S&P Global
Ratings

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Research Update:

Germany-Based Deutsche Rueckversicherung Affirmed At 'A+' Following Revised Capital Model Criteria; Outlook Stable

December 7, 2023

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Based on the new criteria, Deutsche Rueckversicherung's capital adequacy remains robust exceeding the 99.99% confidence level.
- We therefore affirmed our 'A+' ratings on the group's core operating entities.
- 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 writing German public law insurance (PLI) and other business.

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Rating Action

On Dec. 7, 2023, S&P Global Ratings affirmed its 'A+' long-term issuer credit and insurer financial strength ratings on the core subsidiaries of the Germany-domiciled reinsurance group Deutsche Rueckversicherung (Deutsche Rueck). The outlook is stable.

Impact Of Revised Capital Model Criteria

The implementation of our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions") does not lead to any rating changes for Deutsche Rueck's core operating entities.

Under the new criteria, capital adequacy benefits from the removal of haircuts to liability adjustments, such as for loss-reserve redundancies. We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy. The recalibration of our capital charges--such as the natural catastrophe risk charges--to higher confidence levels somewhat offsets these improvements. Overall, we believe the group's capital adequacy remains comfortably above the 99.99% confidence level in 2023-2025.

Credit Highlights

Overview

Key strengths	Key risks
Competitiveness underpinned by the group's status as a preferred property reinsurer for the German PLI sector.	Exposure to natural catastrophes that could lead to capital and earnings volatility.
Robust capital buffers at the 99.99% confidence level in our risk-based capital adequacy model, coupled with sound solvency.	Limited geographic and product diversification compared with higher-rated peers within the reinsurance sector.
A diverse portfolio across the property and casualty (P&C) reinsurance business and an ongoing expansion strategy outside Germany and Europe.	

Outlook

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 Deutsche Rueck'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 Deutsche Rueck's more limited diversification outside the German reinsurance market than that of higher-rated peers.

Rationale

We believe Deutsche Rueck will maintain its unique competitive position as the main reinsurer for the German PLI sector. 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.

At the same time, the group has successfully expanded into new regions such as 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 €1.6 billion in 2023-2024, with a combined (loss and expense) ratio of 97%-99% and net income of €10 million-€15 million.

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

Deutsche Rueck's financial risk profile is supported by its robust capital adequacy, which we believe is a key strength to the ratings. The implementation of our revised criteria for analyzing insurers' risk-based capital does not lead to any changes in our assessment of the group's capital and earnings. We believe Deutsche Rueck'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 2023-2025. Deutsche Rueck'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, Deutsche Rueck 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 Deutsche Rueckversicherung Schweiz AG 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.

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.

Ratings Score Snapshot

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

IICRA--Insurance Industry And Country Risk Assessment.

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

Ratings List

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