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Deutsche Rueck Group

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Deutsche Rueck Group

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Low
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

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 and product diversification compared with higher-rated peers within the reinsurance sector.
Diversified portfolio across the property and casualty (P&C) reinsurance business and an ongoing expansion strategy outside of Germany and Europe.	

We believe 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. According to our risk-based capital model, the group's capitalization has remained at the 'AAA' level. As a result of DR's relatively conservative asset allocation, solid reserving strategy, and prudent underwriting practices we believe that the capital buffers will continue to be supported. Its capital adequacy has proved resilient during volatile financial market conditions despite a decline in the market value of its bonds and equities.

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 outlook is stable because we expect DR 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 the group 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 given DR's more limited diversification outside the German reinsurance market compared with higher-rated peers.

Key Assumptions

- We expect Germany's GDP to increase by 1.5% in 2022. For 2023 we forecast a contraction by 0.3%, followed by annual growth of 1.0%-1.5% in 2024-2025.
- Inflationary pressures will be coupled with unemployment of 3%-4% through 2022-2025.
- Rising long term-interest rates (annual average) in the eurozone to 2.3% and 2.5% and in Germany to 2.0% and 2.2% in 2023-2024.

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Deutsche Rueck Group--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017	2016
Gross premium written (Mil. €)	>1400	>1400	1,392.7	1,213.3	1,107.9	1,108.4	1,201.6	1,175.0
Net income (Mil. €)	8-12	8-12	3.5	9.7	13.5	56.0	3.0	14.5
Return on shareholders' equity (%)	>2	>2	1.1	3.2	4.6	22.1	0.0	0.1
P/C: Net combined ratio (%)	97-99	97-99	101.8	94.9	98.3	95.9	1.0	1.0

Deutsche Rueck Group--Key Metrics (cont.)								
	2023f	**2022f**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage including pension deficit as debt (%)	<30	<30	28.2	28.4	17.0	18.0	0.2	0.2
EBITDA fixed-charge coverage (x)	>5	>5	7.0	25.7	20.2	50.4	23.0	10.6
P/C: Return on revenue (%)	N/A	N/A	2.1	3.6	4.3	6.6	0.1	0.0
Net investment yield (%)	N/A	N/A	2.6	2.5	2.2	2.6	0.0	0.0

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

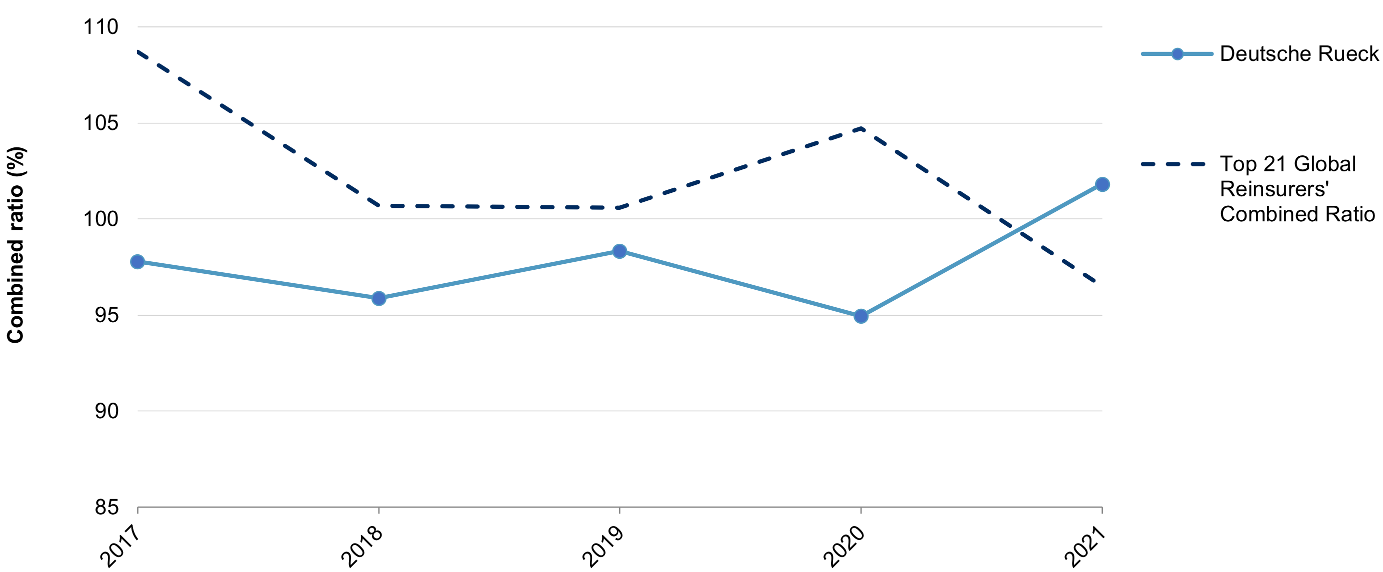
Business Risk Profile: Strong

We see DR as the go-to reinsurer in the German PLI sector, with the P&C insurance market accounting for the majority of the group's business. DR's long-standing and well-established relationships with its key clients gives it a competitive edge over its peers. With its business model and integration in the German PLI sector, DR has a unique strategy and business position in the segment. 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 2023 DR aims to enter some Asian markets under its strategy of greater geographical diversification and business expansion outside of Europe and Germany. 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.

Although we expect to see some pressure on its investments in 2022, given unfavorable market conditions, we expect the group will remain profitable. It has historically demonstrated stable underwriting performance with a five-year average (2021-2017) net combined ratio (loss and expense) of about 97.8%, which is stronger than the average for the global reinsurance market of about 102.2%. We expect DR will continue its prudent underwriting practices, including further reserve strengthening. DR's higher combined ratio of 101.8%, compared to peers' 96.5%, in 2021 was mainly driven by its higher exposure in Germany and the floods caused by the low-pressure system "Bernd" in July of that year. We think DR's solid capital adequacy, effective retrocession protection, large equalization provision, and solid underlying underwriting profitability will likely cushion the negative effects of inflation, capital market volatility, and a higher frequency and severity of natural catastrophe claims on capital and earnings over the next two-to-three years. Overall, we believe the group's underwriting performance will remain stable over 2023-2024, 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 peers that operate in similar geographies and business lines.

Chart 1

Deutsche Rueck Group's Prudent Underwriting Remains A Key Strength



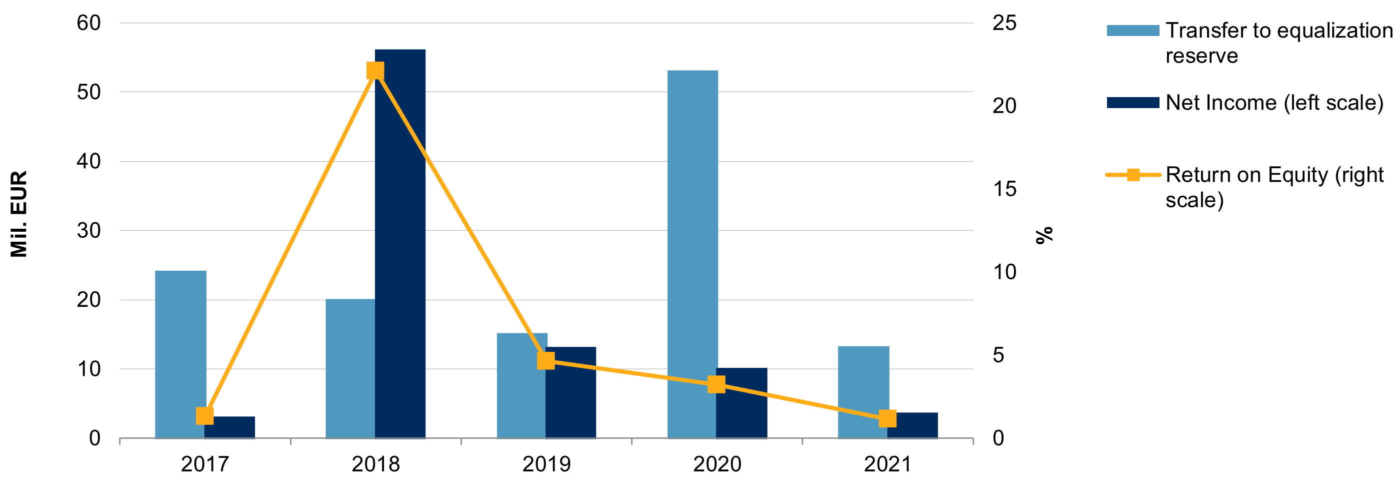
Note: The top 21 global reinsurers are Alleghany, Arch, Ascot, Aspen, AXIS, China Re, Everest Re, Fairfax, Fidelis, Hannover Re, Hiscox, Lancashire, Lloyd's, Markel, Munich Re, PartnerRe, Qatar Ins., RenaissanceRe, SCOR, Sirius, and Swiss Re.

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. In our base-case scenario, we anticipate that DR will continue to increase its capital over the next two years through building-up reserves and the generation of consistent and stable earnings.

Chart 2

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



Source: S&P Global Ratings.

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. We also recognize DR's ability to withstand extreme claim events such as a one-in-250-year claim. 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.

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 DR Swiss by the end of 2020. However, when compared to large reinsurers, the group has a somewhat limited track record of raising funds from capital markets, in our opinion.

Other Key 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 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 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

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent	Excellent
Total invested assets	2545.6	2375.5	2200.5	2078.9	1934.9
Total shareholder equity	310.2	306.5	300.8	280.8	225.6
Gross premiums written	1392.7	1213.3	1107.9	1108.4	1201.6
Net premiums written	929.1	775.5	725.9	733.5	709.0
Net premiums earned	920.3	780.7	736.2	728.8	705.8
Reinsurance utilization (%)	33.3	36.1	34.5	33.82%	40.99%
EBIT	14.1	12.2	26.9	80.1	25.9
Net income (attributable to all shareholders)	3.5	9.7	13.5	56.0	3.0
Return on revenue (%)	2.5	6.2	4.9	12.21%	5.88%
Return on assets (excluding investment gains/losses) (%)	0.9	2.0	1.6	4.24%	2.04%
Return on shareholders' equity (reported) (%)	1.1	3.2	4.6	22.11%	1.30%
P/C: net combined ratio (%)	101.8	94.9	98.3	95.88%	97.78%
P/C: net expense ratio (%)	26.2	29.7	30.5	29.62%	29.50%
P/C: return on revenue (%)	2.1	3.6	4.3	6.65%	5.16%
Life: Net expense ratio (%)	69.5	92.3	71.7	79.77%	63.54%
EBITDA fixed-charge coverage (x)	7.0	25.7	20.2	50.42	23.02
EBIT fixed-charge coverage (x)	7.0	25.7	20.2	50.42	23.02

Deutsche Rueck--Credit Metrics History (cont.)

Ratio/Metric	2021	2020	2019	2018	2017
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	4.2	6.2	14.4	42.82	13.83
Financial obligations / EBITDA adjusted	5.2	2.4	1.6	0.65	1.43
Financial leverage including pension deficit as debt (%)	28.2	28.4	17.0	18.02%	21.49%
Net investment yield (%)	2.6	2.5	2.2	2.57%	3.05%
Net investment yield including investment gains/(losses) (%)	2.7	2.5	2.4	4.41%	3.17%

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 1, 2022)*

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.