

Research Update:

# Munich Reinsurance Subsidiaries Ratings Affirmed, Munich Re Africa Upgraded; Outlook Stable

July 26, 2019

## Overview

- Munich Re is a global leader in the property/casualty (P&C) and life reinsurance market with superior diversification across geographies and products, including sizable primary insurance operations under the ERGO brand.
- The group has a strong track record of maintaining healthy capital adequacy levels under regulatory requirements, and within the 'AA' range based on S&P Global Ratings' capital model, backed by strong reserve adequacy.
- The group has well-defined risk controls, but is also exposed to tail risk such as natural catastrophes, leading to potential earnings volatility, as experienced in recent years.
- We are affirming our ratings on Munich Re's operating and holding entities, with the exception of Munich Reinsurance Co. of Africa Ltd., which we are upgrading to the level of its parent, based on the implementation of our revised criteria.
- The stable outlook reflects our expectation that Munich Re will maintain its leading market position over the next 12-24 months, safeguarding its capital adequacy securely in the 'AA' range.

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## Rating Action

On July 26, 2019, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of Germany-based global reinsurer Munich Reinsurance Co. At the same time, we affirmed the 'A+' long-term insurer financial strength and issuer credit ratings on the highly strategic subsidiaries (see the ratings list below for further details). The outlooks are stable.

We also affirmed our ratings on all outstanding hybrid and debt instruments issued by Munich Re.

At the same time, we raised the long-term insurer financial strength rating on South Africa-based Munich Reinsurance Co. of Africa Ltd (Munich Re SA) to 'AA-' from 'A-' following the implementation of our revised Group Rating Methodology published on July 1, 2019. We equalize the rating on Munich Re SA with that on Munich Reinsurance Co. (its guarantor). The outlook is

stable.

## **Outlook**

The stable outlook reflects our view that the group will defend its extremely strong competitive position during the next 12-24 months by:

- Continuing to leverage moderate price increases in global P&C reinsurance business in 2019;
- Further optimizing growth opportunities in structured reinsurance;
- Capturing increasing earnings potential from primary insurance operations; and
- Maintaining capital adequacy securely in the 'AA' range in 2019-2021.

## **Upside scenario**

The global P&C reinsurance sector continues to face challenging business conditions, with only moderate price increases over the past two years. However, we might consider raising the rating if we saw a more favorable pricing environment on a sustainable basis in 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.

## **Downside scenario**

We regard a downgrade as remote over the next two years. However, we might consider a negative rating action if Munich Re's capital adequacy fell below the 'AA' level in our capital model over a prolonged period. This could occur, for example, as a result of materially higher investment charges, combined with unexpectedly large natural catastrophes or other large claims events, and prolonged weakened earnings well below our base-case assumptions.

## **Rationale**

Our rating on Munich Reinsurance Co. and its core and highly strategic operating companies (collectively Munich Re) reflect the group's 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. Besides its market-leading position in reinsurance, it owns a sizable primary insurance operation, ERGO, with operations in Germany, Europe, and Asia across P&C, life, and health business.

The ratings also reflect our view of the group's healthy capitalization under its internal model and Solvency II, as well as under our capital model.

In our opinion, the global reinsurance sector is inherently more volatile than many other insurance sectors. Munich Re has built a strong capital buffer to safeguard its business against adverse market developments, including high catastrophe losses, as seen in 2017 and 2018, by diversifying its portfolio across various business lines and regions. The group actively manages volatility through stringent risk limits, group reinsurance optimization, and robust risk controls.

The ratings on ERGO Group AG and Munich Re America Corp. reflect these companies' group

status as intermediate, non-operating holding companies. The wider notching 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.

Munich Re SA is licensed to write reinsurance business and it has a guarantee from Munich Reinsurance Co. that covers all of Munich Re SA's reinsurance obligations. The rating reflects our view that this guarantee qualifies for full credit substitution with Munich Reinsurance Co. We believe the group is willing and able to sufficiently support Munich Re SA during a stress associated with a sovereign default and therefore we are equalizing the rating on Munich Re SA with that on Munich Reinsurance Co.

## Ratings Score Snapshot

<b>Business Risk Profile</b>	<b>Very Strong</b>
Competitive position	Excellent
IICRA	Intermediate risk
<b>Financial Risk Profile</b>	<b>Strong</b>
Capital and earnings	Very Strong
Risk exposure	Moderately High
Funding structure	Neutral
Anchor*	aa-
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	<b>AA-</b>

\*This is influenced by our view of Munich Re's leading position in the global reinsurance market, with superior business and earnings diversification across geographies and products compared with its 'A+' rated peers.

## 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

## Ratings List

### Ratings Affirmed

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**Munich Reinsurance Co.**

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Issuer Credit Rating      AA-/Stable/--

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**Munich Reinsurance Co.**

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**Princeton Excess & Surplus Lines Insurance Co.**

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**New Reinsurance Company Ltd**

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**Munich Reinsurance Co. of Canada**

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**Munich Reinsurance Co. of Australasia Ltd.**

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**Munich Reins America Inc.**

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**Munich Re of Malta PLC**

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**Munich Re of Bermuda, Ltd.**

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**Munich American Reassurance Co.**

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**Great Lakes Insurance SE (Australia Branch)**

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**Great Lakes Insurance SE**

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**ERGO Versicherung AG**

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**DKV Deutsche Krankenversicherung AG**

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**American Alternative Insurance Corp.**

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Financial Strength Rating

Local Currency      AA-/Stable/--

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**American Alternative Insurance Corp.**

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**Princeton Excess & Surplus Lines Insurance Co.**

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**New Reinsurance Company Ltd**

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**Munich Reinsurance Co. of Canada**

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**Munich Reinsurance Co. of Australasia Ltd.**

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**Munich Reins America Inc.**

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**Munich Re of Malta PLC**

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**Munich American Reassurance Co.**

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**Great Lakes Insurance SE (Australia Branch)**

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**Great Lakes Insurance SE**

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**ERGO Versicherung AG**

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**DKV Deutsche Krankenversicherung AG**

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Issuer Credit Rating

Local Currency      AA-/Stable/--

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**D.A.S. Legal Expenses Insurance Co. Ltd.**

**Temple Insurance Co.**

**Munich Re Trading LLC**

Issuer Credit Rating

Local Currency A+/Stable/--

**D.A.S. Legal Expenses Insurance Co. Ltd.**

**Temple Insurance Co.**

Financial Strength 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/--

**Munich Reinsurance Co.**

Junior Subordinated A

**Munich Re America Corp.**

Senior Unsecured A-

**Upgraded**

**To From**

**Munich Reinsurance Co. of Africa Ltd.**

Financial Strength Rating

Local Currency AA-/Stable/-- A-/Stable/--

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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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