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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 remain high.
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. In our view, R+V is, in turn, a core business of its majority shareholder, and the central bank of the German cooperative sector, DZ Bank (A+/Stable/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. Its core subsidiary, Kravag-Logistic Versicherungs-AG (KLog), is also a core group entity.

Our analysis on R+V reflects the company's well-established position in the German insurance market, backed by its successful bancassurance business model. The group reported gross premium income of €19.8 billion for 2023, an increase of 1.5% from the €19.5 billion reported in the previous year. Based on International Financial Reporting Standards (IFRS) 17, this implies insurance revenue of €12.3 billion for 2023. Gross premium growth was largely flat because the sale of single premium products was depressed by persistently high inflation, which reduced consumer purchasing power, and competition within its main distribution channel from traditional bank products, which become more attractive when interest rates are high. Nevertheless, we consider that R+V 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, despite what could still prove to be a difficult macroeconomic environment, we expect premium to increase by 3%-5% a year in 2024-2025.

We forecast that R+V will maintain its capitalization over 2024-2025. Our assumption is based on:

- The group's robust solvency ratio, which was 225% on Dec. 31, 2023;
- Its record of strong earnings generation; and
- Its access to parental support, if needed.

Nevertheless, the current capital market movements, which are driven by the economy, weigh on earnings and capital at R+V, and at its peers.

Outlook

The stable outlook on RVV and subsidiary KLog mirrors that on DZ Bank and the Cooperative Banking Sector Germany. We expect both entities to remain integral to DZ Bank, 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 that on all core group members, reflects our expectation that the sector will maintain its strong capitalization and solid operating profitability. These will continue to provide a strong buffer so that banks can absorb any further valuation and credit losses.

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. It would depend on us revising the anchor for German domestic banks up to 'a-' following a change in the economic environment to become more supportive and our view that structural challenges in German retail and SME banking had eased.

Key Assumptions

- GDP growth in Germany of about 0.3% in 2024 and 1.2% in 2025.
- German 10-year government bond yields of about 2.45% in 2024 and 2025, from 2.48% at year-end 2023.

Business Risk Profile

In our view, R+V's business risk profile benefits from its strong position among the top-three multiline insurers in Germany. This is supported by its unique bancassurance model, which offers 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 distribution agreements between R+V's Italian subgroup, Assimoco, and two cooperative banking groups in Italy (Iccrea Banca SpA and Cassa Centrale Banca).

Through R+V's main risk carriers, R+V Lebensversicherung AG and R+V Allgemeine Versicherung AG, the group generated overall gross premium income of €19.8 billion for 2023 (€19.5 billion in 2022). On an IFRS 17 basis, the group's insurance revenue was €12.3 billion. Good gross premium growth of about 5.6% in its P/C business and 6.7% in its health business was offset by a reduction in premium for life and pension insurance. This was mainly driven by the reduction in life single-premium business. R+V's global third-party reinsurance generated gross premium income of €3.1 billion in 2023, up 5.6% from 2022. We forecast that the business composition will be stable over 2024-2026.

In our view, the group's improved business diversification stems from its expanded reinsurance segment, which constituted about 16% of total gross premium income in 2023. The group has organically established itself among the top-20 global reinsurers. Its reinsurance portfolio is well spread across Europe, North America, Asia-Pacific and the Middle East, Latin America, South Africa, and others. It also benefits from a low cost base compared with that of peers.

R+V plans to strengthen its exclusive partnership with the cooperative banking sector by investing in digitalization and developing a platform that meets customers' increasing digital needs. We expect the group's premium income to increase by 3%-5% a year in 2024 and 2025, despite the difficult market conditions.

Financial Risk Profile

We anticipate that R+V's capital position will remain robust, supported by its ability to build capitalization, well-balanced investment strategy, and overall favorable risk-capital management. The group had a robust solvency ratio of 225% on Dec. 31, 2023. Net income on an IFRS 17 basis dropped to €21 million in 2022, largely because the sharp rise in interest rates hit market valuations and created a negative investment result. R+V's net income was far healthier in 2023, at €587 million. The recovery was based on improved investment results and better underwriting.

R+V operates under a primary insurance business model that enabled it to maintain growth above the market average. It also built up retained earnings, which enabled it to expand its risk capital. Over the forecast horizon, the increase in its capital requirements is likely to be largely matched by a build up of internal capital buffers, supported by strong profitability and a balanced profit transfer and capital reinjection strategy with parent DZ Bank.

For 2024-2026, we expect a return on equity of 5%-8% as performance has returned to pre-pandemic levels. R+V's sustainable approach to business development supports our capital and earnings forecast.

R+V Allgemeine Versicherung AG, the group's main carrier of P/C insurance at the primary level, delivered a gross combined ratio of about 98.9% in 2023 (up from 96.4% in 2022). (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Inflation and an increase in claims frequency caused a rise in the cost of claims, especially in motor insurance. This was in line with trends across the German P/C insurance market. We expect underwriting performance for 2024-2026 to remain under pressure, with combined ratios of 98%-100%.

For 2023, the gross combined ratio for R+V's reinsurance business improved to 96.3% from 97.7% the year before. Given the increase in claims incurred in previous years, the group increased the price of reinsurance covers. We predict that R+V's reinsurance business will expand more slowly in 2024 and 2025, and that prices will not see a significant decrease.

R+V's expansion within the reinsurance segment in recent years has improved its global diversification. That said, the reinsurance business is an additional source of capital and earnings volatility. Any extraordinary, accelerated expansion in this business could change our view of the group's financial risk profile.

R+V's life insurance segment has performed relatively favorably and scale effects have enabled it to be more cost-effective than peers in the German market. Its overall risk profile is lower than that of local peers, mainly because strong business growth in recent years has lowered its average guarantee commitments.

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

Other Key Credit Considerations

Governance

R+V has a comprehensive strategic planning framework and its highly experienced management team complements its operational needs. The group has demonstrated its ability to maintain focus on its key areas, and has implemented strategic initiatives to protect its market-leading position in the German insurance market and to generate sustainable business growth in the reinsurance segment.

Liquidity

We assess R+V's liquidity as exceptional. Given the small amount of hybrid debt issued by R+V Allgemeine Versicherung AG and DZ Bank, we do not consider that the group is exposed to refinancing risk. We anticipate that R+V's liquidity coverage would remain comfortable, even under stress scenarios.

Group support

We consider R+V core to DZ Bank and the German cooperative banking sector, based on the integral role it plays in the sector's strategy. R+V operates under its bancassurance business model and generates sizable commission and fee income for the cooperative banks, which strengthens and diversifies 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 because of RVV's capacity to generate earnings from its reinsurance activities and its debt-free balance sheet.

KLog's status as a core entity within the group is supported by the role it plays and its full integration within the group. KLog is the insurance group's dedicated carrier for its business relations with the German road haulage segment, which is dominated by cooperatives. R+V employs the staff that work at KLog and handles all its operational functions.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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 28, 2024)*	
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.