FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Munich Re's IFS Rating at 'AA', Outlook Stable

Tue 02 Jul, 2024 - 10:09 AM ET

Fitch Ratings - Paris - 02 Jul 2024: Fitch Ratings has affirmed Munich Reinsurance Company's (Munich Re) and its core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'AA' (Very Strong). Fitch has also affirmed Munich Re's Scandinavian travel insurer Europaeiske Rejseforsikring A/S's IFS Rating at 'A+'. The Outlooks are Stable. A full list of rating actions is below.

The affirmation reflects Munich Re's very strong company profile, capitalisation and strong financial performance.

KEY RATING DRIVERS

Very Strong Company Profile: Munich Re's company profile within the global reinsurance sector is underpinned by a leading, highly diversified franchise. It is the world's largest reinsurer by revenue. The group also has significant primary insurance operations in Germany and Europe through ERGO Group.

Very Strong Capitalisation: Munich Re's Solvency II (S2) ratio was 273% at end-1Q24 (end-2023: 267%), well above the company's 175%-220% target and one of the strongest in the (re)insurance sector. Prism Global model (Prism), was unchanged at 'Very Strong' at end-2023. Management's intention to use excess capital to reward shareholders or fund growth opportunities, bringing S2 closer to around 220% over the long term, will not affect our view of the group's capital strength.

Very Low Financial Leverage: The financial leverage ratio (FLR) was 10% at end-2023 (end-2022: 11%), a very low level in absolute terms and compared with peers, which is supportive of the ratings. We expect a modest and gradual increase in the FLR in the next 12-24 months to support capital distribution, bringing it to a level that would still be well within our 'aa' guidelines and compare favourably with similarly-rated peers.

Very Strong Earnings: The Fitch-calculated net income return on equity (ROE) reached 16% in 2023 (2022: 20%), driven by sustained underwriting and investment returns, on the back of favourable market conditions. Munich Re reported very strong 1Q24 earnings, making it increasingly likely that the group will exceed its EUR5 billion 2024 profit target.

Property and casualty (P&C) reinsurance benefited in 2023 from stronger pricing and conditions at renewals and lower major losses. The slight deterioration in the segment's combined ratio to 85.2% (2022: 83.2%) reflects increased reserves prudency. The technical performance of life and health, and primary business divisions showed further improvements.

Steady Financial Performance: Munich Re has been consistently profitable through reinsurance cycles. Reserves buffer management and earnings diversification brought by primary insurance operations contribute to earnings stability. Fitch anticipates that the company will maintain similar or improve profitability in 2024, assuming within-budget large losses and stable capital markets. We expect strong pricing, positive run-offs and rising investment income to be supportive of 2024 earnings.

Very Strong Reserves Adequacy: Fitch views Munich Re's reserving practice as prudent and supportive of its ratings. This is reflected in positive reserve experience (between 4% and 7% of the combined ratio), for over 10 years. We view Munich Re as the best reserved of the four leading European reinsurers. In 2023, Munich Re took advantage of strong underwriting results to add EUR900 million of reserves prudency (mainly for US liability and inflation).

Very Important Subsidiary: Europaeiske Rejseforsikring A/S's rating reflects its ultimate 100% ownership by Munich Re. It is classified as 'Very Important' to Munich Re under Fitch's insurance group rating methodology. The company has been part of Munich Re for decades and its rating benefits from a three-notch uplift from its standalone credit quality. The latter reflects its 'Very Strong' capitalisation, but is constrained by its small size.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade (Munich Re):

-- A sustained strengthening of financial performance above that of 'AA' rated peers. The following would have to be met on a sustained basis:

S2 ratio above 230%.

ROE above 15%.

The FLR below 11%.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade (Munich Re):

-- A deterioration in capital position, with the S2 ratio falling below 180% or Prism score falling below 'Very Strong' for a prolonged period.

-- A sustained decline in profitability with ROE below 8%.

-- The FLR above 23%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade (Europaeiske Rejseforsikring A/S):

-- A improvement in Fitch's assessment of Europaeiske Rejseforsikring A/S 's strategic importance to Munich Re to 'Core'

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade (Europaeiske Rejseforsikring A/S):

-- An unfavourable change in Fitch's assessment of Europaeiske Rejseforsikring A/S 's strategic importance to Munich Re.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process;

they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Munich Re America Corporation	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
senior unsecured	LT	AA-	Affirmed	AA-
Munich Reinsurance Company	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
	LT IFS	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
subordinated	LT	A	Affirmed	A
Europaeiske Rejseforsikring A/S	LT IFS	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Sopockie Towarzystwo Ubezpieczen Ergo Hestia SA	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

	LT IFS	AA Rating Outlook Stable Affirmed	AA Rating Outlook Stable
ERGO Group AG	LT IDR	AA- Rating Outlook Stable Affirmed	AA- Rating Outlook Stable
ERGO Vorsorge Lebensversicherung AG	LT IFS	AA Rating Outlook Stable Affirmed	AA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 04 Mar 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

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

Prism Global (ex-U.S.) Model, v1.8.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

DKV Deutsche Krankenversicherung AG	EU Issued, UK Endorsed
ERGO Group AG	EU Issued, UK Endorsed
ERGO Reiseversicherung AG	EU Issued, UK Endorsed
ERGO Vorsorge Lebensversicherung AG	EU Issued, UK Endorsed
Europaeiske Rejseforsikring A/S	EU Issued, UK Endorsed
Hartford Steam Boiler Inspection And Insurance Company	EU Issued, UK Endorsed
Munich Re America Corporation	EU Issued, UK Endorsed
Munich Reinsurance America, Inc.	EU Issued, UK Endorsed
Munich Reinsurance Company	EU Issued, UK Endorsed
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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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