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Ratings

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Deutsche Rueckversicherung AG

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Deutsche Rueckversicherung AG

SACP* Assessments				SACP*		Support		Ratings
Anchor	a+	Modifiers	0	a+		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A+/Stable/--
Strong								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Very Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths

- Longstanding role as the preferred property reinsurer in the German public law insurers (PLI) sector.
- Extremely strong capitalization, supported by a prudent and conservative reserving strategy.
- Successful improvement of underwriting results in the PLI sector, supported by sound ERM framework and improved underwriting process.

Weaknesses

- Exposure to natural catastrophe risk leads to potential volatility in earnings, and, to a lesser extent, capital.
- Narrower business profile compared to higher rated peers as the group continues to focus mainly on domestic markets.

Rationale

German reinsurance group Deutsche Rueckversicherung (DR) is fully owned by members of the German PLI sector and plays a significant strategic role for this sector as a provider of reinsurance services and know-how. Its strong ties to the PLI sector are a key strength for DR. Outside the PLI sector, DR has established relationships with midsize cedants in Germany and various European markets, which supports the company's diversification. However, the company's competitive position outside the PLI sector is less pronounced and DR has a narrower business profile than its higher rated peers, with a more concentrated focus on Germany. Further important rating factor are DR's sustainable, extremely strong capitalization, together with its prudent reserving strategy.

Outlook: Stable

The stable outlook on the entities in DR reflects S&P Global Ratings' view that the group will maintain extremely strong capital and earnings over the next two years, benefiting from an ongoing prudent reserving strategy. We also expect that DR will generate healthy business in the PLI sector and in 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 peers than we expect in our base-case assumptions;
- 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 decrease significantly.

Upside scenario

We see a positive rating action as remote at this stage due to its limited diversification outside the German reinsurance market.

Macroeconomic Assumptions

- We anticipate real GDP growth in Germany of 1.8% in 2018, 1.7% in 2019, 1.5% in 2020, with the unemployment rate in the 3% range.
- We expect the CPI in Germany to be in the range of 1.8%-2.0% over the next three years.
- Continuation of structurally low, long-term, risk-free rates, with German 10-year government bond yields of 0.4% in 2018, slightly recovering to 0.9% in 2019 and 1.4% in 2020, based on our economic estimates.

Key Metrics

(Mil. €)	2020f	2019F	2018F	2017	2016	2015	2014	2013
Gross premium written	~1100	~1100	~1100	1,202	1,175	1,077	1,038	994
Net premium written	~700	~700	~700	709	719	668	635	649
Net income	12-14	12-14	12-14	3	15	14	8	1
Return on revenue (%)	~5	~5	~5	5.9	6.1	4.6	1.4	(5.8)
Return on shareholders' equity (%)	~5	~5	~5	1.3	6.4	6.7	3.8	0.5

Key Metrics (cont.)								
(Mil. €)	**2020f**	**2019F**	**2018F**	**2017**	**2016**	**2015**	**2014**	**2013**
P/C net combined ratio (%)	98-100	98-100	~99	97.8	96.8	99.9	105.8	114.9
Net investment yield (%)	N.A.	N.A.	N.A.	3.0	2.4	2.7	3.3	3.3
S&P Capital Adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely strong	Extremely strong	Extremely strong
Fixed-charge coverage (x)	>10	>10	>10	23.0	10.6	7.2	2.1	(8.1)
Financial leverage %	~6	~6	~6	6.4	6.4	9.0	9.6	9.5

F--Forecast based on Standard & Poor's base-case scenario. P/C--Property/casualty.

Business Risk Profile: Strong

DR's main business stems from the German property/casualty market, which is characterized by a mature market environment, and disciplined underwriting.

DR has fostered its role as the preferred property reinsurer in the German PLI sector through its strong and longstanding relationship with its main clients (about 90% of its business stem from own sales forces). We believe that this direct access enables good portfolio stability and has facilitated the restructuring measures in the PLI sector. This has led to a significant improvement and stabilization in DR's underwriting results. We expect this process to continue, with combined ratios remaining profitable around current levels (97%-99%). We expect gross premiums to decrease in 2018, but to stabilize by 2020 due to ongoing disciplined underwriting as well as a change in the business model in residual credit business.

To diversify its premiums, DR is expanding outside the PLI sector both through Deutsche Rueckversicherung AG (DRAG) and Deutsche Rueckversicherung Schweiz AG (DRS), focusing on selected clients in Europe. The traditional non-PLI reinsurance business represents about 45% of the group's net premiums, to which DRS contributes about 43%. Together with its non-traditional business, DRS contributes about 34% to DR's overall premiums. We see this diversification as the group's prospective main growth driver, albeit we see DR's competitive strength as less pronounced compared to the PLI market.

That said, we believe that DR's business remains focused in the German market, and we do not foresee material changes to this strategy. We therefore consider DR as less geographically diverse than higher rated, large international operating reinsurance groups.

Financial Risk Profile: Very Strong

DR shows a clear capital redundancy at the 'AAA' level, according to our risk-based capital model. This stems from a strengthening of its capital base via prudent reserving and earnings retention, benefitting from restructuring efforts in the PLI business. Moreover the group's Solvency II ratio was sound at 224% in 2017.

We anticipate in our base-case scenario that DR will continue to increase capital over the next two years, mainly through further building of reserves and a modest contribution from net income. We anticipate only moderate growth of about 1%-2% in the group's capital requirements, mainly based on moderate exposure growth and a potential conservative increase in credit risk.

In our view, DR is exposed to earnings volatility, primarily due to its natural catastrophe risk exposure, as evidenced by natural catastrophe events in 2013. However, we also acknowledge DR's ability to withstand extreme claim events. That said, we believe capital volatility is lower than for many global reinsurers that carry a higher risk appetite and exposure. Furthermore, the company's exposure to investment risk is marginal.

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 it did in 2016 when it issued hybrids of around €62 million to refinance an earlier issue. However, we believe that the group has a limited track record of raising funds from other capital market sources, especially when compared with large reinsurance peers.

Other Assessments

We consider enterprise risk management (ERM) to be of key importance for DR, particularly given its natural catastrophe exposure in Germany. In our view, DR benefits from positive risk controls for its main risks, and a positive ERM culture that is deeply embedded in the entire group. DR consistently uses a stochastic approach for pricing and risk controls, and its catastrophic event modeling provides a powerful tool to monitor and price windstorm, flood, and hail accumulation risk.

In our view, DR's ERM framework has been beneficial in terms of improving underwriting processes and results in the PLI sector in recent years; as such we regard ERM as a positive rating factor. However, we are monitoring whether DR can achieve technical prices sustainably, which currently somewhat constrains our overall view of the group's strategic ERM capabilities.

Furthermore, DR benefits from a track record of diligent strategic planning, experienced management, conservative balance sheet management, and clearly defined risk tolerances. This has enabled the group to expand outside the PLI sector, generating mostly profitable business.

We view the transition in DR's management board following the departure of the previous CEO in early 2018 as smooth and note that it had no impact on the group's underwriting discipline.

We also have a favorable view of DR's liquidity position based on the strength of its available liquidity sources and on steady premium growth. We consider that the group is capable of absorbing large and unpredictable claims.

Ratings Score Snapshot	
Financial Strength Rating	A+/Stable/--
Anchor	a+
Business Risk Profile	Strong
IICRA	Low

Ratings Score Snapshot (cont.)	
Competitive Position	Strong
Financial Risk Profile	Very Strong
Capital and Earnings	Extremely strong
Risk Position	Moderate
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate with strong risk controls
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Other Considerations

Both DR 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. The 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 following a review of the group's reserves. We also adjust reported net incomes for movements in equalization reserves.

Related Criteria

- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 2014
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of December 4, 2018)	
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.