S&P Global
Ratings

RatingsDirect®

R+V Versicherung AG

Primary Credit Analyst:
Manuel Adam, Frankfurt (49) 69-33-999-199; manuel.adam@spglobal.com

Secondary Contacts:
Birgit Roeper-Gruener, Frankfurt (49) 69-33-999-172; birgit.roeper@spglobal.com
Ralf Bender, CFA, Frankfurt (49) 69-33-999-194; ralf.bender@spglobal.com

Table Of Contents

R+V Versicherung AG

Rationale

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
AA-/Stable/--

Business Risk Profile

- One of the largest insurance groups in Germany with a broad product offering in property casualty, life and health insurance.
- Very successful bancassurance business model integrated into Germany's large cooperative banking sector.
- Multi-channel and multi-brand distribution strategy offering a diverse product range to retail and small and midsize enterprise (SME) clients.
- Above-market-average growth in all primary insurance segments as well as in reinsurance for third parties.

Financial Risk Profile

- Our expectation that capital adequacy will remain in the 'A' range in 2017-2019, owing to further business growth to be financed through internal capital generation, or parental support if needed.
- Generally a softer emphasis on bottom-line earnings versus listed peers, due to its strategic role within the cooperative banking sector and its commission-generating capacity as well as cost sharing.
- Comparably favorable performance and cost effectiveness of the life insurance operations versus peers, but low yields may continue to weigh on life results.
- Increasing reinsurance exposure that put some pressure on the volatility of capital and earnings.

Other Factors

- We consider the R+V insurance group (R+V) as core to DZ BANK and the German cooperative banking sector, based on its integral role in the sector's strategy.
- R+V Versicherung AG (RVV) has an intrinsic role as the operating holding and reinsurance company of R+V.
- We equalize the rating on RVV with that on the core operating subsidiaries of DZ BANK, because of RVV's earnings-generation capacity from reinsurance activities and its debt-free balance sheet.
- The core status of R+V's subsidiary, KRAVAG-LOGISTIC Versicherungs AG (KLog), is based on KLog's role as the group's dedicated carrier for its business with the German road haulage segment, which is dominated by cooperative organizations.

Outlook

The stable outlook on RVV and its subsidiary KLog reflects that on DZ BANK. We expect R+V will remain integral to DZ BANK, owing to its role in and contributions to the cooperative banking sector's business strategy. The ratings consequently move in tandem with those on DZ Bank.

Our stable outlook on the core group members of Germany's cooperative banking sector, including R+V, reflects that the group credit profile of the sector is unlikely to change over the next one to two years, as well as our opinion that the solidarity support within the sector will also remain unchanged.

Downside scenario

We could lower the ratings over the next 24 months in the unlikely event that R+V's or KLog's credit profile deteriorated to an extent that would lead us to question their core role to the cooperative banking sector.

Upside scenario

An upgrade would follow a similar action on DZ BANK, which we consider unlikely over the next 24 months.

Base-Case Scenario

Macroeconomic Assumptions

- We assume moderate economic growth and inflation, combined with continuously low unemployment rates in Germany over 2018-2019.
- We expect the 10-year German government bond yield to increase gradually further to 0.7% and to 1.1% in 2018 and 2019, based on our economists' forecasts.

Company-Specific Assumptions

- Growth in gross premiums written of 2%-4% for the group over the next two years. We anticipate above market-average growth as R+V benefits from its diverse business mix and wide market presence through its successful bancassurance model.
- Capital adequacy remaining in the 'A' range despite above-market-average growth over the next two-to-three years.
- Annual group net income (based on IFRS) exceeding €350 million over 2017-2019.
- Stable non-life profitability with net combined (loss and expense) ratios of about 100% in 2017-2018. We believe the combined ratio will improve to slightly below 100% in 2019 due to restructuring measures within the P&C segment, particular in homeowner's comprehensive insurance, and a focus on stricter risk-adequate underwriting.
- Declining gross surplus as a consequence of the currently very low interest rates.
- Still muted life new-business margins due to the low-yield environment, with margin upside stemming from a further shift in the new product mix to more capital-light products.

Business Risk Profile

R+V is the key insurance provider for Germany's large domestic cooperative financial services network. R+V complements the sector's full financial services offering by distributing insurance products to customers of German cooperative banks. It operates in the same retail and SME target markets as the cooperative banks and is one of the largest insurance groups in Germany, with €14.8 billion of premium income in 2016. The company's franchise and product diversity have enabled R+V to sustainably establish a very strong position in the German insurance industry.

R+V offers life and health (51% of the group's premium income) and non-life and reinsurance insurance (49%), especially through its main risk carriers, R+V Lebensversicherung AG and R+V Allgemeine Versicherung AG (neither are rated). Apart from the group's dominant primary insurance business, R+V has a growing third-party reinsurance book, which generated €1.8 billion of premium income in 2016 and makes it the 20th largest reinsurer globally as per year-end 2016.

In 2017, R+V has announced an ambitious growth strategy called "Growth Through Change" to achieve approximately €20 billion of premium income by 2022. It will further focus on its service culture and 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 comparably more moderate, but we still expect group premiums to increase above market by 2%-4% annually in 2017-2019 despite demanding market conditions.

Financial Risk Profile

R+V has successfully operated under its primary insurance business model for several years. This has led to continuous above-market-average growth and consequently risk-capital growth, which has somewhat outpaced that of retained earnings in recent years. R+V needs to strike a balance between growth, profitability, and capitalization over the next few years.

R+V has delivered a solid five-year average RoE of 8%, which we expect to reduce to between 6%-8% over 2017-2019. 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 mid-term, we expect growing capital requirements to be largely matched by building internal capital buffers and a balanced profit transfer and capital re-injection strategy with its parent DZ Bank. This will enable R+V to balance growth and capital building for maintaining its capital position in the 'A' range over the next two years.

We acknowledge that the group's strategic role within the cooperative banking sector places a softer emphasis on its bottom-line profitability; instead it focuses on overall value creation for the cooperative banking sector. In 2017, we still expect a net income of about €400 million compared to €517 million in 2016. The reduction is mainly driven by a weaker result in the reinsurance segment due to the active hurricane season, cuts to the Ogden rate, and the earthquake in Mexico. Therefore, we expect the combined ratio for the reinsurance business to be between 105%-106% in 2017. We assume a stabilized combined ratio between 99%-100% for 2018-2019 based on a normalized assumption of large losses and natural catastrophe events.

For the primary P/C insurance business, we expect a combined ratio of between 99%-100% for 2017-2019 compared to 101.3% in 2016. This improvement is driven by a somewhat more favorable claims development in 2017 and sustained through restructuring measures as premium adjustments in loss leading lines of business, in particular homeowners insurance.

For the life insurance segment we overall recognize a lower risk profile in the life insurance back-book compared with peers, particularly evidenced by lower average guarantee commitments following strong business growth in recent years. For 2017-2019, we expect that earnings in life insurance, in particular investment income will remain under pressure, given the prevailing low yields and additional reserving requirements (ZZR) in the German life insurance markets. In contrast, we expect an increasing trend in risk results and sustainably low cost results.

The group's expansion in the reinsurance segment in recent years has put additional pressure on its capitalization, in our view. We expect that the segment's gross premiums could increase to about 15% of the group's total premiums in the mid-term (12% in 2016). We believe RVV's reinsurance business creates an additional source of volatility for the group's capital and earnings, as evidenced by the natural catastrophe experience in 2017. Any extraordinary accelerated expansion in this business could change our view of the group's financial risk profile.

R+V's investment portfolio is well-spread across a range of asset classes and single obligors with more than 85% invested in fixed-income in 2016. Over 2017-2019, we expect some increase in property, equity, and infrastructure exposure, but no significant change in the company's investment portfolio. R+V's exposure to the financial sector is still somewhat higher than peers', with a large proportion of investments with cooperative sector banks. In our view, R+V's fixed-income portfolio continues to benefit from strong credit quality, with more than 63% of fixed-income investments rated 'AA' or higher, 81% 'A' or higher, and 96% 'BBB' or higher as of year-end 2016.

Support And Factors Specific To The Holding Company

The ratings on RVV and KLog reflect our view of their intrinsic role in Germany-based R+V group, which, in our view, is a core business of its majority shareholder, DZ BANK, and of the German cooperative banking sector.

R+V is an integral part of the cooperative sector's strategy, operating a successful bancassurance business model, and generates sizable fee income for the banks, strengthening its overall earnings.

We regard KLog as core to R+V because it is the group's dedicated carrier for the German road haulage segment, which is dominated by cooperative organizations. Additionally, KLog has the market leading position in this segment in Germany.

RVV is R+V's reinsurance company and has an intrinsic role as the operating holding company which, receives cash flows from profit-transfer agreements with its primary insurance subsidiaries. In addition, RVV has no debt. The ratings on RVV are therefore at the same level as those on the group's core operating subsidiary, KLog.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of December 20, 2017)	
Operating Company Covered By This Report	
R+V Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Counterparty Credit Rating	
Local Currency	AA-/Stable/--
Related Entities	
KRAVAG-LOGISTIC Versicherungs AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/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.

Additional Contact:
Insurance Ratings Europe; insurance_interactive_europe@spglobal.com