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Ratings

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Deutsche Rueck Group

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Deutsche Rueck Group

Anchor	a+
Business Risk	Strong
Competitive position	Strong
IICRA	Low
Financial Risk	Very Strong
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

Financial strength rating
A+/Stable/--

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Note: The higher anchor of 'a+' is because of DR's significant role in providing diversification and know-how to public law insurers in Germany.

Credit Highlights

Overview

Strengths	Risks
The preferred property reinsurer in the German public law insurers (PLI) sector, with strong market credentials.	Exposure to natural catastrophe risk, which may lead to potential earnings volatility.
Robust capital buffer at the 'AAA' level as per our risk-based capital model, coupled with solid solvency levels.	Narrower geographic reach compared with higher-rated peers within the reinsurance sector.
Gradual and cautious expansion outside Germany to improve revenue and earnings diversification.	

DR can display stable premium growth while maintaining its established position in the German PLI sector. S&P Global Ratings believes the Deutsche Rueck Group (DR) will leverage its preferred status and well-established client relationships to further consolidate its market standing in the German PLI sector.

We believe DR will maintain 'AAA' capital. DR's capitalization will remain at the 'AAA' confidence level, mainly thanks to its risk-adequate and cautious underwriting, prudent reserving practices, and earnings retention. Moreover, we expect the solvency ratios (Solvency II and Swiss Solvency Test) of the two operating entities Deutsche Rueckversicherung AG (DRAG) and Deutsche Rueckversicherung Schweiz AG (DRS) will stay well above the regulatory minimum.

Outlook: Stable

The outlook is stable because we expect that DR will maintain comfortable excess capital at the 'AAA' stress level according to our risk-based capital model, benefitting from an ongoing prudent reserving strategy. We also expect that DR will generate healthy business in the PLI sector and the broader market over the next 12-24 months.

Downside scenario

We could lower the ratings on DR if:

- The group discloses weaker underlying profitability than forecast in our base case;
- The group's capital adequacy deteriorates below the 'AAA' range;
- We believe the group's capital and earnings volatility could increase, for example because of increasing net exposure to natural catastrophes; or
- The group's strong ties to the German PLI sector weaken significantly.

Upside scenario

We see a positive rating action as remote at this stage, due to DR's more limited diversification outside the German reinsurance market compared with that of higher-rated peers.

Key Assumptions

- Real GDP growth of 0.5%-1.0% over 2019-2021.
- Inflation remaining at around 2%, coupled with continuously low unemployment rates in Germany over 2019-2021.
- 10-year average bond yields of -0.5% in 2020, only gradually increasing to -0.1% in 2022 in Germany.

Deutsche Reuck Group Key Metrics

	2020f	2019f	2018	2017	2016
Gross premium written (mil. €)	>1130	>1120	1,108.4	1,201.6	1,175.0
Net income (mil. €)	>12	>12	56.0	3.0	14.5
Return on shareholders' equity (%)	>6	>6	22.1	1.3	6.4
P/C: Net combined ratio (%)	97-99	97-99	95.9	97.8	96.8
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage including pension deficit as debt (%)	<23	<23	18.0	21.5	21.0
EBITDA fixed-charge coverage (x)	>10	>10	50.4	23.0	10.6
P/C: Return on revenue (%)	N/A	N/A	6.6	5.2	3.5
Net investment yield (%)	N/A	N/A	2.6	3.0	2.4

f--S&P Global Ratings forecast. N/A--Not applicable.

Business Risk Profile: Strong

DR's main business is generated from the German property and casualty insurance market, where it holds a prominent position within the German PLI sector. DR has long-standing and well-established relationships with its main clients, which gives DR a certain competitive edge over its peers. DR has historically demonstrated stable underwriting performance and we expect this will continue.

In our opinion, DR will remain profitable, with a combined (loss and expense) ratio in the range of 97%-99% and net income of around €13 million over 2019-2021, including further reserve strengthening. Overall, we expect DR's performance to be in line with peers' operating in similar geographies and business lines.

DR is continuing to diversify its premiums by focusing on select clients in Europe through the operating entities DRAG and DRS. We see this diversification as an important growth driver that will increase the group's top- and bottom-line diversification. Nevertheless, we believe DR's current business will stay focused on Germany in the short term.

Financial Risk Profile: Very Strong

DR's excess of capital at the 'AAA' level comes mainly from its track record of generating sound profits, restructuring efforts in the PLI business, and continuous balance-sheet strengthening. We anticipate in our base-case scenario that DR will continue to increase its capital over the next two years through a further buildup of reserves and retained earnings.

In our view, the group is exposed to potential earnings volatility, primarily due to exposure to natural catastrophe risks. However, we also acknowledge DR's ability to withstand extreme claim events, such as a one-in-250-year claim. We believe its capital adequacy will remain comfortably in excess of the 'AA' level under our capital model in such a scenario. That said, volatility in capital is lower for DR than for many global reinsurers, since DR has a lower risk appetite and exposure.

In our view, DR benefits from its ability to share risks with the PLI sector, and raise funds from its PLI shareholders in the form of equity and hybrid capital, as demonstrated in 2016 when it issued a €62 million hybrid. However, we believe the group has a limited track record of raising funds from other capital market sources, especially compared with large reinsurers.

Other Key Credit Considerations

Governance

In our opinion, DR has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives particularly to maintain its strong market position in core markets. DR will further expand outside the PLI sector to diversify the group's business in the future. The group benefits from diligent strategic planning and an experienced management team.

We view as favorable DR's risk controls, which have clearly defined risk tolerances, and believe the risk management culture is deeply embedded in the group's practices. DR has consistently used a stochastic approach for pricing and risk controls, and its catastrophic event modelling provides a powerful tool to monitor and price windstorm, flood, and hail accumulation risk. The benefits of these can be seen in the group's underwriting performance.

Liquidity

We view as positive the group's liquidity position, based on the availability of liquid sources and steady premium growth. From our viewpoint, the group is capable of absorbing large, unpredictable losses.

Accounting considerations

Both DR Group and DRAG report according to German generally accepted accounting principles (GAAP), whereas DRS' financial statements are prepared under Swiss GAAP. Our analysis is based mainly on the consolidated accounts. DR group applies a strong degree of conservatism in its accounting figures.

In our assessment of earnings, we take into account internal figures on ultimate loss and combined ratios after reviewing the group's reserves. We also adjust EBITDA for movements in equalization reserves for our analysis of fixed-charge coverage to better compare it with global reinsurers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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: 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

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 November 27, 2019)*

Operating Companies Covered By This Report	
Deutsche Rueckversicherung AG	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Deutsche Rueckversicherung Schweiz AG	
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.