S&P Global Ratings

Research

R+V Versicherung AG

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R+V Versicherung AG

Major Rating Factors

Operating Companies Covered By This Report
Financial Strength Rating
Local Currency
AA-/Stable/--

Strengths	Weaknesses
• A very successful bancassurance business model integrated into Germany's large cooperative banking sector. • One of the largest insurance groups in Germany with a broad and diverse product offering in property casualty, life, and health insurance. • Very strong competitive position in the retail client and small and midsize enterprise (SME) segment.	• Prevailing low-interest-rate environment, leading to pressure on investment income. • Potential volatility on capital and earnings due to increasing reinsurance exposure.

Rationale

R+V Versicherung AG (RVV) is an integral member of the R+V group (R+V), the key insurance provider for Germany's large cooperative banking sector. The insurance group complements the sector's full financial services by distributing property/casualty (P/C), life, and health insurance products to the cooperative banks' customers. R+V mainly operates in the same retail and SME target markets as the cooperative banks and is one of the largest insurance groups in Germany, generating €15.3 billion of premium income in 2017. The ratings on RVV reflect our view of its intrinsic role as the operating holding and reinsurance company of R+V, which, in our view, is a core business of its majority shareholder, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (AA-/Stable/A-1+), which is in turn the central bank of the German cooperative banking sector. Due to R+V's strategic role within the sector and its commission-generating capacity, cost-sharing function, and comprehensive integration in risk management, S&P Global Ratings regards R+V as a core member of the cooperative sector's financial services offering, and KRAVAG-LOGISTIC Versicherungs AG (KLog) as a core entity of R+V Group.

In 2017, R+V announced an ambitious growth strategy called "Growth Through Change" and has tailored its entire business organization accordingly. It intends to further focus on strengthening its service culture, its exclusive partnership with the cooperative banking sector, and on above-market-average growth. Despite ongoing business growth, we expect capital adequacy will remain in the 'A' range in 2018-2020, financed through internal capital generation, or parental support if needed. The healthy solvency position is additionally underlined by a group solvency ratio, which has maintained a very low volatility throughout 2018 compared to the year-end 2017 figure of 189%, without the use of transitional or volatility adjustments.

Outlook

The stable outlook on R+V Versicherung AG (RVV) and its subsidiary KRAVAG-LOGISTIC Versicherungs AG (KLog) reflects that on DZ BANK AG. We expect both entities will remain integral to DZ BANK AG, owing to their role and contributions to the cooperative sector's business strategy. The ratings on RVV and KLog consequently move in tandem with those on DZ BANK AG.

Our stable outlook on the core group members of Germany's cooperative banking sector reflects that the sector's group credit profile is unlikely to change over the next one to two years and our opinion that the solidarity support within the sector will remain unchanged.

Downside scenario

We could lower the ratings on RVV or KLog over the next 24 months in the unlikely event that their credit profiles deteriorated to an extent that would lead us to question their intrinsic role in the cooperative sector.

Upside scenario

An upgrade would follow a similar action on DZ BANK AG, which we consider unlikely over the next 24 months.

Macroeconomic Assumptions

- Moderate economic growth and inflation and continuously low unemployment rates in Germany over 2018-2020.
- Continued structurally low, long-term, risk-free rates, with German 10-year government bond yields at 0.4% in 2018 slightly recovering to 0.7% in 2019 and 1.3% in 2020, based on our economic estimates.

Business Risk Profile

R+V is the third-largest insurance group in Germany, with a market share of about 7%, benefitting from its very successful bancassurance business model, which is integrated into the largest cooperative financial services network in Germany. The group's distribution through the cooperative banking sector is a key strength, which is complemented by an increasing foothold and comprehensive access to the German broker and intermediary market. This, together with product diversity, enables R+V to maintain a strong market position in the German insurance industry.

In 2017, the group's gross written premium (GWP) increased by 3.9%. Premiums originate from life and health (53% of the group's premium income) and P/C and reinsurance (47%), especially through R+V's main risk carriers, R+V

Lebensversicherung AG and R+V Allgemeine Versicherung AG (neither rated). Based on our forecast, we expect the business split to remain almost stable, with a slight shift toward non-life.

In all insurance segments, R+V is expanding faster than the market average. In the primary insurance segments, R+V could increase its premium volume by more than the market average in 2017, despite a declining German life insurance market and saturated market conditions in the German primary P/C insurance sector. Apart from the group's dominant primary insurance business, R+V's third-party reinsurance book generated premium income of €2.09 billion in 2017, which corresponds to an increase of about 18% from €1.77 billion in 2016.

In line with R+V's implemented Growth Through Change strategy, the group aims to achieve approximately €20 billion of premium income by 2022. It will further focus on strengthening its exclusive partnership with the cooperative banking sector. To achieve this, R+V is investing in digitalization and developing an environment to cope with customers' increasing digital needs. Our base-case forecast is comparably more moderate, but we still expect the group's premiums to increase faster than the market, by 2%-4% annually in 2018-2020, despite demanding market conditions.

Financial Risk Profile

R+V has successfully operated under its primary insurance business model for several years. This has led to continuous above-market-average growth and consequently risk-capital growth, which has somewhat outpaced that of retained earnings in recent years. R+V needs to strike a balance between growth, profitability, and capitalization over the next few years.

We believe that R+V'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 increasing capital requirements to be largely matched by building internal capital buffers, and by a balanced profit transfer and capital re-injection strategy with its parent DZ BANK AG. This will enable R+V to balance growth and capital building to maintain its capital position in the 'A' range over the next two years.

The five-year average return on equity is 8%, which we project will reduce to 6%-8% over 2018-2020, mainly due to lower investment income. We forecast net income will remain above €350 million during that period, acknowledging the group's strategic role and its focus on overall value creation for the cooperative banking sector rather than on bottom-line profit.

For the primary P/C insurance business, we expect a combined (loss and expense) ratio of about 100% for 2018 and 98%-100% for 2019-2020, compared with 98.2% in 2017. This decline stems from higher natural catastrophe claims in 2018. In our view, R+V's underlying technical profitability remains stable and is sustained through restructuring measures, such as premium adjustments in loss-leading lines of business, in particular homeowners' insurance.

For the reinsurance business, we estimate the combined ratio at about 100% in 2018 compared with 108.3% in 2017, and we expect it will remain below 100% in 2019-2020, assuming normalization of large losses and natural catastrophes. The group's expansion in the reinsurance segment in recent years has put additional pressure on its capitalization, in our view. We expect this segment's GWP will represent about 15% of the group's total premiums in the medium term (14% in 2017). We believe R+V's reinsurance business creates an additional source of volatility for the group's capital and earnings, as shown by the negative result in 2017 due to the active hurricane season, cuts to the Ogden rate, and the earthquake in Mexico. Any extraordinary accelerated expansion in this business could change our view of the group's financial risk profile.

For the life insurance segment, we recognize a lower overall risk profile compared with peers', in particular due to lower average guarantee commitments following strong business growth in recent years. We also see comparably favorable performance and cost effectiveness through scale effects of the life insurance operations versus peers', but low yields may continue to weigh on life results. With the change in the calculation of the additional reserving requirements (ZZR) in Germany, we expect less pressure on gross surplus, since the ZZR requirements will be more than 80% lower than under the old calculation methodology for R+V in 2018. Furthermore, R+V will have almost no need to realize investments in the next 2-3 years to finance its ZZR requirements. This will lead to less pressure on running yields because fewer assets need to be re-invested in the currently low interest rate environment.

R+V follows a conservative, well-balanced investment strategy with its investments having an average credit quality of 'AA'. It has moderately increased its exposure to property, equity, and infrastructure investments. However, we do not expect any significant change in the company's investment portfolio.

Other Considerations

We consider R+V 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 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. We equalize our rating on RVV with that 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, which also employs KLog's staff and handles all of its operational functions.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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

Ratings Detail (As Of January 11, 2019)	
Operating Companies Covered By This Report	
R+V Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
KRAVAG-LOGISTIC Versicherungs AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/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.

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