MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Munich Re's Aa3 IFS rating; outlook stable

6 May 2020

Frankfurt am Main, May 6, 2020 -- Moody's Investors Service, ("Moody's") has affirmed the Aa3 insurance financial strength rating (IFSR) and the A2(hyb) subordinated debt rating on Munich Reinsurance Company (Munich Re). At the same time Moody's has also affirmed the Aa3 IFSR on Munich Reinsurance America, Inc. and the A2 senior unsecured debt rating on Munich Re America Corporation (MRAC). The rating outlook for Munich Re is stable.

A list of all ratings affected by this rating action is available at the end of this press release.

Please click on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1000002731 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The rating affirmation reflects Munich Re's excellent position in the global reinsurance sector, very broad diversification both in terms of lines of business as well as by geography, strong capitalisation and conservative reserving. These strengths are partially offset by pressure on profitability, resulting from the low interest rates, which reduce investment income, and from lower underwriting results, and the inherent volatility from its increasing exposure to natural catastrophes. The affirmation also takes into consideration Moody's expectation that Munich Re's credit profile, given its current risk exposures, will be able to withstand the negative implications arising from the coronavirus pandemic and that potential underwriting and investment losses will not result in an overall loss for the year 2020 under several stress-scenarios.

The coronavirus-related economic downturn is creating a severe and extensive credit shock across many sectors, regions and markets. The reinsurance industry is exposed to this shock from both potential underwriting claims as well as asset volatility. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

On the life side, the coronavirus pandemic results in increased mortality risk, with significantly higher death rates in older age groups, and thus the potential for elevated mortality claims against life insurers. The largest concentration of reinsured mortality risks is in the United States and – to a lesser extent – the United Kingdom, Canada and Australia, whereas in other regions reinsurance coverage is more widely used against longevity and morbidity risks. Moody's expects the mortality rate within insured populations to be lower than for the general population due to a mix of factors, including the generally younger age of insureds, socio-economic characteristics, and the effectiveness of medical underwriting in moderating the number of insureds with significant underlying health conditions, who tend to be more susceptible to coronavirus.

Munich Re has a leading position in the global market for life reinsurance and therefore carries significant mortality risk. At year-end 2019, life and health underwriting risks (including primary insurance) accounted for 21% of the Group's Solvency Capital Requirement (before diversification). Mortality risk, the largest part of which is stemming from the US, contributed 67% of life and health underwriting risk capital requirements. Moody's has applied various scenarios to the company's global life reinsurance inforce, with our base scenarios ranging between a 2% infection rate at the low end to a 10% infection rate at the upper-end, with an average fatality rate of 1% across the population. While higher infection and mortality rates are possible, they are considered a remote possibility based on the current trajectory of the pandemic and the current success of containment measures. Based on these scenarios, the potential additional death claims resulting from the pandemic is manageable for Munich Re but potential underwriting losses could hurt the life operations' profitability significantly. Ultimately, the total deaths in Munich Re's respective markets including the US will depend on the infection rate of the insurable population and the corresponding death rates at different ages.

On the P&C side, reinsurers are also significantly exposed to coronavirus related risks, the most important of which are event cancellation, business interruption, trade credit and mortgage insurance, which in the short-term could be partially offset by lower claims from lines of business dependent on usage, such as motor insurance. More specifically for business interruption insurance, while there is some disparity in policy wording amongst insurers, these claims are generally triggered by property damage and Moody's generally believes this risk to be manageable, assuming policymakers do not force retrospective changes to policy wording to include previously excluded business interruption losses. Munich Re has a well-diversified book of business and while the earnings of its P&C reinsurance business will be reduced by coronavirus related claims, Moody's at this stage does not expect claims to result in a net loss for the segment in 2020.

Given volatility in the financial markets, Moody's expects Munich Re to report moderate investment losses from falling equity markets, widening credit spreads and credit rating migration. Munich Re's investment risk is moderately high, reflecting sizable equity exposure, which is partially protected via hedging, but relatively low exposure to credit risk.

The Group reported solid results in 2019, with a net income of €2.7 billion (2018: 2.3 billion), strong earnings contribution by all segments, including the primary insurance operations in ERGO. The Group Consolidated Solvency II ratio stood at a very strong 237% (2018: 245%).

On 31 March 2020, Munich Re withdrew its earlier profit guidance of €2.8 billion for FY 2020, stating that it would likely not attain this profit target due to increased expenditure on coronavirus related claims, mainly from event cancellation and postponement. The company also said it expected to report a low three-digit net income for Q1 2020 (down from €633 million in Q1 2019) and announced that it would discontinue its share buy-back programme until further notice. Based on this and publicly disclosed sensitivities Moody's estimates that Munich Re will report a Group Consolidated Solvency II ratio of approximately 200% as at Q1 2020.

STABLE OUTLOOK

The outlook on Munich Re's rated entities is stable. This reflects Moody's expectation that Munich Re's credit profile will withstand the negative implications of the coronavirus pandemic. More specifically, it reflects our expectation that Munich Re will maintain its strong financial profile, based on a Group Solvency II ratio at or above 200%, financial leverage close to the current levels and strong reserving quality.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's said that Munich Re's ratings could be downgraded, if the level of coronavirus-related insurance claims and asset impairments results in a net loss and capital erosion. A downgrade could also occur in case of (i) return on capital of below 5% over the underwriting cycle, or a sharp increase in volatility of the returns, and/or (ii) consolidated Group Solvency II ratio (excluding transitional measures) consistently below 200%, (iii) financial leverage consistently above 25% and earnings coverage consistently below 6x, and/or (iv) material deterioration in the group's risk profile, for example following rapid growth in volatile or risky business, and/or (iv) meaningful and sustained adverse reserve development.

Although unlikely given the current economic conditions, Moody's said that the ratings could be upgraded in case of: (i) sustained strong core earnings with adjusted return on capital above 10% over the underwriting cycle, while maintaining low volatility in profitability, and/or (ii) financial and total leverage consistently below 20%, together with earnings coverage over 10x through the cycle, and/or (iii) material improvement in the business environment, including P&C reinsurance pricing and interest rates.

LIST OF AFFECTED RATINGS

The following ratings have been affirmed:

Issuer: Munich Reinsurance Company

Insurance Financial Strength (IFS) rating, affirmed at Aa3

Subordinated debt rating, affirmed at A2(hyb)

Outlook Action:

The outlook remains stable

Issuer: Munich Reinsurance America, Inc.

Insurance Financial Strength (IFS) rating, affirmed at Aa3

Outlook Action:

The outlook remains stable

Issuer: Munich Re America Corporation

Senior unsecured debt rating, affirmed at A2

Outlook Action:

The outlook remains stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Reinsurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187551. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1000002731 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement

• Releasing Office

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody’s Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody’s general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody’s disclosures on the lead rating analyst and the Moody’s legal entity that has issued the ratings.

The person who approved Munich Reinsurance Company credit ratings is Antonello Aquino, Associate Managing Director, Financial Institutions Group, JOURNALISTS : 44 20 7772 5456, Client Service : 44 20 7772 5454. The person who approved Munich Re America Corporation and Munich Reinsurance America, Inc. credit ratings is Sarah Hibler, Associate Managing Director, Financial Institutions Group, JOURNALISTS : 1 212 553 0376, Client Service : 1 212 553 1653.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the website.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.