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R+V Versicherung AG

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R+V Versicherung AG

Credit Highlights

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

Overview

Strengths	Risks
A very successful bancassurance business model integrated into Germany's large cooperative banking sector.	Low interest rate environment weighs down the group's life earnings.
One of the largest insurance groups in Germany, with a broad and diverse product offering in property casualty, life, and health insurance.	Increasing reinsurance exposure could somewhat increase volatility in earnings and capital. However, the reinsurance segment is globally diversifying the group's business portfolio and showed a comparably stable earnings track record.
Very strong competitive position based on its presence in German retail and small and midsize enterprise (SME) segments, as well as growing international diversification via its global reinsurance portfolio.	

R+V Versicherung AG is an integral member of the R+V group (R+V), the key 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, DZ BANK AG Deutsche Zentral-Genossenschaftsbank (AA-/Negative/A-1+), which is in turn the central bank of the German cooperative banking sector. Due to R+V's strategic role within the sector and its commission-generating capacity, cost-sharing function, and comprehensive integration in risk management, S&P Global Ratings regards R+V as a core member of the cooperative sector's financial services offering, and KRAVAG-LOGISTIC Versicherungs AG (KLog) as a core entity of R+V.

We expect R+V to retain its position in the German insurance market, backed by its successful bancassurance business model. The R+V group mainly operates in the same retail and SME target markets as the cooperative banks and is one of the largest insurance groups in Germany and we expect R+V to generate between €17.0 billion and €17.5 billion of premium income in 2019 compared with €16.13 billion in 2018. We believe R+V benefits from its extensive distribution network, which is supported by its affiliation to the cooperative financial sector.

We anticipate R+V will maintain its 'A' level risk-based capital. Despite ongoing business growth, we expect capital adequacy will remain in the 'A' range in 2020-2021, financed through internal capital generation from solid earnings in the primary insurance and reinsurance segment, or parental support if needed. The capital position is additionally underlined by a group solvency ratio, which has shown low volatility in recent years, without the use of any transitional or volatility adjustments.

Outlook

The negative outlook on RVV and its subsidiary KRAVAG-LOGISTIC Versicherungs AG (KLog) reflects that on DZ BANK AG and Germany's cooperative banking sector. We expect both entities will remain integral to DZ BANK AG, owing to 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 rating on 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 higher-risk areas, or underwriting quality loosened. We could also lower the ratings on RVV or KLog over the next 24 months in the event that their credit profiles deteriorated to an extent that would lead us to question 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

- Moderate economic growth and inflation, and continuously low unemployment rates in Germany over 2020-2021.
- Continued structurally low long-term risk-free rates, with German 10-year government bond yields of about -0.2% in 2020, based on our economic estimates.

Business Risk Profile

R+V is one of the top three multiline insurers in Germany (market share of about 7%) selling P/C (51% of the group's premium income), and life and health (49%) insurance products to the cooperative banks' customers.

R+V's competitive advantage stems from its successful bancassurance business model which is integrated into the largest cooperative financial services network in Germany. In our opinion, the group's extensive distribution network through its affiliation to the cooperative banking sector remains its key strength. Also, in our view, the group benefits from its product diversity and strong competitive position in the German retail and SME target market.

In 2019, we expect the group's gross written premium (GWP) to increase by more than 5%. Premiums originate from life and health, P/C, and reinsurance, especially through R+V's main risk carriers, R+V Lebensversicherung AG and R+V Allgemeine Versicherung AG (neither rated). Based on our forecast, we expect the business split to remain almost stable, with a slight shift toward non-life.

In the primary insurance segments, R+V continued to demonstrate strong premium growth above the market average in 2019. Apart from the group's dominant primary insurance business, we estimate R+V's global third-party reinsurance book generated premium income of more than €2.8 billion in 2019, which corresponds to an increase of about 21% from €2.35 billion in 2018.

In reinsurance, the group has organically established a strong global position and ranks among the top 20 global reinsurers. The portfolio is well spread globally (Europe 61%, North America 12%, APAC and Middle East 14%, LATAM 4%, South Africa 7%, other 2%) and the group benefits from a low cost basis compared with peers. The group's expansion in the reinsurance segment in recent years increased the global diversification within the business portfolio of R+V Group and the reinsurance segment has generated positive net income on average in the past 10 years, which we view as positive for the group's earnings and business diversification.

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 rate. It will further focus on strengthening its exclusive partnership with the cooperative banking sector. To achieve this, R+V is investing in digitalization and developing an environment to cope with customers' increasing digital needs. Our base-case forecast is somewhat more moderate, but we still expect the group's premiums to increase faster than the market, at about 3%-5% annually in 2020 and 2021, despite demanding market conditions.

Financial Risk Profile

R+V's financial risk profile is supported by the group's ability to build capitalization, its well-balanced investment strategy, a debt-free balance sheet and overall favorable risk-capital management.

In our view, R+V has successfully operated under its primary insurance business model for several years. This is witnessed by the group's continuous above-market-average growth, build-up of retained earnings and consequent risk-capital growth.

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 increasing capital requirements to be largely matched by building internal capital buffers, and by a balanced profit transfer and capital re-injection strategy with its parent DZ BANK AG. This will enable R+V to balance growth and capital building to maintain its capital position in the 'A' range over the next two years.

In our opinion, the solvency position of the group and its subsidiaries R+V Allgemeine Versicherung AG and R+V Lebensversicherung AG supports our view of its favorable risk-capital management.

The five-year average return on equity is 8% (return on equity of about 8% in 2019), and we project it will remain at about 6%-8% in 2020 and 2021. We forecast net income will remain above €400 million during that period, acknowledging the group's strategic role and its focus on overall value creation for the cooperative banking sector rather than on bottom-line profit.

For the primary P/C insurance business, R+V delivered a combined (loss and expense) ratio of around 99.5% in 2019 and we expect a combined ratio of 99%-100% for 2020-2021. In our view, R+V's underlying technical profitability remains stable and is sustained through restructuring measures, such as premium adjustments in loss-leading lines of business, in particular homeowners' insurance.

We expect the reinsurance business to deliver a combined ratio in 2019 slightly above the 2018 figure of 101.3%, mainly due to high claims that emerged from the typhoons Faxai and Hagibis and the hurricane Dorian. We forecast the combined ratio will remain at about 100% in 2020 and 2021, assuming normalization of large losses and natural catastrophes. On the one hand, the group's expansion in the reinsurance segment in recent years increased the global diversification as mentioned above. On the other hand, the reinsurance segment has put additional pressure on its capitalization, in our view. We expect this segment's GWP will represent about 17.5% of the group's total premiums in the medium term. We believe R+V's reinsurance business creates an additional source of volatility for the group's capital and earnings, as shown by the negative result in 2017 due to the active hurricane season and cuts to the Ogden rate. Any extraordinary accelerated expansion in this business could change our view of the group's financial risk profile.

For the life insurance segment, we recognize a lower overall risk profile compared with peers in the German market, in particular due to lower average guarantee commitments following strong business growth in recent years. We also see comparably favorable performance and cost effectiveness through scale effects of the life insurance operations versus peers', but low yields continue to weigh on life results. With the change in the calculation of the additional reserving requirements (ZZR) in Germany, we expect less pressure on gross surplus. Furthermore, R+V will have almost no need to realize investments in the next two to three years to finance its ZZR requirements. This will lead to less pressure on running yields because fewer assets need to be re-invested in the currently low interest rate environment.

R+V follows a conservative, well-balanced investment strategy with its investments having an average credit quality of 'AA'. It has moderately increased its exposure to property, equity, and infrastructure investments. We expect no material change in the company's investment portfolio over 2020-2021.

Other Key Credit Considerations

Governance

R+V has a comprehensive strategic planning framework. The company also has a highly experienced management team in place, 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

R+V's liquidity profile is sound, based on strong underwriting cash flows and liquid investments. Also, we do not foresee any refinancing concerns, owing to 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 that 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 19, 2020)*	
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

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