

# RatingsDirect®

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## Deutsche Rueck Group

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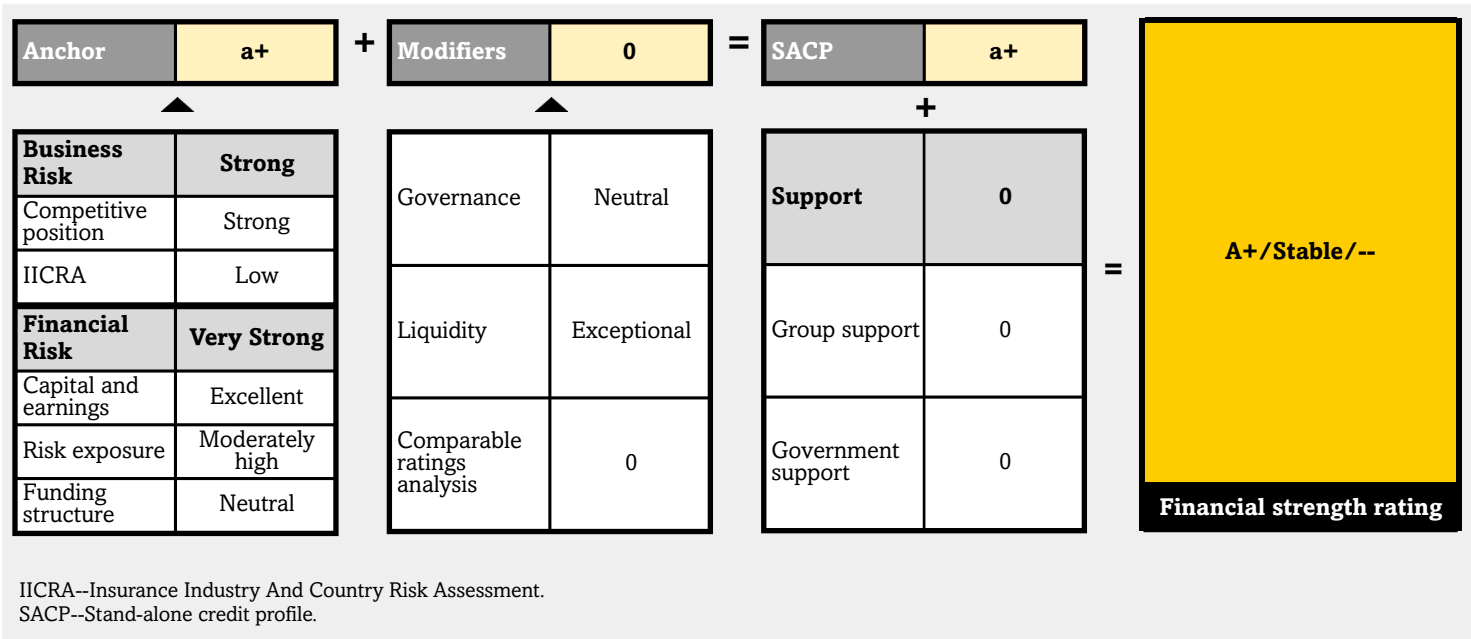
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# Deutsche Rueck Group



## Credit Highlights

### Overview

#### Key strengths

Competitiveness underpinned by the group's status as a preferred property reinsurer for the German public law insurance (PLI) sector.

Robust capital buffers at the 99.99% confidence level in our risk-based capital adequacy model, coupled with sound solvency.

A diverse portfolio across the property and casualty (P&C) reinsurance business and an ongoing expansion strategy outside Germany and Europe.

#### Key risks

Exposure to natural catastrophes that could lead to capital and earnings volatility.

Limited geographic and product diversification compared with higher-rated peers within the reinsurance sector

*We believe Deutsche Rueck (DR) will maintain its unique competitive position as the main reinsurer for the German PLI sector.* We anticipate that DR will further solidify its market position in the sector by leveraging its preferred status and deep-rooted client relationships. These elements should also enable the group to generate stable business and earnings.

*Capitalization will remain a key strength, supported by DR's underwriting discipline and conservative reserving strategy.* DR's financial risk profile is supported by its robust capital adequacy, which we believe is a key strength to the ratings. We believe DR's relatively conservative asset allocation, solid reserving strategy, and prudent underwriting practices will continue to support the group's capital adequacy comfortably above the 99.99% confidence level in 2024-2026.

**We choose the higher anchor of 'a+' to reflect that DR plays a significant strategic role as a provider of diversification and risk-management know-how to public law insurers in Germany.**

DR's strategic position in the PLI sector is a key advantage in terms of business generation, network effects, and capital

support in a potential stress scenario.

## Outlook : Stable

The stable outlook reflects our view that the group is well placed to maintain its excellent capital and earnings, benefitting from prudent reserving and sound profits from its PLI and other business.

### Downside scenario

We could lower the ratings on DR's core subsidiaries if:

- The group discloses weaker underlying profitability than we forecast in our base case over a sustained period; or
- We believe the group's capital and earnings volatility could increase, for example because of rising net exposure to natural catastrophes.

### Upside scenario

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

## Assumptions

- We project eurozone GDP growth of 0.8% in 2024 and 1.2% in 2025, with Germany lagging eurozone peers, and Spain continuing to outperform.
- A long period of very stable macroeconomic forecasts might come to an end as new leaders in the U.S., the EU, and Germany could take decisions early next year on tariffs, defense, and general spending that could reshape the economic outlook.
- We anticipate the European Central Bank will cut rates more quickly than we had previously expected due to persistently weak confidence and better visibility on the disinflation trajectory. That said, we do not expect the extent of the rate cuts to exceed our previous forecast. We now project that the main policy rate will reach 2.5% before the summer of 2025, compared with our previous expectation of September 2025.

## Deutsche Rueck Group--Key metrics

	2021	2022	2023	2024f	2025f
Gross premium written	1,393	1,508	1,762	>1900	>1900
EBITDA	24	67	37	>20	>20
Net income (attributable to shareholders)	4	11	12	~10-15	~10-15
S&P Global Ratings capital adequacy	99.99%	99.99%	99.99%	99.99%	99.99%
Return on shareholders' equity (%)	1.1	3.4	3.7	>2	>2
EBITDA fixed-charge coverage (x)	7.0	20.1	11.0	>10	>10
Financial leverage including pension deficit as debt (%)	28.2	27.7	27.0	<30	<30

Deutsche Rueck Group--Key metrics (cont.)					
	2021	2022	2023	2024f	2025f
Net combined ratio (%)	101.8	92.1	101.1	~97-99	~97-99
Net loss ratio (%)	75.7	65.0	73.3	N/A	N/A
Net expense ratio (%)	26.2	27.0	27.9	N/A	N/A
Return on revenue (%)	2.5	6.1	2.9	N/A	N/A
Return on assets (excluding investment gains/losses) (%)	0.9	2.3	1.3	N/A	N/A
Financial obligations/EBITDA (x)	8.6	6.4	7.9	N/A	N/A
Net investment yield (%)	2.6	3.2	2.8	~2,8	~2,8

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

## Business Risk Profile: Strong

We believe DR will maintain its unique competitive position as the main reinsurer for the German PLI sector. The group's strategic position in the PLI sector is a key advantage in terms of business generation, network effects, and capital support in a potential stress scenario.

We anticipate that the group will further solidify its market position in the sector by leveraging on its preferred status and deep-rooted client relationships. The group continues to cautiously diversify its business via its two operating entities, Deutsche Rueckversicherung AG (DR AG) and Deutsche Rueckversicherung Schweiz (DR Swiss).

At the same time, the group continues to successfully expand into the Middle East, Latin America, and Asia. These elements should also enable the group to generate stable business and earnings. In our base-case scenario, we believe the group is well placed to post gross written premiums higher than €1.9 billion in 2024-2025, with a combined (loss and expense) ratio of 97%-99% and net income of €10 million-€15 million. Furthermore, we do not expect DR's performance to materially deviate from peers that operate in similar geographies and business lines.

## Financial Risk Profile: Very Strong

DR's financial risk profile is supported by its robust capital adequacy, which we believe is a key strength to the ratings. We believe DR's relatively conservative asset allocation, solid reserving strategy, and prudent underwriting practices will continue to support the group's capital.

In our base-case scenario, we believe the group's capital adequacy will stay comfortably above the 99.99% confidence level in 2024-2025. DR's risk appetite and exposures are lower than those of most of its global reinsurance peers, despite its exposure to potential capital and earnings volatility via natural catastrophe risks. In our opinion, DR also benefits from its ability to share risks with the PLI sector and raise funds in the form of equity and hybrid capital from its PLI shareholders.

DR's asset allocation remains conservative, with the majority of investments being in highly rated bonds. However, the group has some meaningful exposure in less liquid assets such as real estate and private equity.

The group has demonstrated its access to financial markets by issuing a €62 million hybrid in 2016 and another €60 million hybrid through its subsidiary Deutsche Rueckversicherung Schweiz AG by the end of 2020. However, given the group's reduced need for external financing when compared to large reinsurers, it has a somewhat limited track record of raising funds from capital markets, in our opinion.

## Other Credit Considerations

### Governance

DR has demonstrated a clear focus on key areas and has successfully implemented strategic initiatives, particularly to maintain its strong position in core markets. It plans to diversify its business by further expanding outside the PLI sector. The group benefits from diligent strategic planning and an experienced management team.

### Liquidity

The group's liquidity profile is sound thanks to its various liquid sources such as premium income, its favorable liability profile, and liquid asset portfolio. The group can generate recurring cash flows from its operations and we do not foresee any refinancing concerns. We also assume an improvement in the group's liquidity position following the capital market development in 2024 with moderately declining interest rates and some potential uplift in market values for fixed income securities.

### Environmental, social, and governance

Environmental factors are a moderately negative consideration in our credit rating analysis of DR. DR's property reinsurance exposure can generate losses in case of extreme weather and natural catastrophes, which can lead to capital and earnings volatility. We also believe that climate change could cause a gradual increase in the frequency and severity of claims.

### Accounting considerations

Both DR Group and DRAG report according to German generally accepted accounting principles (GAAP), whereas DR Swiss' financial statements are prepared under Swiss GAAP. Our analysis is based mainly on the consolidated accounts. DR Group has a conservative approach to its accounting.

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: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### 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 December 11, 2024)\*

#### 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.

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