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R+V Versicherung AG

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R+V Versicherung AG

Credit Highlights

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A+/Stable/--

Overview

Key strengths	Key risks
A very successful bancassurance business model integrated into Germany's large cooperative banking sector.	Strain on profitability from COVID-19-related claims, both in primary and reinsurance business, because R+V is exposed to event cancellation, business interruption, and credit insurance.
One of the largest insurance groups in Germany, with a diversified source of revenue and earnings from property/casualty (P/C), life, and health insurance, as well as global reinsurance.	Potential capital and earnings volatility stemming from above-average equity exposure within the asset allocation.
Strong market credentials based on its presence in the German retail and small and midsize enterprise (SME) segments, as well as growing international diversification via its global reinsurance portfolio.	

R+V Versicherung AG (RVV) continues to be integral to DZ Bank. R+V Group is the main insurance provider for Germany's large cooperative banking sector. The insurance group complements the sector's full financial services offering by distributing P/C, life, and health insurance products to the cooperative banks' customers. The ratings on RVV reflect our view of its intrinsic role as the operating holding and reinsurance company of R+V Group, which, in our view, is a core business of its majority shareholder and central bank of the German cooperative sector, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (A+/Stable/A-1). R+V's core status is further supported by its strategic role within the sector and its commission-generating capacity, cost-sharing function, and comprehensive integration in risk management. In addition, KRAVAG-LOGISTIC Versicherungs AG (KLog) remains a core entity of R+V Group.

Our analysis on R+V Group reflects its well-established position in the German insurance market, backed by its successful bancassurance business model. Whereas R+V Group outperformed its peers in terms of business growth, with an 9% increase in premiums in 2020 (German market grew at 1.6%) despite the pandemic-led weaker economic environment, we expect premiums for the group to remain relatively flat in 2021. The group targets the same retail and SME markets as the cooperative banks to drive its business growth. We believe R+V Group benefits from its extensive distribution network, sophisticated multichannel distribution strategy in German primary insurance and global reinsurance, and the strong competitive presence in all segments that underscores its strong market position. Hence, over 2022-2023 we expect premiums to rise by 3%-5%.

We forecast R+V Group will maintain its 'A' level risk-based capital over 2021-2023. We base our assumption on R+V Group's historical strong earnings generation, and parental support if needed. Nonetheless, we believe R+V Group's earnings and capital remains pressured by the low-interest rate environment and further potential pandemic-related capital market movements, in line with peers.

Outlook

The stable outlook on RVV and its subsidiary KLog reflects that on DZ BANK AG and Germany's cooperative banking sector. We expect both entities will remain integral to DZ BANK AG, given their role and contributions to the cooperative sector's business strategy. The ratings on RVV and KLog consequently move in tandem with those on the core subsidiaries of the cooperative banking sector.

Our stable outlook on the Cooperative Banking Sector Germany, including all core group members, reflects our expectation that while a part of the client base and revenue streams could be lost to competitors, the sector's further investments into its digital competencies will substantially defend its strong market position and avoid material reduction in earnings over the next two years.

Downside scenario

While a fairly remote prospect, over time we could lower our ratings on the sector's core members if its market position deteriorates materially, weakening its revenue pool and risk adjusted profitability, or if competitive pressure leads to material signs of increasing risk appetite.

Upside scenario

We could raise the ratings if we conclude that structural challenges in German retail and SME banking have eased such that we revised the anchor for domestic banks up to 'a-', or if we believed the sector had mastered the competitive environment better than peers. This would require material progress in digital banking products and addressing structural weaknesses such as weak cost efficiency and modest profitability. We could also consider a higher rating if the consolidated capitalization of the sector improves further, leading our risk-adjusted capital (RAC) ratio to sustainably rise above 15%, while at the same time we consider capital to be fungible within the sector to support weaker capitalized primary banks if needed. An upgrade would also depend on peer relativities supporting a higher rating.

Key Assumptions

- Germany GDP declined by 4.9% in 2020 and is expected to rebound to 2.7% growth in 2021 and 4.3% in 2022.
- 10-year government bond yields in Germany to remain negative at about -0.3% in 2021, and 0.0% in 2022.

Business Risk Profile

In our view, R+V Group's business profile benefits from its strong position among the three top multiline insurers in Germany, supported by its unique bancassurance model offering a broad portfolio of life and health, P/C, and reinsurance products to the open market and cooperative banks' customers.

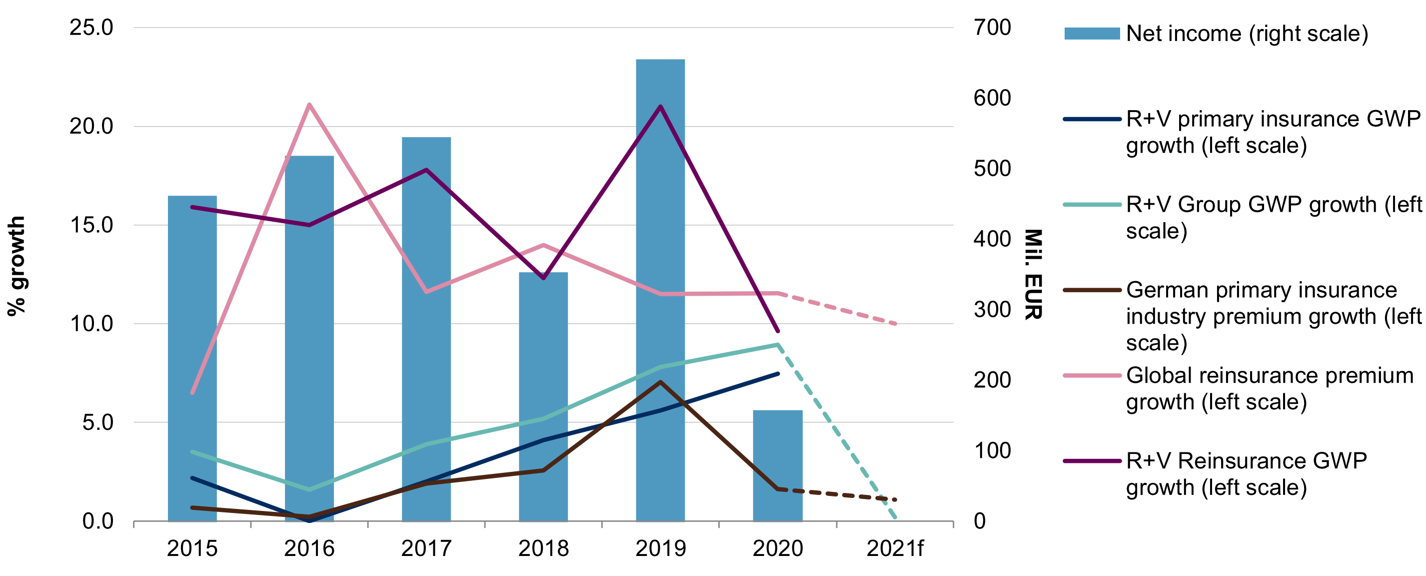
In our opinion, the group's affiliation with the cooperative banking sector and its position in the German retail and

SME target market remain its key strengths.

Through R+V Group's main risk carriers, R+V Lebensversicherung AG and R+V Allgemeine Versicherung AG (neither is rated), the group generated strong premium growth in all segments. Its dominant primary insurance business witnessed premium growth of about 8.8% in 2020. For 2021 we expect the premiums to remain relatively flat. R+V Group's global third-party reinsurance generated premium income of €3.11 billion in 2020. Based on our forecast, we expect the business composition to remain almost stable, with a slight shift toward non-life.

Chart 1

R+V's Premium Growth And Net Income



f--Forecast, S&P Global Ratings expectation. Source: S&P Global Ratings and GDV.

In our view, the group's improved business diversification stems from its expanding reinsurance segment, comprising around 16% of total gross premiums in 2020 and 2021 (as expected) compared to 11% in 2011. The group has organically established itself among the top 20 global reinsurers. The reinsurance portfolio is well spread (Europe 61%, North America 12%, Asia Pacific and Middle East 11%, Latin America 4%, South Africa 8%, other 4%) and it benefits from a low cost base compared with peers.

In line with R+V Group's implemented "Growth Through Change" strategy, the group aims to achieve about €20 billion of premium income by 2022, which would equate to about 6% annual growth before factoring in the COVID-19 outbreak. It also plans to strengthen its exclusive partnership with the cooperative banking sector. To achieve this, R+V Group is investing in digitalization and developing an environment that will meet customers' increasing digital needs. We expect the group's premiums to increase by about 3%-5% annually in 2022 and 2023.

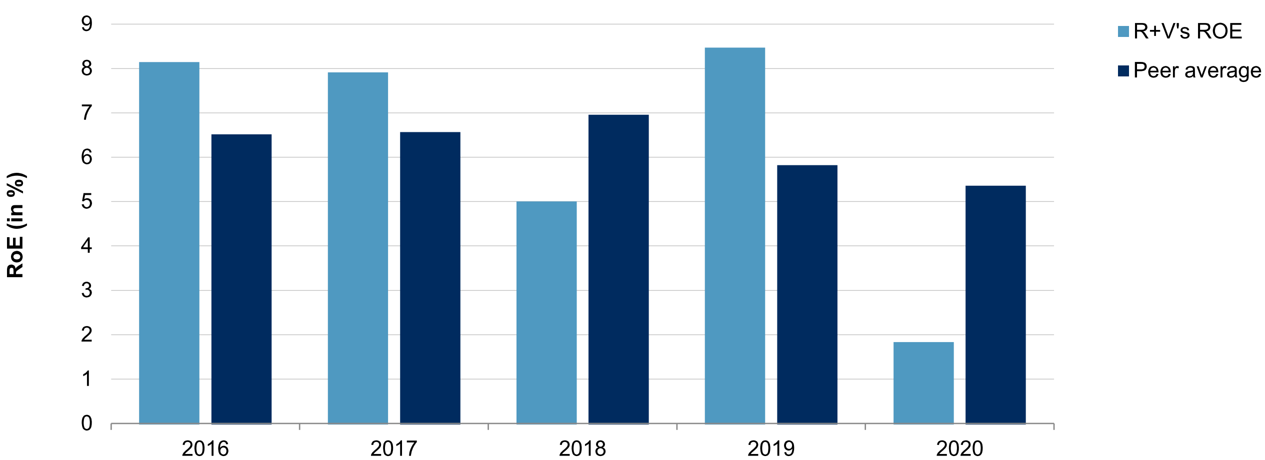
Financial Risk Profile

We anticipate R+V Group's capital position will remain robust, with capital adequacy at the 'A' level in 2021-2023 supported by the group's ability to build capitalization, its well-balanced investment strategy, and overall favorable risk-capital management. R+V Group reported a much lower net income of €156 million in 2020 because of the pandemic--the five-year average was €504 million for 2015-2019. However, with fewer pandemic related losses and good capital markets in the fourth quarter, we expect net income will be at least at pre-pandemic levels for 2021. We do not expect the floods in Germany to have a material negative impact on the group's capital and earnings, thanks to its solid capital adequacy, effective reinsurance protection, and ample equalization provision.

R+V Group has successfully operated under its primary insurance business model for several years. We see this in its continuous above-market-average growth and buildup of retained earnings, and consequent risk-capital growth. However, we believe that R+V Group's growth strategy could constrain its ability to build capitalization in line with its growth ambitions in the long term. In the medium term, we anticipate its increasing capital requirements will be largely matched by a buildup of internal capital buffers, supported by a strong five-year average return on equity (ROE) of 6.3% for 2016-2020, and by a balanced profit transfer and capital re-injection strategy with parent DZ BANK AG.

Chart 2

R+V's Strong ROE As Compared To Peers



f--Forecast. Source: S&P Global Ratings.

In 2020, R+V Group generated lower earnings, majorly due to COVID-19-related insurance claims and particularly in its reinsurance segment, somewhat offset by lower motor claims and favorable investment returns subsequent to recovery in financial markets at the end of 2020. For 2021, earnings are expected to improve from 2020 and so align with the global economic recovery. This is despite the negative gross impact we recognized for the German P/C market in 2021 because of the severe flood events during the summer. For 2021-2023, we expect ROE of 5%-8%, based on our forecast of a sustainable recovery in R+V Group's business development and consequently for its capital and earnings. R+V Group already accounts for its assets under International Financial Reporting Standard (IFRS) 9, and so we see a greater effect on its combined (profit-and-loss) ratio due to fair value assessment, versus insurers who still apply International Accounting Standard 39 or local generally accepted accounting practices to their investments.

R+V Group's primary P/C insurance business delivered a relatively strong combined ratio of around 96.5% in 2020 including strong expected premium growth of 4.3%. The lower claims were mainly driven by lower claims in motor insurance, in line with the German P/C insurance market. For 2021, we expect the combined ratio to be below 100% although we saw higher gross claims in respect of natcat. We expect the underwriting performance to remain flat with combined ratios of 98%-100% for 2022-2023.

R+V Group's reinsurance business experienced weaker technical results due to higher COVID-19-related claims, such as event cancellations and business interruptions, including a strong build-up of incurred-but-not-reported events, which led to a higher combined ratio of 107.7% in 2020. For 2021 we expect some improvement since we assume an overall normalization of COVID-19-related claims and large losses, and anticipate extraordinary claims from major natcat events including the German floods to be covered by the effective reinsurance protection. With a normalization of natural catastrophes, however, we expect a further improvement in reinsurance in 2022 and 2023. Although the expansion in the reinsurance segment in recent years enhances R+V Group's global diversification, as a consequence it adds pressure to the group's capitalization, in our view. Therefore, we believe R+V Group's reinsurance business creates an additional source of volatility for the group's capital and earnings and any extraordinary accelerated expansion in this business could change our view of the group's financial risk profile.

We think R+V Group's life insurance segment not only benefits from a lower overall risk profile but also displays a relatively favorable performance and cost effectiveness through scale effects, compared with peers in the German market. We note a lower overall risk profile than local peers', in particular thanks to the lower average guarantee commitments following strong business growth in recent years. That said, low yields continue to weigh on life results.

R+V Group follows a well-balanced investment strategy with fixed income investments retaining an average credit quality of 'AA'. However, R+V Group has higher-than-market-average equity exposure and has moderately increased its investments in property and infrastructure, which could increase the risk profile of the overall asset allocation. Nevertheless, we expect R+V Group's robust capital should help absorb elevated financial market risk over the long term.

Other Key Credit Considerations

Governance

R+V Group has a comprehensive strategic planning framework. The company also has a highly experienced management team, which in our opinion complements its operational needs. R+V Group has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives, particularly in terms of maintaining its leading market position in the German insurance market and generating sustainable business growth in the reinsurance segment.

Liquidity

We continue to assess R+V Group's liquidity as exceptional. Also, we do not foresee any refinancing concerns given the group's debt-free balance sheet. We believe R+V Group would be well covered even under stress scenarios.

Group support

We consider R+V Group to be core to DZ BANK AG and the German cooperative banking sector, based on its integral role in the sector's strategy. R+V Group operates successfully under its bancassurance business model and generates sizable commission and fee income for the cooperative banks, strengthening and diversifying its overall earnings.

RVV has an intrinsic role as the operating holding and reinsurance company of R+V Group. We equalize our rating on RVV with those on the core operating subsidiaries of DZ BANK AG because of RVV's earnings-generation capacity from reinsurance activities and its debt-free balance sheet.

We continue to regard KLog as a core entity because it is the insurance group's dedicated carrier for its business relations with the German road haulage segment, which is dominated by cooperatives. KLog is fully integrated into R+V Group, which also employs KLog's staff and handles all of its operational functions.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Ratings Detail (As Of February 16, 2022)*	
Operating Company Covered By This Report	
R+V Versicherung AG	
Financial Strength Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of February 16, 2022)*(cont.)	
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.