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R+V Versicherung AG

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R+V Versicherung AG

Credit Highlights

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

Overview

Key strengths	Key risks
A very successful bancassurance business model integrated into Germany's large cooperative banking sector.	Higher competition within the cooperative bank distribution channel for single premium business as interest rates increase.
One of the largest insurance groups in Germany, with diversified revenue and earnings from property/casualty (P/C), life, and health, 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 expanding international diversification via its global reinsurance portfolio.	

R+V Versicherung AG (RVV) remains integral to DZ Bank. R+V Group is the main insurance provider for Germany's large cooperative banking sector. The insurance group complements the sector's full financial services offering by distributing P/C, life, and health insurance products to cooperative banks' customers. The ratings on RVV reflect S&P Global Ratings' view of its intrinsic role as the operating holding and reinsurance company of R+V Group, 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 (A+/Stable/A-1). RVV'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 group entity.

Our analysis on R+V Group reflects the company's well-established position in the German insurance market, backed by its successful bancassurance business model. The group reported gross written premiums (GWP) of €18.7 billion for 2022, 2.7% less than the €19.2 billion in the previous year and underperforming the German market. The decline in GWP was mainly driven by lower single premiums due to inflation, with the consequence of less consumer purchasing power, and higher competition within its main distribution channel from traditional bank products, which become more attractive as interest rates rise. That said, due to R+V Group's very strong market position it was able to expand regular premiums 3.6%, substantially outperforming the German market (0.7%). Nevertheless, we believe R+V Group benefits from its extensive distribution network, sophisticated multichannel distribution strategy in German primary insurance and global reinsurance, and strong competitive presence in all segments, which underscores its strong market position. Therefore, we expect premiums to increase 3%-5% in 2023-2024 despite a potentially still-challenging macroeconomic environment.

We forecast R+V Group will maintain its 'A' level risk-based capital over 2023-2024. We base our assumption on the group's historical strong earnings generation, and parental support if needed. Nevertheless, we believe R+V Group's earnings and capital remain pressured by current economic-related capital market movements, in line with peers.

Outlook

The stable outlook on RVV and subsidiary KLog mirrors that on DZ BANK AG and the Cooperative Banking Sector Germany. 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.

The stable outlook on the Cooperative Banking Sector Germany, including all core group members, reflects our expectation that the sector will maintain its strong capitalization and solid operating profitability, providing a strong buffer to absorb valuation and credit losses that arise over 2022 and 2023 amid increasing rates and the economic downturn.

Downside scenario

We could lower our ratings on the sector's core members if a sudden repricing of deposits depresses structural profitability or if credit costs rise substantially above our current expectations.

We could also lower the rating if the sector's market position deteriorates materially, leading to financial difficulties for several cooperative members and weakening the National Association of German Cooperative Banks's capacity to support them.

Upside scenario

We currently consider a positive rating action remote. A prerequisite is that we revise up the anchor for German domestic banks to 'a-', highlighting that the economic environment has become more supportive and structural challenges in German retail and SME banking have eased.

Key Assumptions

- Flat real GDP growth in Germany this year and 0.9% in 2024.
- German 10-year government bond yields increase to about 2.9% in 2023 and 3.1% in 2024, from 2.14% at year-end 2022.

Business Risk Profile

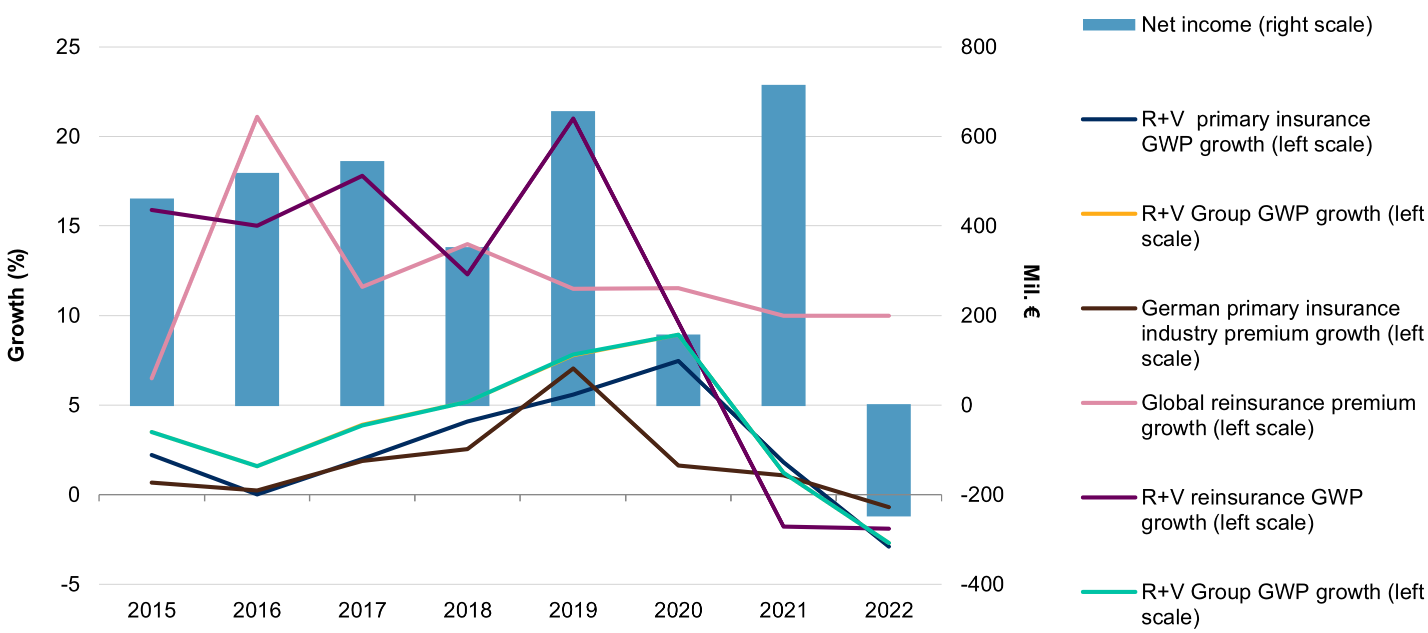
In our view, R+V Group's business risk profile benefits from its strong position among the top-three multiline insurers in Germany, supported by its unique bancassurance model offering a broad portfolio of life and health, P/C, and reinsurance products to the open market and cooperative banks' customers.

The group's ties to the cooperative banking industry, as well as its positions in the German retail and SME target markets, are still its main competitive advantages, in our opinion. They are bolstered by the recently reported distribution agreement between its Italian subgroup Assimoco and Cassa Centrale Banca (CCB), which acts as one of several cooperative banking groups in Italy.

Through R+V Group's main risk carriers, R+V Lebensversicherung AG and R+V Allgemeine Versicherung AG (both not rated), the group generated an overall gross premiums of about €18.7 billion in 2022, compared with €19.2 billion in 2021. Its dominant primary insurance business saw premiums reduce about 2.9% in 2022, mainly driven by the reduction in life single premium business. R+V Group's global third-party reinsurance generated premium income of €3.0 billion in 2022, down 1.9% from 2021. Based on our forecast, we expect the business composition to remain almost stable.

Chart 1

R+V's premium growth and net income



GWP--Gross written premiums. Source: S&P Global Ratings and GDV.

In our view, the group's improved business diversification stems from its expanding reinsurance segment, constituting about 16% of total gross premiums in 2022, compared with 10% in 2011. The group has organically established itself among the top-20 global reinsurers. The reinsurance portfolio is well spread (Europe 60%, North America 14%, Asia Pacific and Middle East 11%, Latin America 4%, South Africa 10%, and others 1%) and it benefits from a low cost base compared with that of peers.

Under R+V Group's adjusted 2021 strategy--"WIR@ R+V", with a focus on growth, innovation, and profitability--it aims to achieve about €22 billion of premium income by 2026. It also plans to strengthen its exclusive partnership with the cooperative banking sector. To achieve this, R+V Group is investing in digitalization and developing an environment that will meet customers' increasing digital needs. We expect the group's premiums to increase 3%-5% annually in 2023 and 2024 despite challenging market conditions.

Financial Risk Profile

We anticipate R+V Group's capital position will remain robust, with capital adequacy at the 'A' level in 2022-2024, supported by its ability to build capitalization, well-balanced investment strategy, and overall favorable risk-capital management. The negative €246 million net income for 2022 was largely affected by negative investment results caused by increased interest rates. R+V Group reported a healthy net income of €713 million in 2021, mainly due to improved investment results and underwriting. The five-year average net income was about €483 million for 2017-2021.

R+V Group has operated under its primary insurance business model for several years. We see this in its continuous above-market-average growth and buildup of retained earnings, and consequent risk-capital growth. However, we believe that R+V Group's strategy could constrain its ability to build capitalization in line with its growth ambitions. In the medium term, we anticipate its increasing capital requirements will be largely matched by a buildup of internal capital buffers, supported by a strong five-year average return on equity (ROE) of 6.2% for 2017-2021, and a balanced profit transfer and capital reinjection strategy with parent DZ BANK AG.

For 2023-2025, we expect an ROE of 5%-8%, based on our forecast of pre-pandemic level performance and sustainable business development and, consequently, our forecast of its capital and earnings. R+V Group already accounts for its assets under International Financial Reporting Standard (IFRS) 9, and so we see a greater effect on its net income due to the fair value assessment versus insurers that still apply International Accounting Standard 39 or local generally accepted accounting practices to their investments.

R+V Group's primary P/C insurance business delivered a relatively strong combined ratio (loss and expense) of about 97.3% in 2022, including premium growth of 3.2%. The higher claims were mainly from increasing claims in motor insurance, in line with the German P/C insurance market, because of inflation. This is despite the negative gross impact we recognized for the German P/C market in 2021 because of the severe floods during the summer. We expect underwriting performance to remain flat, with combined ratios of 98%-100% for 2023-2025.

For 2022, the combined ratio for R+V Group's reinsurance business was again about 100% (99.8%). The reinsurance business had a satisfactory 2022 because there were no significant COVID-19-related claims. Moreover, prices for reinsurance covers were mostly adjusted to the increased claims incurred in previous years. With a normalization of natural catastrophes, however, we expect a further improvement in reinsurance in 2023 and 2024 and no significant price decreases. Although the expansion in the reinsurance segment in recent years enhances R+V Group's global diversification, it adds pressure to the group's capitalization, in our view. Therefore, we believe R+V Group's reinsurance business creates an additional source of volatility for its capital and earnings and any extraordinary, accelerated expansion in this business could change our view of the group's financial risk profile.

We think R+V Group's life insurance segment benefits from a lower overall risk profile, but also displays relatively favorable performance and cost effectiveness through scale effects compared with peers in the German market. We note a lower overall risk profile than that of local peers, particularly thanks to the lower average guarantee commitments following strong business growth in recent years. Still, low yields continue to weigh on life results.

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

Other Key Credit Considerations

Governance

R+V Group 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 Group has demonstrated a clear path, focusing on its key areas, and has 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 Group's liquidity as exceptional. We do not foresee any refinancing concerns given the group's debt-free balance sheet. We believe R+V Group would be well covered, even under stress scenarios.

Group support

We consider R+V Group core to DZ BANK AG and the German cooperative banking sector, based on its integral role in the sector's strategy. R+V Group operates 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 Group. 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 Group, which also employs KLog's staff and handles all its operational functions.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- 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: Principles Of Credit Ratings , Feb. 16, 2011

Ratings Detail (As Of May 16, 2023)*	
Operating Company Covered By This Report	
R+V Versicherung 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.