits from sound technical performance in all its major divisions. These are P/C reinsurance, life reinsurance, global specialty insurance, and retail primary insurance (through Ergo). Ergo's earnings contribution has stabilized in the past few years and is gradually improving. Earnings from life reinsurance saw a significant improvement after 2020 and 2021, when the pandemic caused a drop in income.

Compared with most reinsurance peers, the Munich Re group therefore benefits from higher diversification and lower dependence on cyclical businesses such as short-tail P/C reinsurance. Given that its life reinsurance and primary insurance business is less cyclical and less exposed to catastrophes, we anticipate that Munich Re would be more able to withstand large natural catastrophes or a softening P/C reinsurance market than its peers. For 2024-2025, we assume consistent earnings contributions in a "normalized" natural catastrophe environment in which about 50% of net profits are generated outside P/C reinsurance.

Munich Re has proved its ability to harness the recent favorable market and pricing conditions for P/C reinsurance. Its high growth rates in recent years have exceeded those of most peers, which demonstrates its competitive strength. The group has increased gross written premium in P/C reinsurance by about 60% since 2019; in addition, during weaker reinsurance cycles, the group has been willing to shrink the book and give up business if it did not meet minimum return targets. We consider Munich Re well placed to post net income of €4.5 billion-€5.0 billion, ROE above 14%, and a consolidated combined ratio of 84%-86% in 2024-2025.

In our base-case scenario, we forecast that about 14 percentage points of the P/C reinsurance business's combined ratio will stem from natural catastrophe and large losses caused by human activity. At the same time, we expect about 5 percentage points to come from positive run-off results from loss reserves in the previous year. So far in 2024, natural catastrophes have included convective storms in the U.S., Hurricane Beryl, and floods in Europe, while loss events connected to human activity have included the Baltimore bridge collapse and the CrowdStrike outage. We assume that losses from these events fall within Munich Re's large loss budget for this stage of the year.

In our view, capital management remains conservative. In 2023, Munich Re's capital adequacy was above the 99.99% confidence level. We anticipate that the group will maintain very strong capital and earnings in 2024 and 2025, supported by capital adequacy comfortably above the 99.95% confidence level and a conservative approach to reserves. We also expect the group's sound earnings to enable it to finance its growth as well as capital repatriation via dividends and share buybacks.

Munich Re's Solvency II ratio remained high, at 273% after the first quarter of 2024, which compares well with peers. We anticipate that the group's conservative balance sheet and strong reserving will enable it to cope well with challenges, such as social inflation and capital market volatility. That said, we consider that Munich Re's exposure to large tail risks, such as natural catastrophes, could lead to some capital and earnings volatility. These risks are partially offset by the group's extremely diversified portfolio, strong risk controls, and cautious reserving practices, in our view.

Outlook

The stable outlook indicates that, in our view, the group is likely to preserve its excellent competitive position and conservative capital management over the next two years, supported by its strong and diversified earnings profile. '

Downside scenario

We could lower the ratings within the next 12-24 months if the group appears likely to perform below our expectations or 'AA' rated peers for a prolonged time, or if its risk-based capital adequacy declines and is forecast to remain below the 99.95% confidence level for a similar period. This could occur if Munich Re incurs materially higher investment charges or suffers significant and unexpected losses from large natural catastrophes.

Upside scenario

An upgrade is very unlikely over the next 24 months, given the potential for Munich Re's earnings profile to be more volatile than those of higher rated peers.

Ratings Score Snapshot

Financial strength rating	**AA/Stable**
Anchor	aa-
Business risk	Very strong
IICRA	Intermediate
Competitive position	Excellent
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis*	+1
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment. *This adjustment indicates that Munich Re has shown that it can harness its leading position in the global P/C reinsurance market to benefit from favorable market conditions while also gaining resilience due to the significant earnings contributions from its other lines of business (in particular, its primary insurance, life reinsurance, and specialty P/C insurance operations).

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Munich Reinsurance Co.		
Junior Subordinated	A+	A
Munich Re America Corp.		
Senior Unsecured	A	A-

Upgraded; Outlook Action

	To	From
Munich Reinsurance Co.		
New Reinsurance Co. Ltd		
Munich Re of Malta PLC		
Great Lakes Insurance SE		
Issuer Credit Rating	AA/Stable/--	AA-/Positive/--

Munich Reinsurance Co.		
Princeton Excess & Surplus Lines Insurance Co.		
New Reinsurance Co. Ltd		
Munich Reinsurance Co. of Canada		
Munich Reinsurance Co. of Australasia Ltd.		
Munich Reinsurance Co. of Africa Ltd.		
Munich Reins America Inc.		
Munich Re of Malta PLC		
Munich Re of Bermuda, Ltd.		
Munich American Reassurance Co.		
Great Lakes Insurance UK Ltd.		
Great Lakes Insurance SE (Australia Branch)		
Great Lakes Insurance SE		
ERGO Versicherung AG		
American Alternative Insurance Corp.		
Financial Strength Rating		
Local Currency	AA/Stable/--	AA-/Positive/--
American Alternative Insurance Corp.		
Princeton Excess & Surplus Lines Insurance Co.		
Munich Reinsurance Co. of Canada		
Munich Reinsurance Co. of Australasia Ltd.		
Munich Reins America Inc.		
Munich American Reassurance Co.		
Great Lakes Insurance UK Ltd.		
Great Lakes Insurance SE (Australia Branch)		
ERGO Versicherung AG		
Issuer Credit Rating		
Local Currency	AA/Stable/--	AA-/Positive/--
ERGO Group AG		
Issuer Credit Rating		
Local Currency	A+/Stable/--	A/Positive/--
Munich Re America Corp.		
Issuer Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--
Munich Re Trading LLC		
Temple Insurance Co.		
Issuer Credit Rating		
Local Currency	AA-/Stable/--	A+/Positive/--

Temple Insurance Co.

Financial Strength Rating		
Local Currency	AA-/Stable/--	A+/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.