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# R+V Versicherung AG


**Primary Credit Analyst:**
Manuel Adam, Frankfurt + 49 693 399 9199; manuel.adam@spglobal.com

**Secondary Contact:**
Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com

**Research Contributor:**
Kalyani Joshi, CRISIL Global Analytical Center, an S&P affiliate, Mumbai


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# R+V Versicherung AG

## Credit Highlights

| Operating Companies Covered By This Report |
| --- |
| **Financial Strength Rating** |
| *Local Currency* |
| AA-/Negative/-- |

### Overview

| Key strengths | Key risks |
| --- | --- |
| A very successful bancassurance business model integrated into Germany's large cooperative banking sector. | Strain on profitability from COVID-19-related claims, both in primary and reinsurance business, as R+V is exposed to event cancellation, business interruption, and credit insurance. |
| One of the largest insurance groups in Germany, with a diversified source of revenue and earnings from property casualty, life, health insurance as well as global reinsurance. | Potential capital and earnings volatility stemming from above average equity exposure within the asset allocation. |
| Strong market credentials based on its presence in the German retail and small and midsize enterprise (SME) segments, as well as growing international diversification via its global reinsurance portfolio. | |

***R+V Versicherung AG continues to be integral to the DZ Bank.*** R+V is the largest insurance provider for Germany's large cooperative banking sector. The insurance group complements the sector's full financial services offering by distributing property/casualty (P/C), life, and health insurance products to the cooperative banks' customers. The ratings on R+V Versicherung AG (RVV) reflect our view of its intrinsic role as the operating holding and reinsurance company of R+V, which, in our view, is a core business of its majority shareholder and central bank of the German cooperative sector, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (AA-/Negative/A-1+). R+V's core status is further supported by its strategic role within the sector and its commission-generating capacity, cost-sharing function, and comprehensive integration in risk management. In addition, KRAVAG-LOGISTIC Versicherungs AG (KLog) remains a core entity of R+V.

Our rating on R+V reflects its well-established position in the German insurance market, backed by its successful bancassurance business model. We expect R+V to again outperform its peers in terms of business growth with an increase in premiums of 7%-10% in 2020. The group targets the same retail and SME markets as the cooperative banks to drive its business growth. We believe R+V benefits from its extensive distribution network and strong competitive presence in all segments.

Despite the pandemic-led weaker economic environment and missed sales opportunities, we expect R+V to report strong premium growth in all of its business lines. This underscores its strong market position and sophisticated multi-channel distribution strategy in German primary insurance and global reinsurance. Over 2021-2022 we expect premiums to rise by 3%-5%.

***We forecast R+V will maintain its 'A' level risk-based capital over 2020-2022.*** We base our assumption on R+V's historical strong earnings generation, and parental support if needed. Nonetheless, R+V's earnings and capital is exposed to pandemic-induced losses and is likely to push down the group's profitability in 2020, in line with peers.

**Outlook**

The negative outlook on RVV and its subsidiary KLog reflects that on DZ BANK AG and Germany's cooperative banking sector. We expect both entities will remain integral to DZ BANK AG, given their role and contributions to the cooperative sector's business strategy. The ratings on RVV and KLog consequently move in tandem with those on the core subsidiaries of the cooperative banking sector.

Our negative outlook on the core group members of Germany's cooperative banking sector reflects the potential that increasing economic and industry risk will likely put additional pressure on the sector's risk exposures and risk-adjusted profitability, in the medium term. The negative outlook indicates that we could lower our ratings within the next 12-24 months.

### Downside scenario

We could lower the ratings on RVV and KLog if the credit standing of the cooperative banking sector's core members deteriorates. This could happen if we revised down our anchor for German banks to 'bbb+' from 'a-', or if the sector's market position and its ability to cover normalized credit losses weakened, its aggregate risk-adjusted capital (RAC) ratio declined to less than 10%, the sector shifted into riskier areas, or underwriting quality loosened. We could also lower the ratings on RVV or KLog over the next 24 months if their credit profiles deteriorated such that we questioned their intrinsic role in the cooperative sector.

### Upside scenario

We could revise the outlooks to stable over the next 24 months if we observed stable economic and industry risk trends for the German banking industry. Moreover, we may revise the outlooks to stable if the sector's business model and risk profile remain robust, and the sector displays much higher resilience to a weakening economic cycle than other German banks or similarly rated international peers. We also believe the successful execution of a more holistic strategy and material progress in addressing structural weaknesses, such as cost efficiency and below-average market positions in corporate and private banking, remain pivotal.

## Key Assumptions

- We expect 2020 German GDP to fall by about 6.0% due to the economic fallout from the pandemic, with negative effects on unemployment rates (which have increased to 4.6%) and a drop in inflation to 0.3% in 2020. However, we expect a recovery in 2021 with GDP growth forecast at 3.7%.
- Low interest rates remain a key risk to EMEA-based insurers, with German 10-year government bond yields of about -0.5% in 2020 and 2021, based on our economic estimates.

## Business Risk Profile

In our view, R+V's business profile benefits from its strong position as one of the top three multiline insurers in

Germany (market share of about 7%), supported by its unique bancassurance model offering a broad portfolio of life and health, P/C, and reinsurance products to the open market and cooperative banks' customers.

In our opinion, the group's affiliation with the cooperative banking sector and its position in the German retail and SME target market remain its key strengths.

Through R+V's main risk carriers, R+V Lebensversicherung AG and R+V Allgemeine Versicherung AG (neither are rated), the group generated strong premium growth in all segments. We expect its dominant primary insurance business to see premium growth of 7%-10% in 2020. We also forecast R+V's global third-party reinsurance book to generate premium income of €3.0 billion–€3.2 billion in 2020, which corresponds to an increase of about 9%-11% from the €2.75 billion in 2019. Based on our forecast, we expect the business composition to remain almost stable, with a slight shift toward non-life.

In our view, the group's improved business diversification stems from its expanding reinsurance segment, which constitutes around 16% of total gross premiums in 2019 compared to 11% in 2011. The group has organically established itself among the top 20 global reinsurers. The reinsurance portfolio is well spread (Europe 61%, North America 12%, APAC and Middle East 11%, LATAM 4%, South Africa 8%, other 4%) and it benefits from a low cost base compared with peers.

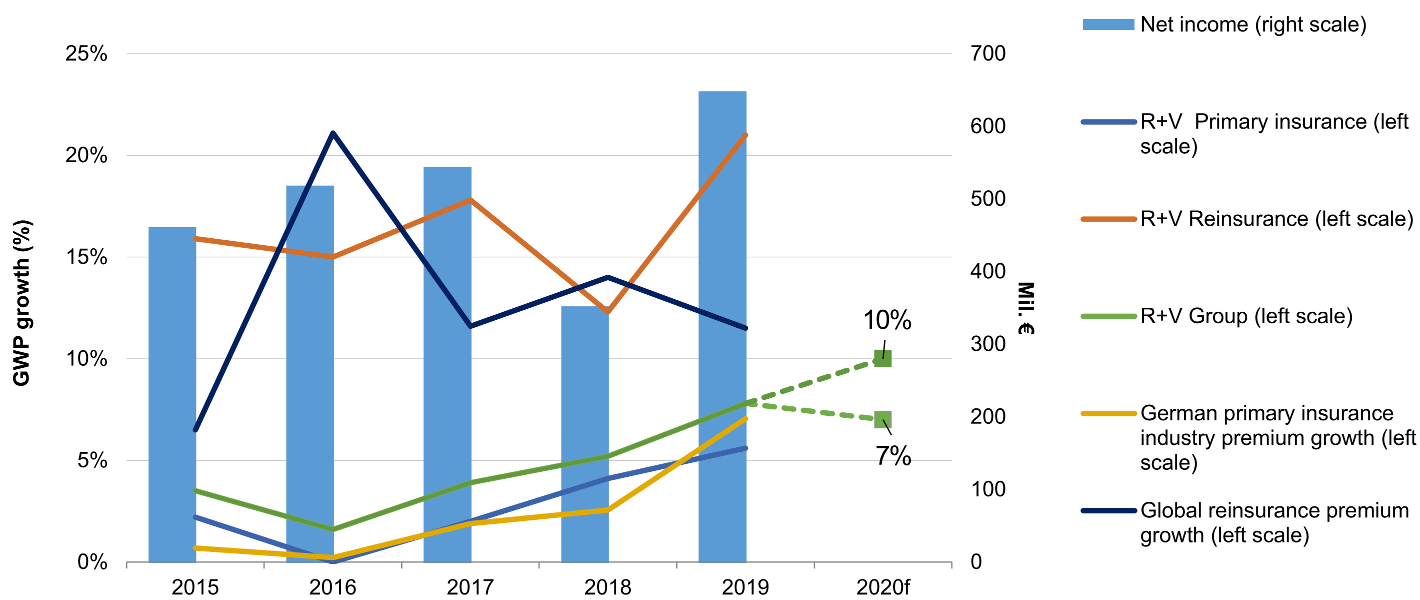
In line with R+V's implemented "Growth Through Change" strategy, the group aims to achieve approximately €20 billion of premium income by 2022, which would equate to about 6% annual growth before factoring in the COVID-19 outbreak. It also plans to strengthen its exclusive partnership with the cooperative banking sector. To achieve this, R+V is investing in digitalization and developing an environment that will meet customers' increasing digital needs. We expect the group's premiums to increase by about 3%-5% annually in 2021 and 2022.

## Financial Risk Profile

We anticipate R+V's capital position will remain robust, with capital adequacy at the 'A' level in 2020-2022 supported by the group's ability to build capitalization, its well-balanced investment strategy, and overall favorable risk-capital management. We expect R+V to report a visibly lower net income compared to the five-year average of €504 million for 2015-2019, but still in a positive range.

**Chart 1**

**R+V's Premium Growth And Net Income**



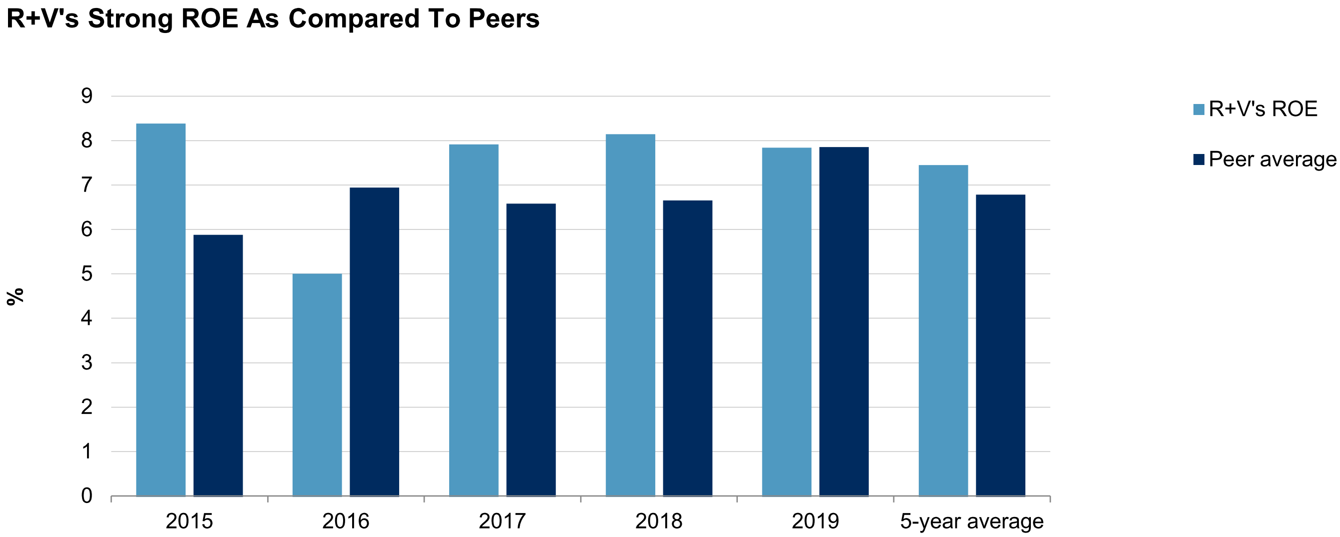

f--Forecast. Source: S&P Global Ratings and GDV.



R+V has successfully operated under its primary insurance business model for several years. We see this in its continuous above-market-average growth, build-up of retained earnings, and consequent risk-capital growth. However, we believe that R+V's growth strategy could constrain its ability to build capitalization in line with its growth ambitions in the long term. In the medium term, we anticipate its increasing capital requirements will be largely matched by a building up of internal capital buffers, supported by a strong five-year average return on equity (ROE) of 8%, and by a balanced profit transfer and capital re-injection strategy with parent DZ BANK AG.

We expect R+V's capital and earnings will be pressured by COVID-19-related insurance claims and prevailing low interest rates, somewhat offset by lower unrealized losses due to recovery in the volatile financial markets at year-end 2020. For 2021-2022, we expect ROE of 6%-8%, based on our forecast of a sustainable recovery in R+V's business development and consequently for its capital and earnings. As R+V is already accounting its assets under IFRS 9, we see a greater effect on its profit and loss ratio due to fair value assessment, compared to insurers who still apply IAS 39 or local GAAP to their investments.

**Chart 2**




Peers include DEVK, Alte Leipziger, W&W, VKB, Covea and CNP. ROE--Return on equity. Source: S&P Global Ratings.



We expect R+V's primary P/C insurance business to deliver a relatively strong combined ratio of around 95%-97% in 2020 including strong expected premium growth of 4%-5%. The lower claims were mainly driven by lower claims in motor insurance, in line with the German P/C insurance market. We expect the underwriting performance to normalize with combined ratios of 98%-100% for 2021-2022.

We forecast R+V's reinsurance business will experience weaker technical results due to higher COVID-19-related claims such as event cancellations and business interruptions, including a strong build-up of IBNR (incurred-but-not-reported), which will lead to a higher combined ratio of 106%-108% in 2020. However, we expect an improvement in 2021-2022, assuming an overall normalization of COVID-19-related claims, large losses, and natural catastrophes. While the expansion in the reinsurance segment in recent years enhances R+V's global diversification, consequently, in our opinion, it adds pressure on the group's capitalization. Therefore, we believe R+V's reinsurance business creates an additional source of volatility for the group's capital and earnings and any extraordinary accelerated expansion in this business could change our view of the group's financial risk profile.

In our view, R+V's life insurance segment not only benefits from a lower overall risk profile but also displays a relatively favorable performance and cost effectiveness through the life insurance operation's scale effects, compared with peers in the German market. We note a lower overall risk profile compared with local peers, in particular due to the lower average guarantee commitments following strong business growth in recent years. That said, low yields continue to weigh on life results.

R+V follows a well-balanced investment strategy with fixed income investments retaining an average credit quality of 'AA'. However, R+V has higher-than-market-average equity exposure and has moderately increased its investments in property and infrastructure, which could increase the risk profile of the overall asset allocation. Nevertheless, we expect R+V's robust capital should help absorb elevated financial market risk over the long term.

## Other Key Credit Considerations

### Governance

R+V has a comprehensive strategic planning framework. The company also has a highly experienced management team, which in our opinion complements its operational needs. R+V has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives particularly in terms of maintaining its leading market position in the German insurance market and generating sustainable business growth in the reinsurance segment.

### Liquidity

We continue to assess R+V's liquidity as exceptional. Also, we do not foresee any refinancing concerns given the company's debt-free balance sheet. We believe R+V would be well covered even under stress scenarios.

### Group support

We consider R+V to be core to DZ BANK AG and the German cooperative banking sector, based on its integral role in the sector's strategy. R+V operates successfully under its bancassurance business model and generates sizable commission and fee income for the cooperative banks, strengthening and diversifying its overall earnings.

RVV has an intrinsic role as the operating holding and reinsurance company of R+V. We equalize our rating on RVV with those on the core operating subsidiaries of DZ BANK AG because of RVV's earnings-generation capacity from reinsurance activities and its debt-free balance sheet.

We continue to regard KLog as a core entity because it is the insurance group's dedicated carrier for its business relations with the German road haulage segment, which is dominated by cooperatives. KLog is fully integrated into R+V, which also employs KLog's staff and handles all of its operational functions.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

| Ratings Detail (As Of February 11, 2021)* | |
|---|---|
| **Operating Companies Covered By This Report** | |
| **R+V Versicherung AG** | |
| Financial Strength Rating | |
| *Local Currency* | AA-/Negative/-- |
| Issuer Credit Rating | |
| *Local Currency* | AA-/Negative/-- |
| **KRAVAG-LOGISTIC Versicherungs AG** | |
| Financial Strength Rating | |
| *Local Currency* | AA-/Negative/-- |
| Issuer Credit Rating | |
| *Local Currency* | AA-/Negative/-- |
| **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.