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Ratings

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Munich Reinsurance Co.

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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

Strengths	Risks
A global leading position in the property/casualty (P&C) and life reinsurance market, supported by a well-recognized brand name.	Decline in 2020 performance due to COVID-19-related losses on P&C reinsurance business and the deterioration of capital markets.
Superior diversification across geographies and products compared with peers, including primary and life/health reinsurance business.	Exposure to tail risks such as natural catastrophes, leading to potential earnings volatility.
Strong track-record of maintaining healthy capital adequacy under regulatory requirements, and 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 Munich Re will maintain its extremely strong franchise as one of the global leading reinsurance companies, supported by solid and conservative financial capabilities. Munich Re offers life and P&C reinsurance products globally, with an extremely diverse regional and business line mix and leading account capabilities. In addition to its market-leading position in reinsurance, it owns sizable primary insurance operations in Germany, Europe, and Asia mainly under the ERGO brand, offering P&C, life, and health products.

We believe Munich Re's performance will decline in 2020, due to COVID-19-related losses on P&C reinsurance and the deterioration of capital markets. We forecast the group's combined (loss and expense) ratio at about 103% and the return on equity (ROE) at 3%-6% for year-end 2020, thanks to earnings diversification through primary and life/health reinsurance business. We expect a recovery in earnings during 2021, with the combined ratio at 96%-98% and ROE at 8%-10%, assuming that Munich Re's risk-based capital will remain above the 'AA' confidence level in 2020-2022.

Capitalization remains at least very strong, protected by sound risk control capabilities and sound reserving. We anticipate the group will maintain at least very strong capitalization levels in the future, based on our risk-based capital model and supported by strong earnings that finance the group's growth targets. The group's regulatory solvency ratio was 237% in 2019, remaining above the group's 175%-220% target. We believe that Munich Re is exposed to large tail risks, such as natural catastrophe events, that could lead to some capital and earnings volatility. In our view, the 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 the Munich Re group can maintain capital adequacy above the 'AA' level over 2020-2022, improve earnings in 2021-2022, and defend its excellent competitive position during the next 12-24 months through:

- Moderate price increases in the global P&C reinsurance business in 2020;
- Further optimizing growth opportunities, demonstrating its ability to adapt to the operating conditions resulting from the pandemic; and
- Capturing increasing earnings potential from its primary insurance operations.

Downside scenario

We might consider a negative rating action over the next two years if the group is likely to perform well below our expectations and 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, significant exposure to COVID-19-related claims, or large natural catastrophes.

Upside scenario

Although unlikely over the next 24 months, we might consider raising the rating if we saw a more favorable long-term pricing environment for P&C reinsurance lines. An upgrade would also hinge on the group's ability to further diversify its earning streams, with a sustainable and sizable contribution from its primary insurance operations.

Key Assumptions

- Decline in real GDP in the U.S. to –5.2% in 2020, recovering to 6.2% in 2021, and in the eurozone to -7.3% in 2020, recovering to 5.6% in 2021.
- Long-term interest rates of 1.3% in 2020 and 1.8% in 2021 in the U.S., and 0.2% in 2020 and 0.3% in 2021 in the eurozone.

Key Metrics

	2021f	2020f	2019	2018	2017	2016	2015
S&P Global Ratings capital adequacy	at least Very Strong	at least Very Strong	Extremely Strong	Very Strong	Very Strong	Very Strong	Extremely Strong
Gross premium written (mil. €)	>52,000	about 52,000	51,457	49,064	49,115	48,851	50,374
Net income (mil. €)	2,600-2,800	>1,300	2,724	2,310	375	2,580	3,122

Key Metrics (cont.)

	2021f	2020f	2019	2018	2017	2016	2015
Return on shareholders' equity (%)	8-10	3-6	9.3	8.4	1.3	8.2	10.2
Net investment yield (%)	2.5-3.0	2.5-3.0	3.5	3.1	3.5	3.5	3.6
P&C: Net combined ratio (%)	96-98	about 103	99.3	98.7	109.2	96.4	92.4
Reinsurance utilization (%)	N/A	N/A	5.1	4.8	3.2	3.1	3.7
Return on revenue (%)	N/A	N/A	3.0	4.7	(2.8)	3.8	5.2
Financial leverage (%)	<15	<15	13.1	14.1	10.9	13.6	14.3
EBITDA Fixed charge coverage (x)	>10	6-9	13.1	13.5	1.5	14.1	14.0

f--S&P Global Ratings forecast.

Business Risk Profile: Very Strong

Munich Re benefits from a well-diversified portfolio across all geographies and segments, including global P&C reinsurance, life reinsurance, and global health insurance. It has a sound market position in the German life and P&C primary markets, as well as a leading market position in the German health market and some smaller primary insurance operations including in Poland and Austria. In our opinion, life reinsurance business is exposed to low industry risk, owing to a positive earnings trend and high barriers to potential new entrants. However, volatility is higher in P&C reinsurance business due to exposure to natural-catastrophe events and COVID-19-related claims. Moreover, the German primary life insurance industry remains exposed to high risk mainly due to asset-liability risks resulting from long life insurance contracts with guarantees, while the German health sector faces some political risks.

Munich Re has a market-leading position in the global P&C and life reinsurance markets, accompanied by a significant presence in all primary insurance lines. In our view, Munich Re's highly recognized brand, presence, and expertise in the global reinsurance market are key differentiating factors that are difficult to replicate. This is further supported by Munich Re's ability to leverage moderate price increases in global P&C reinsurance business over recent years, as well as the group's access to large structured reinsurance deals. Such deals appear accessible to Munich Re and a few other larger peers, but not to the majority of reinsurers, underpinning Munich Re's competitive advantage. Gross premiums increased by 4.6% to €51.5 billion in 2019, driven by a premium increase in the reinsurance segment of about 8%, nearly equally distributed between P&C and Life reinsurance and nearly stable premiums in the primary business. Group premiums increased by 6.8% to €14.284 million in the first three months of 2020, supported by organic growth in the reinsurance and primary P&C business, and benign foreign exchange rates, mainly for U.S. dollars. We expect a small premium increase in 2020 of about 1%, affected by uncertainties related to the expected economic downturn because of COVID-19 containment measures.

The group's global presence in its various business lines, and the unique diversification by lines of business compared with most reinsurance peers, makes it less vulnerable to adverse developments in individual markets. In recent years, we have observed that earnings among the group's P&C reinsurance, life reinsurance, and primary insurance businesses are well diversified. This was also been visible in the first three months of 2020, when earnings from life reinsurance and primary operations supported better bottom-line profit than some peers. The contribution from primary business, ERGO, has been improving in recent years and the positive trend continued in 2019 following a well-executed restructuring strategy, but it remains lower than for other segments.

Financial Risk Profile: Strong

Munich Re's capital adequacy improved in 2019 due to strong retained earnings and a positive unrealized gains development in shareholders equity, despite heavy natural catastrophe losses, unchanged dividends of about €1.3 billion, and share buybacks of €1 billion. The group's capital adequacy, based on our capital model, was in the 'AAA' range at year-end 2019. We expect the company's capital adequacy to remain above the 'AA' confidence level in 2020-2022, supported by retained earnings and the temporary suspension of Munich Re's €1 billion share buyback program. Moreover, the group's solvency ratio will likely remain comfortably within its target capital range of 175%-220% in 2020, following a decline to 212% in first-quarter 2020 from 237% at year-end 2019. We therefore believe the group remains sufficiently capitalized to cope with further market volatility and possible large man-made losses or natural catastrophe events to which it remains exposed. Our assessment of Munich Re's financial risk profile is supported by the group's very strong and prudent reserves, which we partly incorporate in our assessment of the group's capital, as well as some benefit arising from its sound internal economic capital model.

The group's P&C reinsurance segment suffered from a higher-than-expected claims burden due to the cancellation and postponement of large events amid restrictions related to the COVID-19 pandemic. This resulted in significantly weaker results for the first quarter of 2020: €221 million in net profit compared with €633 million for the same period in 2019. As a result, we have revised down our earnings projections for the group in our base-case scenario. We now expect a combined ratio of about 103% for 2020, assuming a normal level of natural catastrophe losses and average reserve releases of about 4% of premiums. We expect the group to report an ROE of 3%-6%, supported by its primary operations, life and health reinsurance business, and investment income--albeit at lower levels due to the recessionary environment. For 2021, we expect the group's combined ratio and ROE to improve to 96%-98% and 8%-10% respectively.

The group's access to capital markets as a publicly listed company and its track-record of debt issuance remain key strengths. In our assessment, the positive market indicators and low financial leverage will remain a potential opportunity to raise additional funding for the group, if required. Financial leverage for 2019 improved to 13.1%, driven by the higher shareholders equity and we expect it will remain under 15% in 2020-2021. We also assume fixed-charge coverage will remain over 10x in the near future because it remained more or less stable at 13.1x in 2019 compared with 13.5x in 2018.

Other Key Credit Considerations

Governance

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.

Liquidity

We expect 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 for 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 has remained a key strength. The group's risk culture, risk controls, risk models, emerging risk management, strategic risk management, and capital model in particular support the assessment. Munich Re is a complex, global and diversified group operating in many geographies and diverse lines of business. The group 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 will experience losses beyond its risk tolerance over our two-year rating horizon. The group's economic capital model is robust, fully integrated, and used to steer business decisions. The model governance structure is strong and supported by extensive documented analytics and processes.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Munich Re's Credit Metrics History

	2019	2018	2017
Ratio/Metric			
S&P Global Ratings capital adequacy*	Extremely Strong	Very Strong	Very Strong
Total invested assets	232,884	220,943	223,624
Total shareholder equity	30,576	26,500	28,198
Gross premiums written	51,457	49,064	49,115
Net premiums written	48,807	46,707	47,550
Net premiums earned	48,280	45,735	47,164
Reinsurance utilization (%)	5.1	4.8	3.2
EBIT	3,429	3,082	288
Net income (attributable to all shareholders)	2,724	2,310	375
Return on revenue (%)	3.0	4.7	(2.8)
Return on shareholders' equity (reported) (%)	9.3	8.4	1.3
P/C: net combined ratio (%)	99.3	98.7	109.2
P/C: net expense ratio (%)	33.6	33.9	33.2
P/C: return on revenue (%)	7.9	7.1	(1.0)
EBITDA fixed-charge coverage (x)	13.1	13.5	1.5
EBIT fixed-charge coverage (x)	12.9	13.3	1.2
Financial obligations / EBITDA adjusted	1.3	1.4	9.6
Financial leverage including pension deficit as debt (%)	13.1	14.1	10.9
Net investment yield including investment gains/(losses) (%)	3.5	3.1	3.5
Net investment yield excluding investment gains/(losses) (%)	2.7	2.8	2.7

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 25, 2020)*

Operating Companies Covered By This Report

Ratings Detail (As Of June 25, 2020)*(cont.)	
Munich Reinsurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/--
Junior Subordinated	A
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	
Local Currency	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/--

Ratings Detail (As Of June 25, 2020)*(cont.)	
Munich Reinsurance Co. of Australasia Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
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	
Local Currency	AA-/Stable/--
Munich Re Trading LLC	
Issuer Credit Rating	
Local Currency	A+/Stable/--
New Reinsurance Company Ltd	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	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/--

Ratings Detail (As Of June 25, 2020)*(cont.)	
ERGO Group AG	
Issuer Credit Rating	
Local Currency	A/Stable/--
Munich Re America Corp.	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Senior Unsecured	A-
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.

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