BARCLAYS

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European Insurance
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Munich RE

NEXT Insurance - A promising sub-sector

With expected c. 20% top-line growth and mid-triple-digit earnings over mid-term, the €1.7bn deal makes strategic sense, in our view, and should help enhance diversified returns into 2030. NEXT business is similar to Hiscox US DPD, providing a valuation reference point.

MUVGn.DE/MUV2 GR	OVERWEIGHT
European Insurance	POSITIVE
Price Target	EUR 554.00
Price (19-Mar-25)	EUR 579.80
Potential Upside/Downside	-4.4%

Source: Bloomberg, Barclays Research

European Insurance
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Entering US commercial SME market: Munich Re announced it will increase shareholding in US SME insurer NEXT Insurance to 100% from 29% at a valuation of US$2.6bn, or an incremental capital commitment of €1.7bn - a 10% cost in Solvency 2 capital. The deal is expected to close in the third quarter of 2025. The transaction is not expected to impact 2025 Group KPI, and while NEXT has made a loss of US$94m last year, Munich Re expects it to break-even in the short term, and generate mid-triple-digit US$m bottom line contribution in the medium term. Although not devoid of execution risk, a delivery against the mid-triple-digit earnings target would make the multiple for the business more attractive, in line with assets in growth markets like India. The attraction of the deal is in growth potential: NEXT is a fast expanding player in the micro-SME segment with a 49% increase in top line since 2022, and will give Munich Re (through ERGO International) access to the least penetrated segment of the US$0.4trn US commercial P&C insurance market. During the recent management meeting Munich Re spoke of potentially achieving c. 20% growth for the new business. Finally, we believe the allocation of NEXT to ERGO International may help improve earnings generation of "stable" businesses (GSI, L&H Re, ERGO), support dividend and the implied multiple for the primary franchise of the group.

Strong room for growth in an underpenetrated market: US SME is also showing a more favorable pricing environment currently, with brokers highlighting small business prices going up mid-high single digits vs larger accounts close to flat. While the segment is competitive - Munich Re lists Progressive, Berkshire Hathaway, Chubb, The Hartford, USAA, Farmers, Thimble, Pie Insurance among main peers, - in the micro-SME sub-segment NEXT has a distinct advantage over larger competitors due to it's platform and data focus. We would consider Hiscox to be the primary peer, selling similar products via similar channels to same customer groups, but the two together only service c. 1 million customers - a long shot from 29m SMEs with under 20 employees operating in the United States. On our calculations, NEXT's market share of its currently addressed micro-SME market is only c. 2% (0.6m out of 29.4m small businesses), offering ample room for growth.

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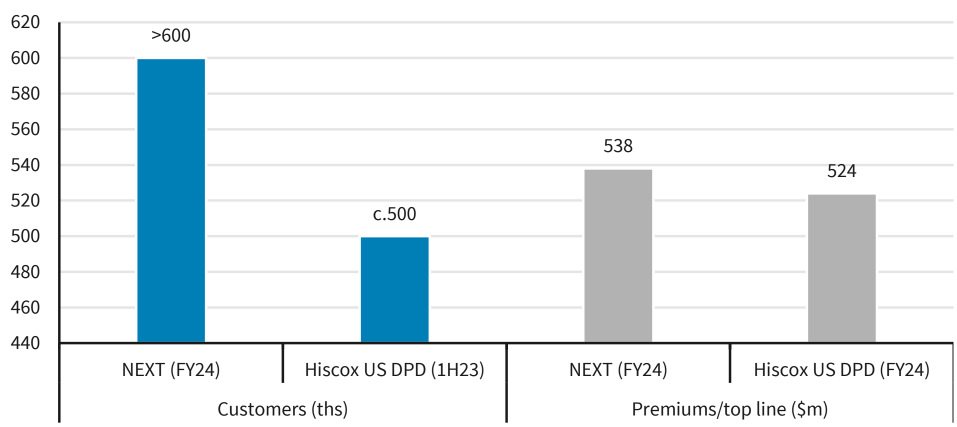
The restart of sizable M&A for Munich Re: At the 4Q24 call Munich Re management has indicated M&A was an active part of the capital toolkit, and we believe the market was prepared for a deal particularly in the US commercial space. In recent years Munich Re has not executed sizable acquisitions. In fact, the most recent large addition was Hartford Steam Boiler in 2008, a niche US specialty business that back then was c. 2.3% of Munich Re's market cap, much like NEXT Insurance is currently (incremental €1.7bn is 2.2%).

NEXT Insurance is an SME specialist insurtech on a steep growth trajectory: Investors may be familiar with NEXT as a notable competitor to Hiscox - it sells simple digital P&C products such as business owners' policies, as well as general liability and workers compensation to micro SMEs. Its primary customer base are companies with up to 19 full time employees (serviced through direct online, partnership and broker channel), and NEXT currently has over 600k customers and US$1bn+ total controlled premium - a close comparison to Hiscox US DPD footprint with >0.5m customers and US$543m written premiums. However, in recent years NEXT has grown much faster with 14% CAGR in 2022-24, vs Hiscox DPD at 5%. The growth strain on combined ratio is likely to be significant as the loss ratio was an acceptable 65% in 2024 (same as Munich Re), but well above Hiscox Retail at 40%, and expense ratio is likely to be well above.

FIGURE 1. **Comparing NEXT Insurance with Hiscox US DPD**



Source: Barclays Research, Company data

Tougher competition for Hiscox, but shines light on sum-of-the-parts: In our view, the operational implications of the Munich Re/NEXT deal are not supportive for Hiscox - their direct competitor gets access to a larger pool of capital, marketing firepower and potential ability to leverage group relationships with distribution partners (i.e. Allstate). At the same time, the valuation of US$2.6bn for what represents only 11% of Hiscox's contract written premiums reflects well on the potential undervaluation of the London Market insurer that currently trades at just US$5.1bn market cap.

Mid-triple-digit earnings contribution may be realistic by 2030: Munich Re flags NEXT cedes a significant margin via reinsurance, but after the acquisition it intends to internalize a substantial portion of the margin which should improve profitability. It was reported earlier in trade press that NEXT insurance has written c. US$0.9bn premiums in 2023 - and during the management dinner Munich Re has hosted in London it was suggested total premiums (including fronted business) may exceed US$1bn. Munich Re may be able to recapture a significant part of the difference between the disclosed US$0.5bn top line and total premiums by internalising the external reinsurance and by offering direct market access through existing licenses, instead of fronting business via partnerships.

Continued fast growth and access to Munich Re's internal capabilities would improve operational leverage (significantly reducing expense ratio) and capital efficiency. In our view, it should be possible for the asset to generate a combined ratio at low 90s (as evidenced by Hiscox Retail operations with an 89-94% target), which together with reinsurance spend optimisation, fee and investment income contributions makes a triple digit million contribution possible over medium term, in our view - possibly by the end of the new 2030 strategic plan that Munich Re is due to unveil in December 2025. Our illustrative calculations in Figure 2 are more conservative on top line growth, but still arrive to a comparable mid-triple-digit return.

FIGURE 2. NEXT Insurance - path to triple-digit earnings contribution (for illustrative purposes only)

	2022	2023	2024	2025e	2026e	2027e	2028e	2029e	2030e
Top line	367	438	548	1,044	1,244	1,444	1,634	1,799	1,979
% underlying growth		19%	25%	22%	19%	16%	13%	10%	10%
Combined ratio					99%	97%	95%	93%	90%
Insurance service result					12	43	82	126	198
Investment result					62	87	114	144	198
Other operating income			54	54	54	54	54	54	54
Central costs				-27	-35	-43	-50	-57	-64
Operating profit					94	141	200	267	386
Tax					-20	-30	-42	-56	-81
Net result ($m)	**-211**	**-130**	**-94**	**0**	**74**	**112**	**158**	**211**	**305**

Assumptions: 1) gradual deceleration of top line growth, while in 2025 NEXT reduces external cessions/fronting by 75%; 2) combined ratio reaches 90%; 3) investment result reaches 10% of premiums; 4) other operating income (fees) flat as internal cession unwinds; 5) central costs at 4% of premiums. Munich Re talks of c. 20% top line growth, which is where the outperformance may come from.
Source: Barclays Research

Firepower left for more transactions and/or balance sheet flexibility: With NEXT transaction expected to cost c. 10pp of Solvency 2 capital, that would suggest a 266% pro forma FY24 S2 ratio for Munich Re - 46pp above the top end of 175-220% target range, or an equivalent to c. €9bn. In addition, Munich Re's debt leverage of 10.9% is well below that of peer group at 15.5-29% - even reaching the low end of the range as discussed during FY24 call would free up €3bn of additional capital. In our view, this leaves the business capable to execute on more transactions, or safely absorb large loss volatility while still offering attractive capital return.

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Primary Stocks (Ticker, Date, Price)
Munich RE (MUVGn.DE, 19-Mar-2025, EUR 579.80), Overweight/Positive, A/CD/D/E/J/K/L/M/N

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AXA (AXAF.PA)	Beazley (BEZG.L)	Direct Line Insurance Group (DLGD.L)
Generali (GASI.MI)	Gjensidige Forsikring ASA (GJFS.OL)	Hannover Re (HNRGn.DE)
Hiscox Ltd. (HSX.L)	Just Group (JUSTJ.L)	Lancashire Holdings (LRE.L)

Legal & General (LGEN.L)	M&G plc (MNG.L)	Mapfre (MAP.MC)
Munich RE (MUVGn.DE)	NN (NN.AS)	Old Mutual Ltd (OMU.L)
Phoenix (PHNX.L)	Prudential Plc (PRU.L)	Sabre Insurance Group Plc (SBRE.L)
Sampo (SAMPO.HE)	Sanlam Ltd (SLMJ.J)	SCOR (SCOR.PA)
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Stock Rating: **OVERWEIGHT**

Industry View: **POSITIVE**

Closing Price: **EUR 579.80** (19-Mar-2025)

Rating and Price Target Chart - EUR (as of 19-Mar-2025)

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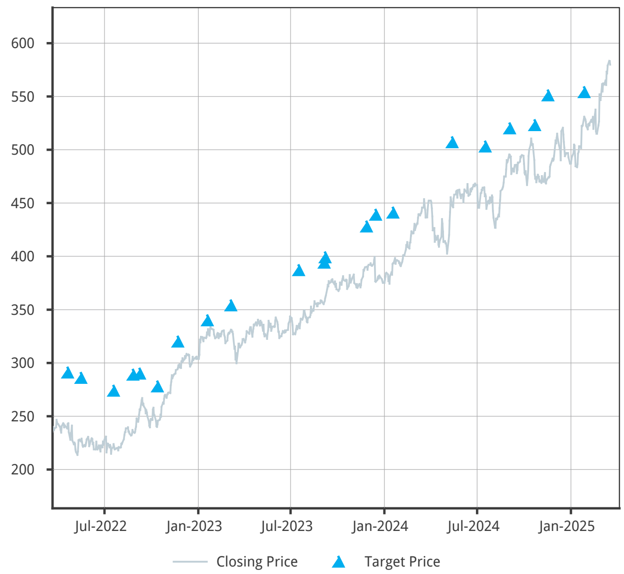

Source: IDC, Barclays Research

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Publication Date	Closing Price*	Rating	Adjusted Price Target
27-Jan-2025	522.80		554.00
17-Nov-2024	472.10		551.00
22-Oct-2024	490.30		523.00
03-Sep-2024	495.20		520.00
17-Jul-2024	458.30		503.00
13-May-2024	447.50		507.00
18-Jan-2024	392.80		441.00
15-Dec-2023	376.60		439.00
27-Nov-2023	388.30		428.00
07-Sep-2023	357.10		399.00
05-Sep-2023	357.10		394.00
17-Jul-2023	331.60		387.00
06-Mar-2023	327.70		354.00
19-Jan-2023	324.40		340.00
22-Nov-2022	293.30		320.00
13-Oct-2022	240.00		278.00
08-Sep-2022	251.50		290.00
26-Aug-2022	233.60		289.00
19-Jul-2022	220.70		274.00
16-May-2022	228.10		286.00
20-Apr-2022	238.50		291.00

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