

# Research

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## R+V Versicherung AG

**Primary Credit Analyst:**

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

**Secondary Contact:**

Johannes Bender, Frankfurt (49) 69-33-999-196; johannes.bender@spglobal.com

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# R+V Versicherung AG

## Credit Highlights

### Strengths

- A very successful bancassurance business model integrated into Germany's large cooperative banking sector.
- One of the largest insurance groups in Germany, with a broad and diverse product offering in property casualty, life, and health insurance.
- Very strong competitive position 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.

### Risks

- Riskier asset allocation than market average leading to volatility of capital and earnings during the current market turbulences after COVID-19 outbreak.
- R+V is exposed to lines of business like event-cancellation, business interruption, and credit insurance, which could be heavily affected by COVID-19-related lockdowns in Germany.
- Low interest rate environment weighs down the group's life earnings.
- Growing catastrophe and industrial claims reinsurance exposure could increase volatility in earnings and capital, even if the track record shows stable earnings.

### **R+V Versicherung AG is an integral member of the R+V group (R+V).**

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, 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 targets the same retail and SME markets as the cooperative banks and is one of the largest insurance groups in Germany, with €17.3 billion of premium income in 2019. R+V is outperforming peers, with growth of 7.8% in 2019, in line with our expectations. We believe R+V benefits from its extensive distribution network and competitive presence in all segments.

The pandemic has led to a sharp decline in new business because of missed sales opportunities for R+V Group's

**Operating Companies Covered  
By This Report**

**Financial Strength Rating**

*Local Currency*

AA-/Negative/--

distribution network. It is still too early to fully assess the effects of COVID-19 on R+V's development, but we forecast a slightly decreasing or stagnating premium volume for the year 2020.

### **We anticipate R+V will maintain its 'A' level risk-based capital.**

Despite ongoing business growth and increased market risk stemming from current equity market volatility and spread widening, we expect capital adequacy will remain in the 'A' range over 2020-2022, financed through internal capital generation from robust earnings in the primary insurance and reinsurance segment, or parental support if needed. Current COVID-19-related market volatilities have seen the Solvency II ratio decrease, in particular during the sharp decline in stock market prices and the spread-widening in March. An uptick in the stock markets in April has led to a slight improvement but R+V's Solvency II ratio will remain highly volatile amid ongoing turbulent capital markets.

## **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, 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 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

- We expect GDP to fall to about -6% due to economic fallout from the pandemic with negative effects on unemployment rates, with an increase to 3.6%, and a drop in inflation to 1% in 2020. However, we expect recovery in 2021 with GDP growth forecast at 2.6%.
- 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

R+V is one of the top three multiline insurers in Germany (market share of about 7%) selling P/C (52% of the group's premium income), and life and health (48%) 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 with the cooperative banking sector remains its key strength. Also, we believe the group benefits from its product diversity and strong competitive position in the German retail and SME target market.

In 2019, R+V reported gross written premiums of €17.3 billion with strong premium growth in all segments. 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 are 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, R+V's global third-party reinsurance book has generated premium income of €2.8 billion in 2019, which corresponds to an increase of about 21% from €2.35 billion in 2018. We forecast the reinsurance segment will generate premium income of more than €3 billion in 2020.

In reinsurance, the group has organically established a strong global position and ranks among the top 20 global reinsurers. The portfolio is well spread (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 before factoring in the COVID-19 outbreak. 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 a slightly decreasing or stagnating premium volume in 2020 mostly due to the weaker economic environment stemming from COVID-19, but we still expect the group's premiums

increase to recover to about 3%-5% annually in 2021 and 2022.

## 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 seen in 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.

R+V has delivered a strong five-year average return on equity (ROE) of 8% (ROE of about 8% in 2019), however we expect capital market volatility, COVID-19-related insurance claims and still-low interest rates to put significant downward pressure on profitability in 2020, with recovery to about 6%-8% in 2021 and 2022. We acknowledge the group's strategic role and its focus on overall value creation for the cooperative banking sector rather than on bottom-line profit.

In 2020, we forecast capital to be pressured but to remain redundant at the A level. R+V is highly exposed to riskier assets, which bring volatility to capital and earnings. Additionally, R+V is operating in lines of business that could be heavily affected by higher claims during the COVID-19-related lockdowns. It is still too early to fully assess the impact on capital and earnings given that the pandemic could evolve differently to what we currently assume. If the virus resurges, this could involve longer lockdowns or reversals of loosening social-distancing measures. This may put greater pressure on capital and earnings, which could negatively impact our capitalization forecast.

We forecast a net loss for 2020, mainly driven by unrealized and realized losses on the investment side and higher claims in event cancellation, business interruption, credit insurance, and unemployment insurance. For 2021-2022, we forecast a sustainable recovery in R+V's business development and consequently for 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 the insurer who still applies IAS 39 or local GAAP for its investments.

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 higher than 100% for 2020, improving to 99%-100% for 2021-2022. In our view, in 2020 R+V's underlying technical profitability will deteriorate. We believe higher claims--mainly in business interruption, event cancellation, and credit insurance--cannot be offset by improvements in lines such as motor and property, where R+V is seeing fewer claims during COVID-19 lockdowns. This mainly reflects lower top-line growth due to missed sales opportunities, as well as policyholders being able to suspend premiums. In a normal business environment, we recognize the sustained underlying profitability of R+V's P/C book through recent restructuring

measures such as premium adjustments in loss-leading lines of business, in particular homeowners' insurance.

The reinsurance business delivered a combined ratio of 102.6% in 2019, slightly above the 2018 figure of 101.3%, mainly due to high claims that emerged from typhoons Faxai and Hagibis and hurricane Dorian. We forecast the combined ratio will further deteriorate in 2020, but improve in 2021, assuming an overall normalization of COVID-19-related claims, large losses, and natural catastrophes. On the one hand, the group's expansion in the reinsurance segment in recent years increased its 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 R+V's 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 well-balanced investment strategy while having an average credit quality of 'AA' but higher-than-market-average equity exposure. It has moderately increased its exposure to property, equity, and infrastructure investments, which could lead to volatility in capital and earnings. 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 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 May 11, 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/--

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

**Additional Contact:**Insurance Ratings Europe; [insurance\\_interactive\\_europe@spglobal.com](mailto:insurance_interactive_europe@spglobal.com)



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