

FITCH AFFIRMS MUNICH RE'S IFS RATING AT 'AA'; OUTLOOK STABLE

Fitch Ratings-London-04 December 2018: 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 at the end of this Rating Action Commentary.

KEY RATING DRIVERS

The affirmation reflects the strength of Munich Re's franchise and the group's very strong business profile within the global reinsurance sector, a view that is supported by very strong capitalisation and consistent property and casualty reinsurance results.

Fitch regards Munich Re's reinsurance operation as one of a select group that has the scale, diversity and financial strength to attract the highest-quality business that is placed in the global reinsurance market.

Munich Re had a reduction in available capital on lower shareholder equity following dividend payments, share buybacks and repayment of subordinated debt, among other factors. However, Munich Re's capitalisation remains 'Very Strong' based on Fitch's Prism Factor-Based Capital Model (Prism FBM). Fitch does not foresee a material weakening of Munich Re's capital strength in the medium term, assuming normal levels of catastrophe activity.

Munich Re's reported property and casualty combined ratio improved to 97% in 9M18 (9M17: 117%) driven by significantly reduced catastrophe losses compared with 9M17. The reported combined ratio, normalised for reserve variations and major losses, improved marginally to 100.1% in 3Q18 YTD (3Q17 YTD: 100.4%), despite the effects of a protracted soft market.

Munich Re's primary insurance business (ERGO) reported strong results, with all segments reporting improved profitability. Both ERGO's German property casualty segment and ERGO International reported an improved combined ratio in 9M18 of 95.3% (9M17: 96.6%) and 94.7% (9M17: 95.5%), respectively. The results benefited from favourable claims development and improvements in expense ratios.

The reported technical result including fee income in Munich Re's life reinsurance was EUR419 million for 9M18 (9M17: EUR271 million). The result was supported by favourable claims experience in the US, partly offset by a large single claim in Canada.

Fitch recognises that the current operating environment remains challenging for Munich Re and the wider (re)insurance industry. Fitch expects Munich Re's diversified business profile and prudent underwriting policy to help the reinsurer to remain profitable despite the challenging market environment.

RATING SENSITIVITIES

Key rating triggers that could result in a downgrade include a sustained material drop in the group's risk-adjusted capital position to below 'Very Strong', as measured by Prism FBM, a through-the-cycle Fitch-calculated combined ratio of 97% or above or a net income return on equity consistently below 6%.

An upgrade could be possible if there is a significant and sustained improvement in both capitalisation and financial performance. However, this is unlikely in the foreseeable future.

FULL LIST OF RATING ACTIONS

Munich Reinsurance Company:

IFS Rating: affirmed at 'AA'; Outlook Stable

Long-Term IDR: affirmed at 'AA-'; Outlook Stable

Subordinated debt: affirmed at 'A'

DKV Deutsche Krankenversicherung AG

IFS Rating: affirmed at 'AA'; Outlook Stable

ERGO Group AG

Long-Term IDR: affirmed at 'AA-'; Outlook Stable

Europäische Reiseversicherung AG

IFS Rating: affirmed at 'AA'; Outlook Stable

Munich Reinsurance America Corporation

Long-Term IDR: affirmed at 'AA-'; Outlook Stable

Senior unsecured debt: affirmed at 'AA-'

ERGO Vorsorge Lebensversicherung AG

IFS Rating: affirmed at 'AA'; Outlook Stable

Munich Reinsurance America, Inc.

IFS Rating: affirmed at 'AA'; Outlook Stable

Hartford Steam Boiler Inspection and Insurance Company

IFS Rating: affirmed at 'AA'; Outlook Stable

Europæiske Rejseforsikring A/S

IFS Rating: affirmed at 'A+'; Outlook Stable

Contact:

Primary Analyst

Graham Coutts

Director

+44 20 3530 1654

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Ekaterina Ishchenko

Director

+44 20 3530 1532

Committee Chairperson

Federico Faccio

Senior Director

+44 20 3530 1394

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@thefitchgroup.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

<https://www.fitchratings.com/site/re/905036>

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