S&P Global Ratings

RatingsDirect®

Munich Reinsurance Co.

Primary Credit Analyst:
Jean Paul Huby Klein, Frankfurt + 49 693 399 9198; jeanpaul.hubyklein@spglobal.com

Secondary Contact:
Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com

Research Contributor:
Kalyani Joshi, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Munich Reinsurance Co.

Anchor	aa-
Business Risk	**Very Strong**
Competitive position	Excellent
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	aa-

\+

Support	0
Group support	0
Government support	0

=

AA-/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
A leading position in the global property/casualty (P/C) and life reinsurance markets, with the potential to grow the business by taking advantage of firming rates, supported by very strong capitalization and a well-recognized brand name.	Lower-for-longer interest rates, which are putting pressure on Munich Reinsurance Co.'s (Munich Re's) investment performance, and uncertainties around COVID-19-related losses in 2021, especially in the life reinsurance operations.
Superior diversification across regions and products to that of peers, including life and health reinsurance products, and an improving primary insurance business.	Exposure to tail risks such as natural catastrophes, leading to potential earnings volatility.
A strong track record of maintaining healthy capital adequacy under regulatory requirements and at least at the 'AA' level based on S&P Global Ratings' capital model, backed by well-defined risk-management practices and strong reserve adequacy.	

We expect that Munich Re will maintain its extremely strong franchise as one of the leading global reinsurance companies, supported by its solid and conservative financial capabilities. Munich Re offers life and P/C reinsurance products globally, with an extremely diverse mix of regions and business lines, and the capability to lead the coordination of large reinsurance contracts. In addition to its market-leading position in reinsurance, Munich Re has sizable primary insurance operations in Germany, Europe, and Asia, mainly under the ERGO brand, offering P/C, life, and health insurance products.

Munich Re's profitability is likely to improve in 2021 following high pandemic-related losses in 2020. We anticipate that the group is likely to restore its performance in 2021, with a consolidated combined ratio of about 95%-96% and a return on equity (ROE) of about 8%-10%, leading to net income of €2.7 billion–€2.8 billion. This follows high losses in 2020 due to the pandemic. We believe that Munich Re benefits from strong earnings diversification through its primary insurance offering, which we see the pandemic as having affected less than the reinsurance business. However, pandemic-related uncertainties, especially in the life reinsurance operations, could add some volatility to future earnings, although progress in rolling out COVID-19 vaccinations is muting that risk.

Munich Re's capitalization will remain at least very strong, protected by sound risk-control capabilities and reserving. We anticipate that the group will maintain at least very strong capitalization over the next two years, based on our risk-based capital model, and supported by the strong earnings that finance the group's growth targets. The group's regulatory solvency ratio was 217% on March 31, 2021, remaining well within the group's defined optimal range of 175%-220%. The March 2021 solvency ratio includes a hybrid bond of €1 billion that the group redeemed in May 2021. We believe that Munich Re is exposed to large tail risks such as natural catastrophes, which could lead to some capital and earnings volatility. In our view, these risks are partly offset by the group's extremely diversified portfolio, strong risk controls, and cautious reserving practices.

Outlook: Stable

The stable outlook reflects our view that Munich Re can maintain capital adequacy above the 'AA' level over 2021-2023, supported by improved earnings in 2021-2022 following heavy pandemic-related losses in 2020. We also believe that the group can defend its excellent competitive position during the next 12-24 months, thanks to:

- Firming rates in the global P/C reinsurance business;
- Further optimization of growth opportunities, demonstrating the group's ability to adapt to changing operating conditions following the pandemic; and
- Increasing earnings potential at the primary insurance operations.

Upside scenario

We might consider raising the rating if the more favorable pricing environment for P/C reinsurance also had a positive long-term impact on earnings. An upgrade would also hinge on the group's ability to further diversify its earnings streams, with a sustainable and sizable contribution from its primary insurance operations.

Downside scenario

We might consider taking a negative rating action over the next two years if the group appears likely to perform well below our expectations, and if its risk-based capital adequacy declines and stays below the 'AA' level for a long period. This could occur as a result of materially higher investment charges, or significant unexpected losses from large natural catastrophes.

Key Assumptions

- GDP growth in the U.S. of 6.5% in 2021 and 3.1% in 2022, and in the eurozone of 4.2% in 2021 and 4.4% in 2022.
- Long-term interest rates of 2.0% in 2021 and 2.3% in 2022 in the U.S., and of 0.2% in 2021 and 0.3% in 2022 in the eurozone.

Munich Reinsurance Co.--Key Metrics							
	2022f	**2021f**	**2020**	**2019**	**2018**	**2017**	**2016**
S&P Global Ratings capital adequacy	At least very strong	At least very strong	Excellent	Excellent	Very strong	Very strong	Very strong
Gross premium written (mil. €)	>58,000	~57,000	54,890	51,457	49,064	49,115	48,851
Net income (mil. €)	>3,000	2,700-2,800	1,211	2,724	2,310	375	2,580
Return on shareholders' equity (%)	8-10	8-10	4.0	9.5	8.4	1.3	8.2
Net investment yield (%)	2.5-3.0	2.5-3.0	3.4	3.5	3.1	3.5	3.5
P/C: Net combined ratio (%)	94-96	95-96	102.9	98.8	98.7	109.2	96.4
Reinsurance utilization (%)	N/A	N/A	4.6	5.1	4.8	3.2	3.1
Return on revenue (%)	N/A	N/A	(0.2)	3.0	4.7	(2.8)	3.8
Financial leverage (%)	<15	<15	16.0	12.9	14.1	10.9	13.6
EBITDA fixed charge coverage (x)	>10	>10	6.7	13.4	13.5	1.5	14.1

f--S&P Global Ratings forecast. P/C--Property/casulty. N/A--Not applicable.

Business Risk Profile: Very Strong

Munich Re's competitive advantage stems from its market-leading positions in the global P/C and life reinsurance markets. Its recognized brand, presence, and expertise in the global reinsurance market are also key differentiating factors that are difficult to replicate. Munich Re benefits from a well-diversified portfolio across all regions and segments, sound positions in the German life and P/C primary insurance markets, as well as a leading position in German health insurance. The group also has primary insurance operations in other European markets and Asia. The primary insurance business especially has been an earnings stabilizer for Munich Re compared to its reinsurance peers during the pandemic.

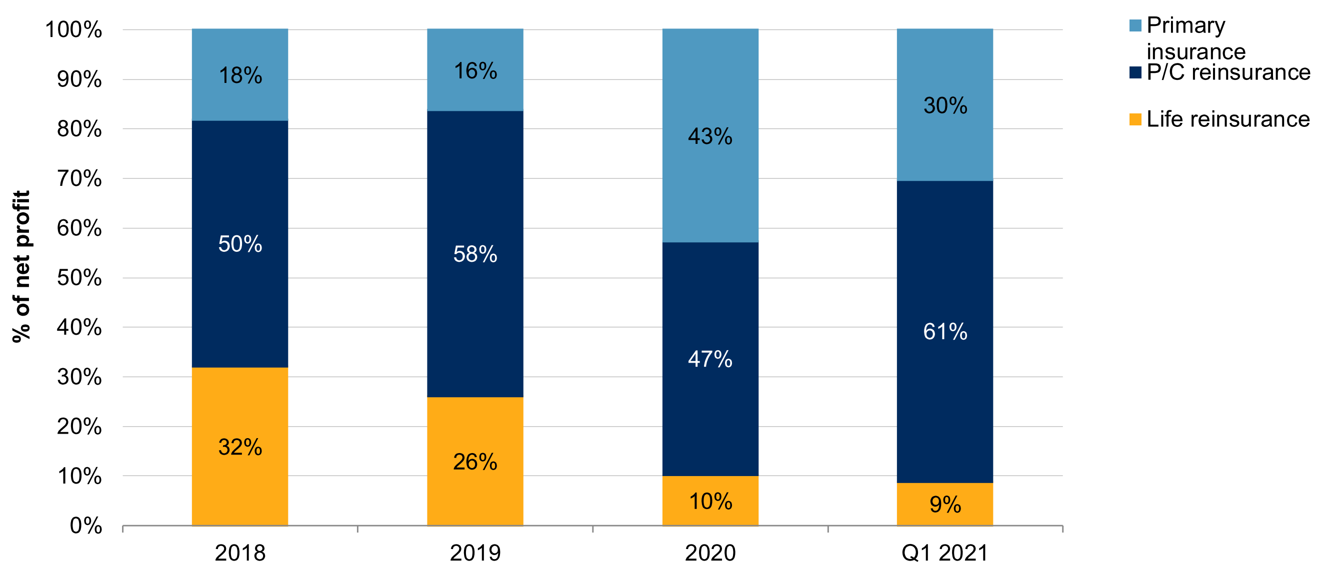
In our opinion, life reinsurance business has low industry risk, owing to its positive underlying earnings in the absence of pandemic-related losses and high barriers to potential new entrants. However, volatility is higher in P/C reinsurance business due to exposure to natural catastrophes. Moreover, the German primary life insurance industry remains exposed to asset-liability risks resulting from long life insurance contracts with guarantees, while the German primary health insurance sector faces some political risks.

In our view, Munich Re has the ability to take advantage of firming global P/C reinsurance pricing across business lines, as well as structured reinsurance deals, backed by the group's strong reputation, service capabilities, market knowledge, and financial strength. Gross premiums increased by 6.7% to €54.9 billion in 2020 compared with 2019, driven by organic increases in premium in the P/C reinsurance segment of about 9% and in the life reinsurance segment of 11%, and a small decline in premium of about 1% in the primary insurance business. We expect that Munich Re will take advantage of the rate hardening in the P/C reinsurance market, organically increasing its reinsurance premiums in 2021 by about 5% or about 4% on a group basis.

Munich Re's global presence in its various business lines, and its unique diversification by line of business compared with most of its reinsurance peers, make it less vulnerable to adverse developments in individual markets and single lines of business. In recent years, we have observed that earnings among the group's P/C reinsurance, life reinsurance, and increasingly, its primary insurance businesses, are well diversified, although P/C reinsurance remains the main contributor (see chart 1). This was also evident in 2020 and the first three months of 2021, when the contribution from the primary business, ERGO Group, helped to stabilize Munich Re's bottom line. The contribution from ERGO Group has been improving in recent years. This positive trend has continued so far in 2021, following a well-executed restructuring strategy.

Chart 1

Munich Re Benefits From Diversified Earnings Streams



P/C--Property/casualty. Source: S&P Global Ratings.

Financial Risk Profile: Strong

Munich Re's capital adequacy was in the 'AAA' range at year-end 2020, and we forecast that will remain above the 'AA' confidence level in 2021-2023, supported by retained earnings and a sound dividend strategy. We understand that there are no share buybacks planned in 2021, which helps the group to finance its growth targets. Prudent reserving and some benefits arising from the group's sound internal economic capital model further support our view of capital. Moreover, the solvency capital ratio will likely remain comfortably within the target range of 175%-220% in 2021, with a regulatory ratio of 217% at the end of the first quarter of 2021. This solvency ratio includes a junior subordinated bond of €1 billion that Munich Re repaid in May 2021. We therefore believe that the group remains sufficiently capitalized to cope with further market volatility and possible large man-made losses or natural catastrophes.

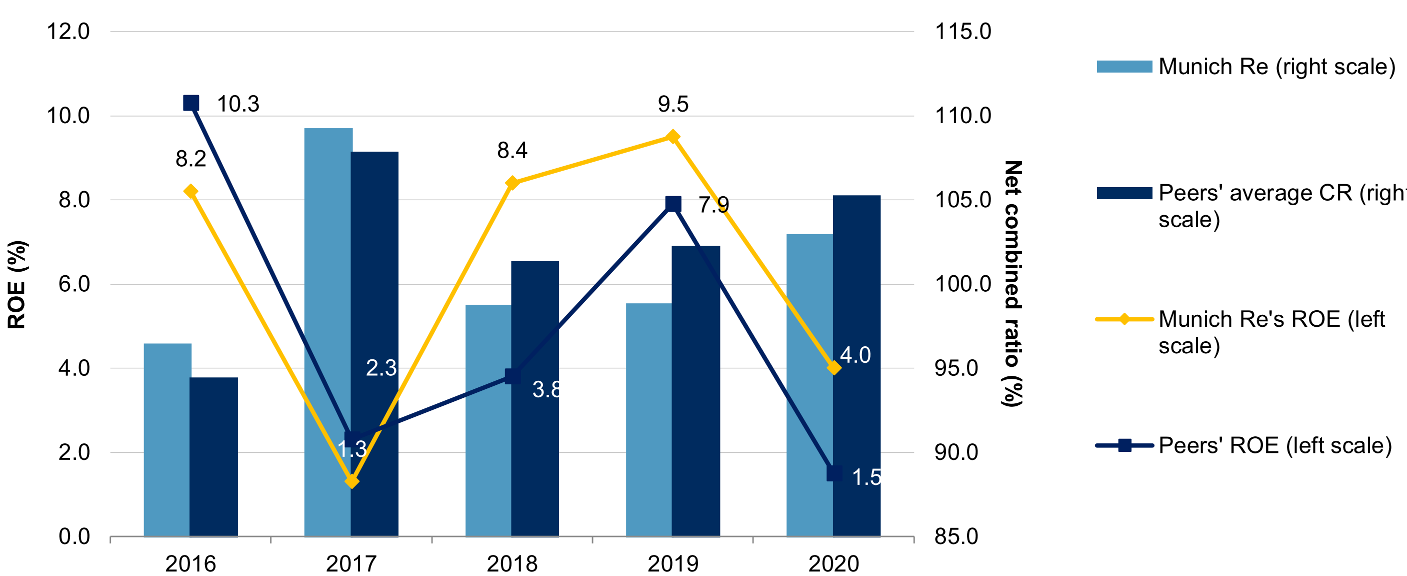
Munich Re experienced a high claims burden in the P/C reinsurance segment in 2020, mainly stemming from pandemic-related claims due to event cancellations, business interruption, and to a lesser extent, workers' compensation, credit, and marine claims. The group also faced losses in life and health reinsurance and primary insurance due to the pandemic, but to a far lesser extent than in the P/C reinsurance segment. This resulted in significantly weaker results for 2020, including €1.2 billion in net profit compared with €2.7 billion for 2019.

The group's accumulated pre-tax COVID-19 reserves amounted to €3.7 billion for reinsurance, with 73% being incurred but not reported reserves for P/C. For 2021, the group has budgeted €500 million for COVID-19-related reinsurance losses, split between €300 million for P/C claims and €200 million for life and health claims. While the P/C reinsurance budget was well on track after the first three months of the year, losses from life and health reinsurance had consumed nearly all the respective reserves, mainly due to a high excess mortality rate in the U.S. operations. However, we expect that this can broadly be offset by a more positive trend in the primary insurance operations, where the group has reserved about €100 million for COVID-19-related losses.

We forecast that in 2021, earnings will return to normal levels of €2.7 billion-€2.8 billion, with a ROE of 8%-10%, supported by lower COVID-19-related claims and improving primary insurance operations compared with 2020. We expect a combined ratio of about 95%-96% for 2021, assuming a normal level of natural-catastrophe and man-made losses of about 12% and average reserve releases of about 4% of premiums.

Chart 2

Munich Re Has Resilient Operating Performance Compared With Other Global Reinsurers



ROE--Return on equity. CR--Combined ratio. Peers include Swiss Re, Hannover Re, SCOR, and Lloyds.
Source: S&P Global Ratings.

In our view, Munich Re's asset mix is conservative, with no significant sector and obligor concentration. Fixed-income investments account for 55% of the total portfolio, with a significant portion in highly rated bonds. Overall, in our view, Munich Re's diverse investment portfolio and hedging strategy to manage the volatile capital-market environment partly helps mitigate earnings and capital volatility. Nonetheless, we expect that in line with its peers, the group will assume slightly more asset risk to respond to the low interest rates by moderately increasing its exposure to shares, lower rated bonds, and illiquid investments.

Munich Re can access the capital markets as a publicly listed company and has a track record of debt issuance, most recently the issuance of junior subordinated notes in 2020, which was in line with the recommendations of the International Capital Market Association's Green Bond Principles. We think that Munich Re's ability to raise additional funding, if required, and its low financial leverage compared to that of its peers, will remain strong benefits. We expect the group's financial leverage to be lower than 15% and its fixed-charge coverage ratio to improve above 10x over the next two years.

Other Key Credit Considerations

Liquidity

We expect that Munich Re's liquidity will remain exceptional over the next two years. The group has ample liquidity sources available, mainly premium income and a highly liquid asset portfolio. Moreover, there are no refinancing concerns, in our view.

Group support

The ratings on ERGO Group AG (A/Stable/--) and Munich Re America Corp. (A-/Stable/--) reflect these companies' group status as intermediate nonoperating holding companies. The lower rating on Munich Re America Corp. reflects our view of greater structural subordination within insurance groups in the U.S. compared with those outside the U.S.

Enterprise risk management

Munich Re's well-established enterprise risk management framework remains a key strength. The group's risk culture, controls, and models, emerging and strategic risk management, and capital model in particular support the assessment. Munich Re is a complex, global, and diversified group operating in many regions and across diverse lines of business. It faces catastrophe risks in the reinsurance division, significant exposure to financial losses in primary insurance, and exposure to global and regional economic cycles. We do not expect the group to experience losses beyond its risk tolerance over our two-year rating horizon. The group's economic capital model is robust, fully integrated, and is used to steer business decisions. The model governance structure is strong and supported by extensive documented analytical models and processes.

Environmental, social, and governance

Munich Re's exposure to environmental and social risks is consistent with that of the global insurance industry and broadly in line with global reinsurance peers such as Swiss Re Ltd., SCOR SE, and Hannover Rueck SE. Standards for corporate governance are typically high in Germany and in many of the other countries where Munich Re has material exposure. Munich Re's main exposure to environmental factors stems from its non-life business. For example, climate change could cause an increase in the frequency and severity of claims from extreme weather events, including natural catastrophes. However, Munich Re has built a strong capital buffer to safeguard its business against adverse market developments, including high catastrophe losses like those seen in recent years, by diversifying its portfolio across various business lines and regions.

Although we consider Munich Re's exposure to catastrophe risk a potential source of material capital and earnings volatility, the group is able to reprice its catastrophe contracts annually. This helps it to absorb the gradual increase in claims. In addition, Munich Re's yearly budget includes a provision for natural catastrophe losses equal to about 8% of its reinsurance premium. Given the group's strong risk management and modeling capabilities, we think that it is unlikely to experience losses greater than its risk tolerance.

Through its life reinsurance and its primary life insurance business, Munich Re is exposed to social factors such as changes in demographic trends. Greater longevity and other mortality trends can increase insurance liabilities. That said, this is a common problem for life insurers and reinsurers. We anticipate that Munich Re's diversification in its global book of business and the variety of life insurance products it offers will mitigate the risks.

We do not foresee any material governance issues that could affect the ratings. We think that the management team has a consistent and successful track record of strategic planning, strong execution, and transparent, demanding, and sophisticated financial management. Munich Re also has a strong track record of meeting its financial and strategic targets.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Munich Reinsurance Co.--Credit Metrics History

Mil. €	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent	Very strong	Very strong
Total invested assets	239,280	232,884	220,943	223,624
Total shareholder equity	29,994	30,576	26,500	28,198
Gross premiums written	54,890	51,457	49,064	49,115
Net premiums written	52,340	48,807	46,707	47,550

Munich Reinsurance Co.--Credit Metrics History (cont.)

Mil. €	**2020**	**2019**	**2018**	**2017**
Net premiums earned	51,223	48,280	45,735	47,164
Reinsurance utilization (%)	4.6	5.1	4.8	3.2
EBIT	1,704	3,429	3,082	288
Net income (attributable to all shareholders)	1,211	2,724	2,310	375
Return on revenue (%)	(0.2)	3.0	4.7	(2.8)
Return on shareholders' equity (reported) (%)	4.0	9.5	8.4	1.3
P/C: net combined ratio (%)	102.9	98.8	98.7	109.2
P/C: net expense ratio (%)	30.8	33.0	33.9	33.2
P/C: return on revenue (%)	3.8	7.2	7.1	(1.0)
EBITDA fixed-charge coverage (x)	6.7	13.4	13.5	1.5
EBIT fixed-charge coverage (x)	6.5	13.2	13.3	1.2
Financial obligations/EBITDA adjusted	3.2	1.3	1.4	9.6
Financial leverage including pension deficit as debt (%)	16.0	12.9	14.1	10.9
Net investment yield including investment gains/(losses) (%)	3.4	3.5	3.1	3.5
Net investment yield excluding investment gains/(losses) (%)	2.5	2.7	2.8	2.7

P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	**Financial risk profile**							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	**aa-/a+**	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of June 28, 2021)*

Operating Companies Covered By This Report	
Munich Reinsurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/--
Junior Subordinated	A

Ratings Detail (As Of June 28, 2021)*(cont.)	
American Alternative Insurance Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
DKV Deutsche Krankenversicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
ERGO Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Great Lakes Insurance SE	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/--
Great Lakes Insurance SE (Australia Branch)	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Munich American Reassurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Munich Reins America Inc.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Munich Reinsurance Co. of Africa Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Munich Reinsurance Co. of Australasia Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of June 28, 2021)*(cont.)	
Munich Reinsurance Co. of Canada	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Munich Re of Bermuda, Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Munich Re of Malta PLC	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/--
Munich Re Trading LLC	
Issuer Credit Rating	
Local Currency	A+/Stable/--
New Reinsurance Co. Ltd	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/--
Princeton Excess & Surplus Lines Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Related Entities	
D.A.S. Legal Expenses Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
DAS Rechtsschutz AG	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
ERGO Group AG	
Issuer Credit Rating	
Local Currency	A/Stable/--
Munich Re America Corp.	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Senior Unsecured	A-

Ratings Detail (As Of June 28, 2021)*(cont.)	
Temple Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Germany

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.