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Ratings

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Deutsche Rueck Group

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Deutsche Rueck Group

Anchor	a+	+	Modifiers	0	=	SACP	a+	

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

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

Support	**0**
Group support	0
Government support	0

A+/Stable/--

Financial strength rating

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

We choose the higher anchor of 'a+', given DR's significant strategic role in providing both diversification and risk-management know-how to public law insurers in Germany.

Credit Highlights

Overview

Key strengths	Key risks
Deutsche Rueck's (DR) competitiveness is underpinned by its preferred property reinsurer status for the German public law insurance (PLI) sector.	Exposure to natural catastrophes could lead to capital and earnings volatility.
Robust capital buffers at the 'AAA' level of our risk-based capital adequacy model, coupled with sound solvency.	Limited geographic diversification compared with higher-rated peers within the reinsurance sector.
Diversified portfolio across the property and casualty (P&C) reinsurance business.	

We believe DR will maintain its competitive edge as the preferred property reinsurer in the German PLI segment. We expect DR will leverage its preferred status and well-established client relationships to further consolidate its market position in the German PLI sector. Furthermore, we believe that these factors will also enable the group to generate stable business.

Capitalization will remain a strength, supported by DR's underwriting discipline and conservative reserving strategy. DR's capitalization remained at the 'AAA' level as per our risk-based capital model, despite unfavorable economic conditions last year. We believe that the group's capital buffers will continue to be supported by its relatively conservative asset allocation, solid reserving strategy, and prudent underwriting practices.

We choose the higher anchor of 'a+', since DR plays a significant strategic role as provider of diversification and risk-management know-how to public law insurers in Germany. We believe the PLI sector is a key advantage for DR in terms of business generation, network effects, and capital support in a potential stress scenario.

Outlook: Stable

The outlooks on DR's core subsidiaries are stable, because we expect the group 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 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's core subsidiaries if:

- The group discloses weaker underlying profitability than we forecast in our base case;
- 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 of the German reinsurance market compared with that of higher-rated peers.

Key Assumptions

- After the decline in GDP in 2020, we now expect the German GDP to increase 2%-5% over 2021-2024.
- Low inflation coupled with unemployment of 3%-4% through 2021-2024.
- Interest rate remaining low.

Deutsche Rueck Group--Key Metrics

	2022f	2021f	2020	2019	2018
Gross premium written (mil. €)	>1,260	>1,230	1,213.3	1,107.9	1,108.4
Net income (mil. €)	8-12	3-7	9.7	13.5	56.0
Return on shareholders' equity (%)	>2	>1	3.2	4.6	22.1
P/C: Net combined ratio (%)	97-99	102-104	94.9	98.3	95.9
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage including pension deficit as debt (%)	<30	<30	28.4	17.0	18.0
EBITDA fixed-charge coverage (x)	>5	>5	25.7	20.2	50.4
P/C: Return on revenue (%)	N.A.	N.A.	3.6	4.3	6.6
Net investment yield (%)	N.A.	N.A.	2.5	2.2	2.6

f--S&P Global Ratings forecast. N.A.--Not available. P/C--Property and casualty.

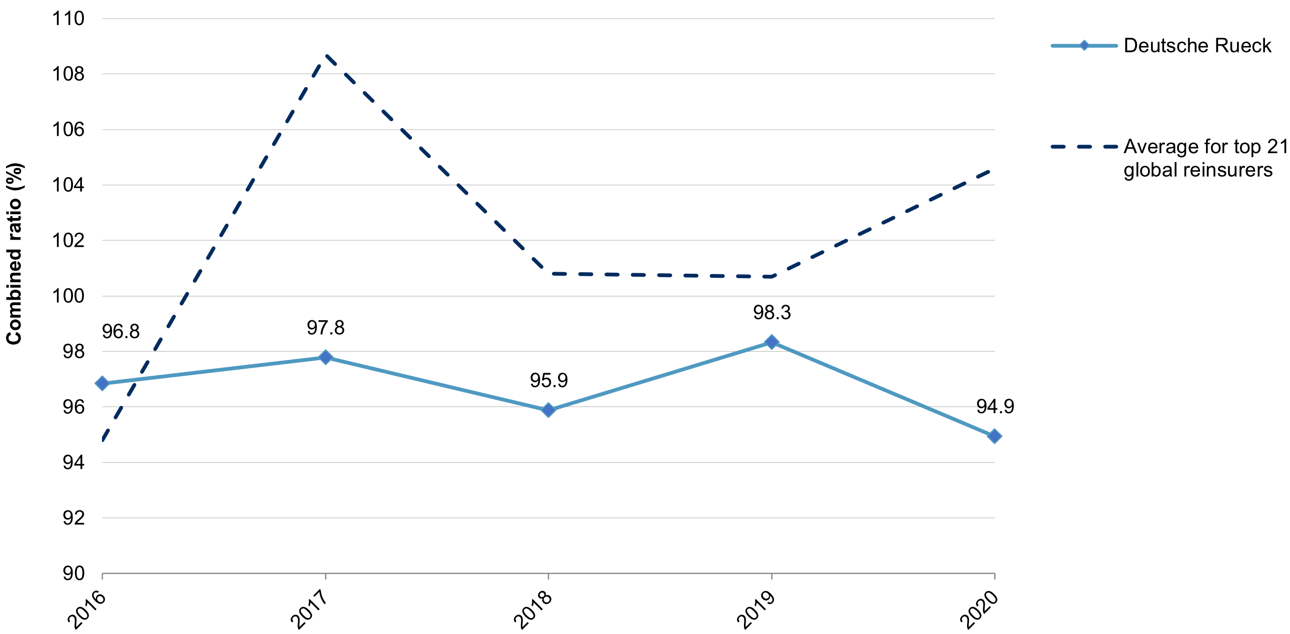
Business Risk Profile: Strong

In our opinion, DR is the go-to reinsurer in the German PLI sector and the group's majority business stems from German P&C insurance market. DR's long-standing and well-established relationships with its key clients gives DR a competitive edge over its peers. Based on its business model and the integration in the German PLI sector, DR has a unique strategy. The group continues to cautiously diversify its business via its two operating entities, Deutsche Rueckversicherung AG (DR AG) and Deutsche Rueckversicherung Schweiz (DR Swiss) by focusing on selected European clients. In addition, the group is steadily increasing its presence in the Middle East and Latin America. In our opinion, this is a prospective growth driver that will increase the group's top- and bottom-line diversification. Nevertheless, we believe DR's current business will remain dominated by Germany in the short term.

The group has historically demonstrated stable underwriting performance with a five-year average (2020-2016) net combined ratio (loss and expense) of about 97%, which is stronger than the average for the global reinsurance market of about 102%. We expect DR will continue with its prudent underwriting practices, including further reserve strengthening. In 2021, we expect DR will achieve net income of €3 million-€7 million, despite much higher natural catastrophe losses leading to a net combined ratio of 102%-104%. DR AG will likely face net claims of €50 million-€60 million due to floods because of the low-pressure system "Bernd". However, DR's solid capital adequacy, effective retrocession protection, large equalization provision, and recently improved underlying underwriting profitability will most likely cushion the material negative impact on capital and earnings. Overall, we believe, underwriting performance will normalize over 2022-2023, with a combined ratio of 97%-99%, leading to a net income of about €8 million-€12 million. Furthermore, we do not expect DR's performance to materially deviate from those of its peers, which operate in similar geographies and business lines.

Chart 1

Deutsche Rueck Group's Prudent Underwriting Remains A Key Strength



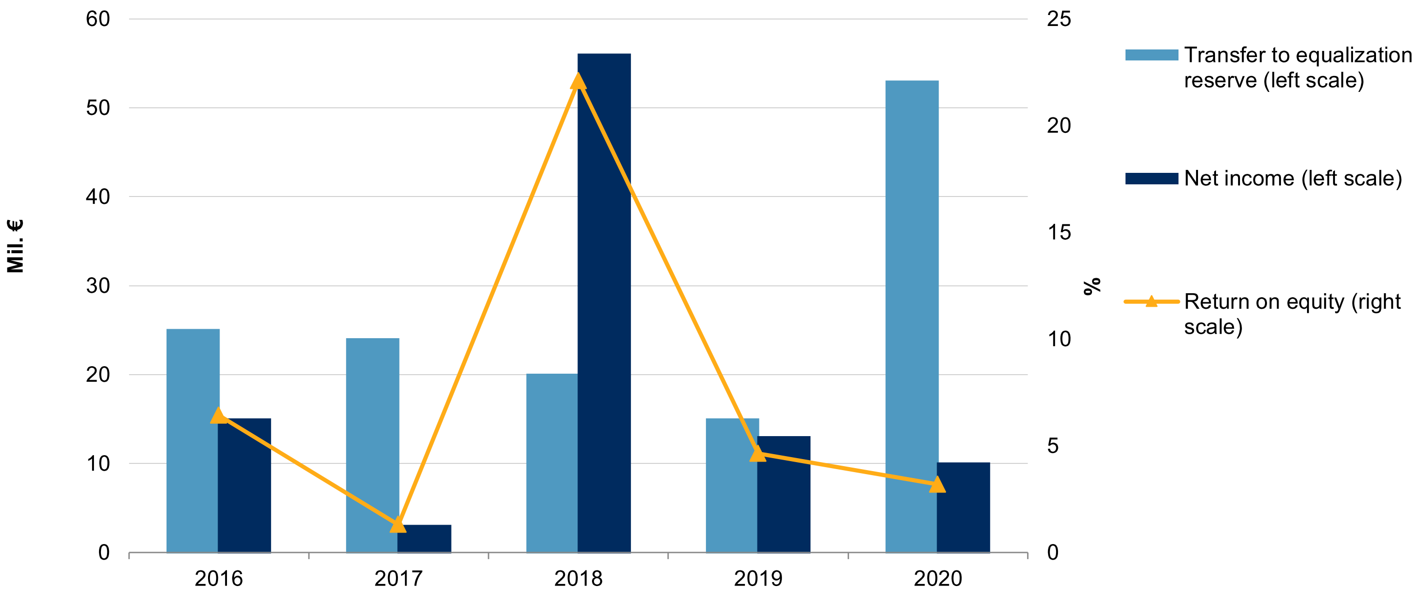
Source: S&P Global Ratings. Note: The top 21 global reinsurers are Alleghany, Arch, Ascot, Aspen, AXIS, China Re, Everest Re, Fairfax, Fidelis, Hannover Re, Hiscox, Lancashire, Lloyd's, Markel, Munich Re, PartnerRe, Qatar Ins., RenaissanceRe, SCOR, Sirius, and Swiss Re.

Financial Risk Profile: Very Strong

In our opinion, DR's excess of capital at the 'AAA' level comes mainly from its established track record of generating sound profits, successful underwriting 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 stable earnings generation.

Chart 2

Deutsche Rueck Group's Conservative Reserving Strategy And Earnings Capability Underpin 'AAA' Capitalization



Source: S&P Global Ratings.

Although the group is exposed to potential capital and earnings volatility arising due to exposure to natural catastrophe risks, DR's risk appetite and exposure is lower than that of most of its global reinsurance peers. In addition, we also acknowledge DR's ability to withstand extreme claim events, such as a one-in-250-year claim. In our view, DR also 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.

The group demonstrated access to financial markets when it issued a €62 million hybrid in 2016 and when it issued another hybrid of €60 million through its subsidiary DR Swiss by the end of 2020. That said, in our opinion, the group has a somewhat limited track record of raising funds from capital markets compared with large reinsurers.

Other Key Credit Considerations

Governance

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 plans to further expand outside the PLI sector to diversify its business. The group benefits from diligent strategic planning and an experienced management team.

Liquidity

The group's liquidity profile is sound, thanks to the various liquid sources at DR's disposal, such as its premium income, favorable liability profile, and very liquid asset portfolio. The group can generate recurring cash flows from its operations and we do not foresee any refinancing concerns.

Accounting considerations

Both DR Group and DR AG 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 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

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

Appendix

Deutsche Rueck Group--Credit Metrics History

(Mil. €)	2020	2019
S&P Global Ratings' capital adequacy*	Excellent	Excellent
Total invested assets	2,375.5	2,200.5
Total shareholder equity	306.5	300.8
Gross premiums written	1,213.3	1,107.9
Net premiums written	775.5	725.9
Net premiums earned	780.7	736.2
Reinsurance utilization (%)	36.1	34.5
EBIT	12.2	26.9
Net income (attributable to all shareholders)	9.7	13.5
Return on revenue (%)	6.2	4.9
Return on assets (excluding investment gains/losses) (%)	2.0	1.6
Return on shareholders' equity (reported) (%)	3.2	4.6
P/C: net combined ratio (%)	94.9	98.3
P/C: net expense ratio (%)	29.7	30.5

Deutsche Rueck Group--Credit Metrics History (cont.)

(Mil. €)	2020	2019
P/C: return on revenue (%)	3.6	4.3
Life: Net expense ratio (%)	92.3	71.7
EBITDA fixed-charge coverage (x)	25.7	20.2
EBIT fixed-charge coverage (x)	25.7	20.2
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	6.2	14.4
Financial obligations/EBITDA adjusted	2.4	1.6
Financial leverage including pension deficit as debt (%)	28.4	17.0
Net investment yield (%)	2.5	2.2
Net investment yield including investment gains/(losses) (%)	2.5	2.4

P/C--Property and casualty.

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 23, 2021)*

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.