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Research Update:

Deutsche Rueckversicherung Group's Core Subsidiaries Affirmed At 'A+' Despite Flooding; Outlooks Stable

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Overview

- We expect German reinsurance group Deutsche Rueckversicherung (DR) will maintain solid capital buffers at the 'AAA' level according to our risk-based model, despite losses from the July flooding in Germany, supported by a prudent risk management and conservative reserving strategy.
- DR continues to play a leading role as the preferred reinsurer in the German public law insurers sector.
- We therefore affirmed our 'A+' ratings on DR's core subsidiaries.
- The stable outlooks reflects our expectation that DR will continue its underwriting discipline with sound underwriting performance and capital redundancy above the 'AAA' level.

Rating Action

On Aug. 17, 2021, S&P Global Ratings affirmed its 'A+' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of Germany-domiciled Deutsche Rueckversicherung Insurance Group (DR; see the ratings list below for further details). The outlooks on the subsidiaries remain stable.

Rationale

In 2021, we expect DR will achieve a net income between €3 million-€7 million, despite higher natural catastrophe losses this year for German property and casualty (P/C) insurers. DR will likely face net claims of €40 million-€50 million for the damages incurred in Germany this July from the storm known as "Bernd". Thanks to solid capital adequacy, effective reinsurance protection, large equalization provisions, and recently improved underlying underwriting profitability, we do not expect a material negative impact on the group's capital and earnings.

DR has demonstrated a strong capital buffer at the 'AAA' level, according to our risk-based capital model. This mainly stems from a strengthening capital base via implementation of a prudent reserving strategy and strong retained earnings. We assigned intermediate equity content to the group's €60 million hybrid issued in December 2020, which supports the overall total adjusted capital growth in our risk-based capital model.

Despite sizeable pandemic-related business interruption claims, DR remained profitable in 2020, with net income of about €10 million and a net combined ratio of about 95%, thanks to its conservative asset allocation, solid reserving strategy, and underwriting discipline.

In line with its strategy, DR continues to cautiously diversify its business via its two operating entities, Deutsche Rueckversicherung AG and Deutsche Rueckversicherung Schweiz AG, by focusing on select European clients as well as on profitable growth in the Middle East and Latin America. We believe that this diversification is a prospective growth driver that will increase the group's top- and bottom-line diversification and further reduce volatility in earnings. Nevertheless, in our opinion, the group's current business will stay focused on Germany in the short term.

Outlook

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 public liability insurance (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.

Ratings Score Snapshot

Financial strength rating	A+/Stable/--
Anchor	a+
Business risk	Strong
IICRA	Low
Competitive position	Strong
Financial risk	Very strong
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

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

Related Research

- German P/C Insurers: Natural Catastrophe Risks Again Rise To The Fore, July 19, 2021

Ratings List

Ratings Affirmed	
Deutsche Rueckversicherung AG	
Deutsche Rueckversicherung Schweiz AG	
Issuer Credit Rating	A+/Stable/--
Financial Strength Rating	A+/Stable/--