

RATING ACTION COMMENTARY

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

Mon 07 Sep, 2020 - 04:54 ET

Fitch Ratings - Frankfurt am Main - 07 Sep 2020: This commentary replaces the version published on 3 September 2020 to include ERGO Reiseversicherung AG in the rating action list.

Fitch Ratings has affirmed Munich Reinsurance Company's (Munich Re) Insurer Financial Strength (IFS) Rating at 'AA' (Very Strong) and Long-Term Issuer Default Rating (IDR) at 'AA-'. Fitch has also affirmed the ratings of Munich Re's core operating subsidiaries. The Outlooks are Stable.

A full list of rating actions is below.

KEY RATING DRIVERS

The affirmations reflect Munich Re's continuing 'Most Favourable' business profile within the global reinsurance sector, 'Very Strong' risk-adjusted capitalisation and 'Strong' financial performance.

Fitch expects deterioration in Munich Re's financial performance due to coronavirus, including pandemic-induced claims and increased credit defaults and rating migration in the investment portfolio over the near term. However, Fitch's current expectation is that the impact of coronavirus, while material, is manageable for Munich Re due to the company's strong capital position.

Fitch regards 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' business profile within the global reinsurance sector, we score its business profile at 'aa+' under our credit-factor scoring guidelines.

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-2019. Fitch does not expect a material weakening of Munich Re's capital strength in the medium term, assuming a normal level of major losses.

Munich Re's financial leverage, as calculated by Fitch, improved slightly to 14% in 2019 from 15% in 2018, a level that is low in absolute terms and compared with peers' and which remains supportive of Munich Re's ratings.

Fitch assesses Munich Re's financial performance as 'Strong'. For 1H20, Munich Re reported an adequate set of results with a combined ratio of 103% in P&C reinsurance (1H19: 93%) and a return on equity (ROE) of 7.1% (1H19: 11.5%). The results include EUR1.5 billion of booked claims reserves related to the coronavirus pandemic, EUR100 million of which were booked in life & health reinsurance. Munich Re is exposed to the pandemic, in particular, through its mortality book and event-cancellation and business-interruption policies.

Munich Re reported a strong set of results for 2019, with a net income ROE of 9.2% (2018: 8.4%) and a combined ratio of 101% (2018: 99%) for the property & casualty (P&C) reinsurance segment. Adjusting for reserve variations and major

losses, the underlying combined ratio improved slightly to 99% from 100% in 2018. We continue to assess Munich Re's reserve adequacy as 'Very Strong'.

RATING SENSITIVITIES

The ratings remain sensitive to a material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic and the pace with which new information is made available on the medical aspects of the outbreak.

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

Positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the reinsurance industry and Munich Re.

A sustained improvement in Munich Re's capitalisation to 'Extremely Strong', as measured by Fitch's Prism FBM, as well as a sustained improvement in the group's net income ROE to above 12% could lead to an upgrade.

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

A material adverse change in Fitch's rating assumptions with respect to the impact of the coronavirus pandemic could lead to a downgrade.

A sustained increase in the group's financial leverage ratio to above 25% could also lead to a downgrade.

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.

A sustained group's net income ROE below 7% could also lead to a downgrade.

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 [\[https://www.fitchratings.com/site/re/10111579\]](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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity (ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Munich Re America Corporation	LT IDR	AA- Rating Outlook Stable	Affirmed
● senior unsecured	LT		Affirmed
Munich Reinsurance Company	LT IDR	AA- Rating Outlook Stable	Affirmed
	Ins Fin Str	AA Rating Outlook Stable	Affirmed
subordinated	LT		Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Christoph Schmitt

Director

Primary Rating Analyst

+49 69 768076 121

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

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

Robert Mazzuoli, CFA

Director

Primary Rating Analyst

+49 69 768076 167

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

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

Stephan Kalb

Senior Director

Secondary Rating Analyst
+49 69 768076 118

Christoph Schmitt

Director
Secondary Rating Analyst
+49 69 768076 121

Federico Faccio

Senior Director
Committee Chairperson
+44 20 3530 1394

MEDIA CONTACTS

Athos Larkou

London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.7.1 (1)

Prism U.S. Non-Life Insurance Capital Model, v1.2.2 (1)

Reserve Adequacy and Volatility Estimator Model, v1.1.0 (1)

Third-party Model ([25 August 2020](#))

ADDITIONAL DISCLOSURES

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

DKV Deutsche Krankenversicherung AG	EU Issued
ERGO Group AG	EU Issued
ERGO Reiseversicherung AG	EU Issued
ERGO Vorsorge Lebensversicherung AG	EU Issued
Europaeiske Rejseforsikring A/S	EU Issued
Hartford Steam Boiler Inspection And Insurance Company	EU Endorsed
Munich Re America Corporation	EU Endorsed
Munich Reinsurance America, Inc.	EU Endorsed
Munich Reinsurance Company	EU Issued

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS.](https://www.fitchratings.com/understandingcreditratings)

IN ADDITION, THE FOLLOWING

[HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document)

DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT.

PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE

FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT,

CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL,

COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE

ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE

AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY

HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY

OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS

FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY

CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking

and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and

distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

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.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Insurance North America Europe Denmark Germany United States

Austria
