S&P Global
Ratings

Research

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	Excellent
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
Market credentials supported by the preferred property reinsurer status for the German public law insurers (PLI) sector.	Potential earnings volatility due to natural catastrophe exposure.
Solid capital buffers at the 'AAA' level as per our risk-based capital model, underlined by robust solvency levels.	Limited geographic diversification compared with higher-rated peers in the reinsurance sector.
Well-diversified business portfolio by line of business, and an ongoing expansion strategy outside of Germany.	

S&P Global Ratings believes Deutsche Rueckversicherung Group (DR Group) will leverage the well-established client relationships it has forged over the years to further cement its standing in the German PLI sector. Furthermore, we believe this will enable the group to maintain stable premium and earnings development in its property and casualty (P/C) reinsurance business.

We expect capitalization will remain robust, supported by DR Group's prudent underwriting and conservative reserving strategy. We believe capital will remain at the 'AAA' level, as per our risk-based capital model over 2020-2022. We expect some pressure on capital and earnings due to the global capital market turmoil in 2020 as a result of COVID-19. However, we think DR Group is well prepared to weather the adverse economic conditions, backed by its conservative asset allocation, solid reserving strategy, and underwriting discipline.

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

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 DR 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 Group if:

- The group discloses weaker underlying profitability than forecast in our base case;
- The COVID-19 pandemic leads to material increases in claims beyond our expectations, which will lead to a reduction of capital below the 'AAA' confidence level, under our risk-based capital model.
- 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 Group's more limited diversification outside of the German reinsurance market compared with that of higher-rated peers.

Key Assumptions

- Germany's real annual GDP to contract by 5.4% for 2020, followed by growth of about 4.7% in 2021.
- Unemployment levels to remain broadly stable, in the 4% range over this period.
- Inflation to remain low, at about 0%-1% over 2020-2023.

Deutsche Rueck Group--Key Metrics

(Mil. €)	2021f	2020f	2019	2018	2017	2016
Gross premium written	>1,160	>1,140	1,107.9	1,108.4	1,201.6	1,175.0
Net income	7-12	0-5	13.5	56.0	3.0	14.5
Return on shareholders' equity (%)	2-4	0-3	4.64	22.11	1.30	6.42
P/C: Net combined ratio (%)	97-99	100-103	97.82	95.88	97.78	96.84
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage including pension deficit as debt (%)	<25	<25	17.03	18.02	21.49	21.01

Deutsche Rueck Group--Key Metrics (cont.)						
(Mil. €)	**2021f**	**2020f**	**2019**	**2018**	**2017**	**2016**
EBITDA fixed-charge coverage (x)	>5	>5	20.22	50.42	23.02	10.64
P/C: Return on revenue (%)	N/A	N/A	4.76	6.65	5.16	3.54
Net investment yield (%)	N/A	N/A	2.16	2.57	3.05	2.40

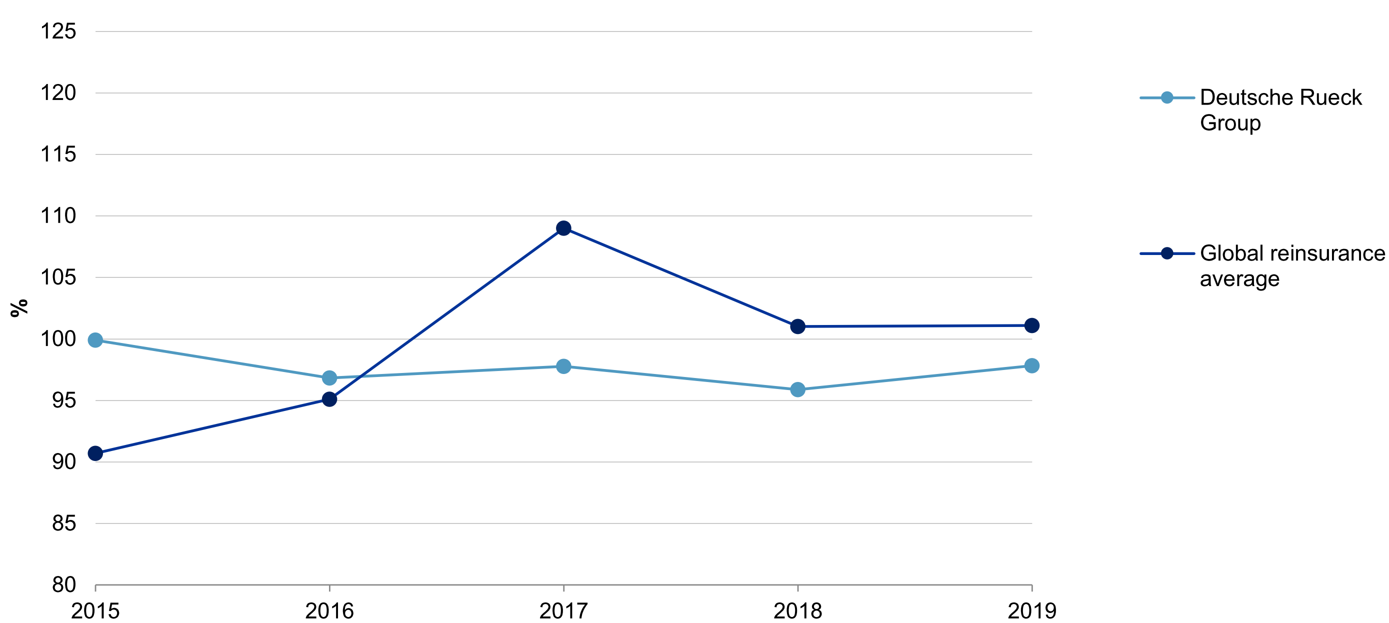
f--Forecast. P/C--Property/casualty. N/A--Not applicable. S&P Global Ratings forecast.

Business Risk Profile: Strong

As the go-to reinsurer in the PLI sector, the group's majority business stems from the German P/C insurance market. The group has long-standing and well-established relationships with its main clients, which, in our opinion, gives it a certain competitive edge over its peers. DR Group has historically demonstrated stable underwriting performance, with a five-year average net combined ratio (loss and expense) of 97.6%, and we expect this will continue. Based on its business model and the integration in the German PLI sector, DR Group has a unique business position in the segment. However, comparing underwriting profitability, DR Group has outperformed the global reinsurance sector in the past five years, with an average combined ratio of 97.6% versus 99.4% for the sector. This is mainly because DR Group was not exposed to regions with severe natural catastrophes, such as the typhoons Hagibis and Faxai in Asia in 2019 and the hurricanes Harvey, Irma, and Maria in the U.S. and Latin America in 2017.

Chart 1

Deutsche Rueck Group's P/C Net Combined Ratio Versus Global Reinsurance Market Average



P/C--Property/casualty. Source: S&P Global Ratings.

Although we expect some pressure on its investment and underwriting performance in 2020 due to unfavorable market conditions, we expect DR Group will remain profitable. DR Group could suffer higher claims, in particular from business interruption claims as a result of the lockdown in Germany. So far, pandemic-related losses are lower than expected, but we include higher potential claims in our forecast for 2020 because they could arise in the last quarter of 2020. As a result, we expect a combined ratio, depending on the development of the pandemic, of 100%-103%, and net income of €0 million-€5 million for 2020. We expect the combined ratio will improve to 97%-99% over 2021-2022, and overall net income of €7 million-€12 million over 2021-2022, including further reserve strengthening. Furthermore, we do not expect DR Group's performance will materially deviate from that of its peers that operate in similar geographies and business lines.

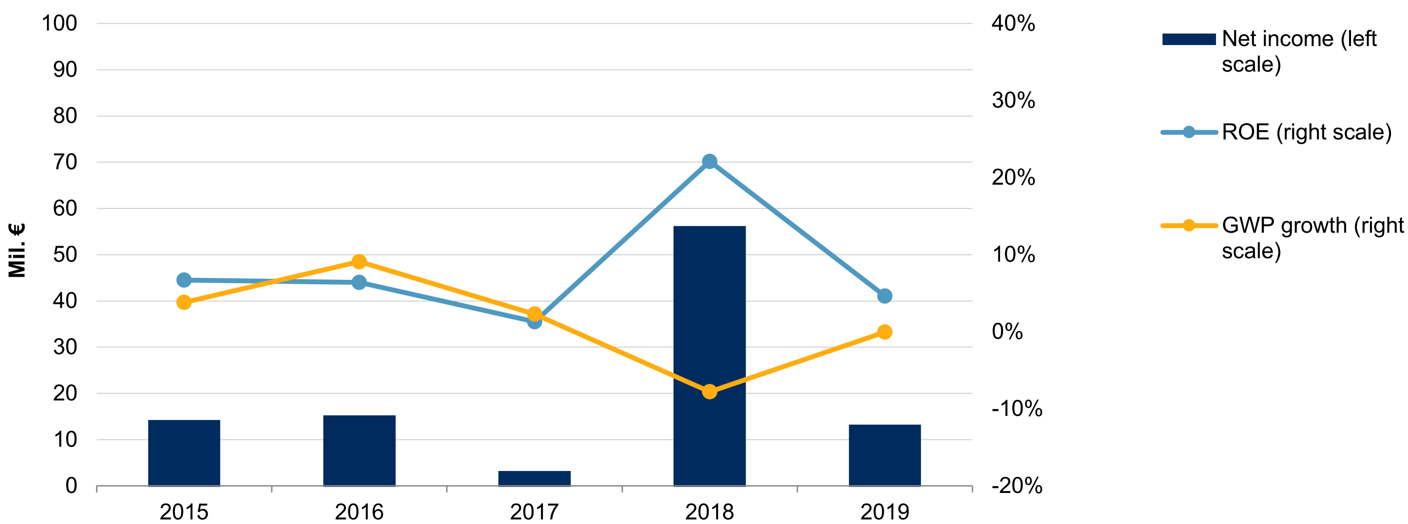
In line with its strategy, DR Group continues to cautiously diversify its business via its two operating entities, Deutsche Rueckversicherung AG (DR AG) and Deutsche Rueckversicherung Schweiz AG (DR Swiss), by focusing on select European clients as well as on profitable growth in the Middle East. We 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, DR Group's current business will stay focused on Germany in the short term.

Financial Risk Profile: Very Strong

The group's excess of capital at the 'AAA' level is supported by its track record of sound earnings generation, restructuring efforts in the PLI business, and continuous reserve strengthening. In our view and in line with its strategy, DR Group will continue to maintain its capital at the 'AAA'-level over the next two years through a further buildup of reserves and retained earnings. In a normal environment, we would expect DR Group to deliver net income of €7 million-€12 million. In 2018, DR Group made extraordinary investment gains and in 2017 it saw an extraordinary tax load due to a change in tax legislation.

Chart 2

Deutsche Rueck Group Is Delivering Solid Results For Building Up Its Capital



ROE--Return on equity. GWP--Gross written premium. Source: S&P Global Ratings.

Although the group is exposed to potential earnings volatility due to exposure to natural catastrophe risks, we note that its risk appetite and exposure is lower than that of global reinsurance peers. Furthermore, we also acknowledge DR Group's ability to withstand extreme claim events, such as a one-in-250-year claim. We believe its capital adequacy will remain on a solid level under our capital model in the context of lower underwriting and investment earnings in 2020 after the outbreak of COVID-19.

In our view, DR Group 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, which was demonstrated in 2016 when it issued a €62 million hybrid. Having said that, in our opinion, the group has a limited track record of raising funds from other capital market sources, when compared with large reinsurers.

Other Key Credit Considerations

Liquidity

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

Environmental, social, and governance

DR Group's exposure to environmental and social risks is in line with the industry. Standards for corporate governance are typically high in Germany and in other countries where DR Group operates. DR Group is mainly exposed to environmental factors through its reinsurance business. In particular, climate change could cause an increase in the frequency and severity of claims from extreme weather events, including natural catastrophes. The group has catastrophic event modelling in place that provides a powerful tool to monitor and price windstorm, flood, and hail accumulation risk. The benefits of these can be seen in the group's underwriting performance. Since DR Group also deals in life insurance, the group is, to some extent, exposed to social factors like demographic trends. For example, changes to longevity and mortality could increase liabilities.

DR Group 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 Group will further expand outside the PLI sector to diversify the group's business in the future. The group benefits from diligent strategic planning and an experienced management team.

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 that of global reinsurers.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, 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, June 7, 2010

Appendix

Deutsche Rueck Group--Credit Metrics History

	2019	2018
S&P Global Ratings' capital adequacy*	Excellent	Excellent
Total invested assets	2,200.5	2,078.9
Total shareholder equity	300.8	280.8
Gross premiums written	1,107.9	1,108.4
Net premiums written	725.9	733.5
Net premiums earned	736.2	728.8
Reinsurance utilization (%)	34.48	33.82

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

	2019	2018
EBIT	26.9	80.1
Net income (attributable to all shareholders)	13.5	56.0
Return on revenue (%)	4.91	12.21
Return on assets (excluding investment gains/losses) (%)	1.60	4.24
Return on shareholders' equity (reported) (%)	4.64	22.11
P/C: Net combined ratio (%)	97.82	95.88
P/C: Net expense ratio (%)	30.03	29.62
P/C: Return on revenue (%)	4.76	6.65
Life: Net expense ratio (%)	79.79	79.77
EBITDA fixed-charge coverage (x)	20.22	50.42
EBIT fixed-charge coverage (x)	20.22	50.42
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	14.36	42.82
Financial obligations / EBITDA adjusted	1.63	0.65
Financial leverage including pension deficit as debt (%)	17.03	18.02
Net investment yield (%)	2.16	2.57
Net investment yield including investment gains/(losses) (%)	2.36	4.41

P/C--Property/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 11, 2020)*

Operating Companies Covered By This Report	
Deutsche Rueckversicherung AG	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of November 11, 2020)*(cont.)	
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.