

## Research

---

### Deutsche Rueck Group

**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

**Research Contributor:**

Saurav Banerji, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

### Table Of Contents

---

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

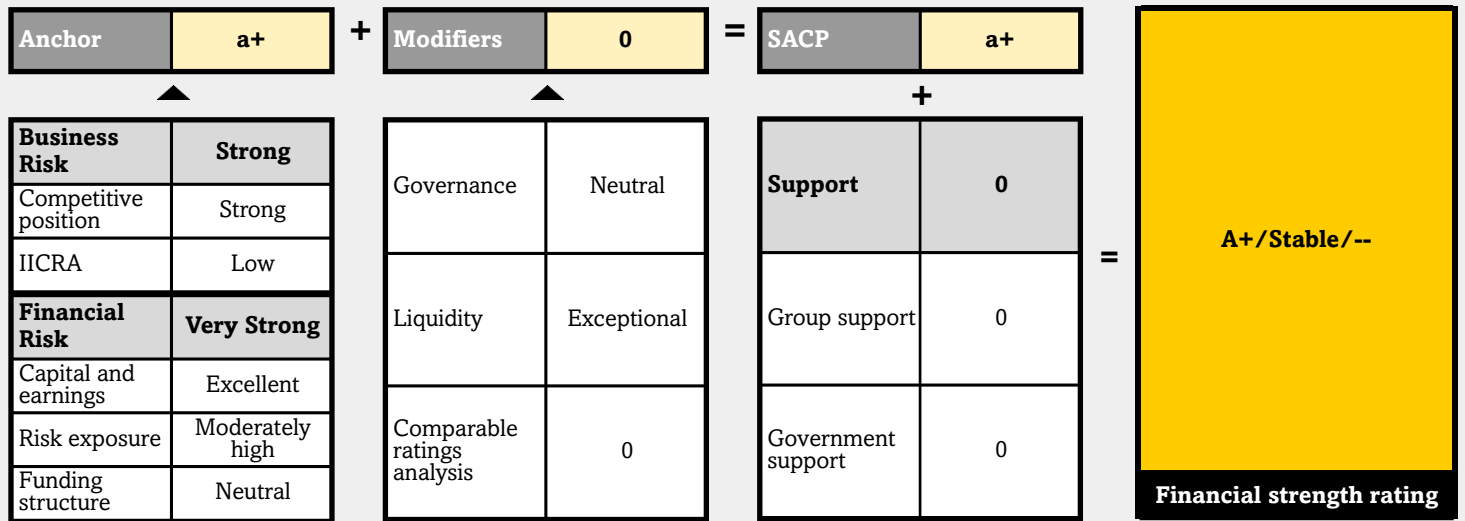
Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Appendix

# Deutsche Rueck Group



IICRA--Insurance Industry And Country Risk Assessment.  
SACP--Stand-alone credit profile.

We choose the higher anchor of 'a+', given DR's significant strategic role in providing both diversification and risk-management know-how to public law insurers in Germany.

## Credit Highlights

### Overview

#### Key strengths

Market credentials supported by the preferred property reinsurer status for the German public law insurers (PLI) sector.

Solid capital buffers at the 'AAA' level as per our risk-based capital model, underlined by robust solvency levels.

Well-diversified business portfolio by line of business, and an ongoing expansion strategy outside of Germany.

#### Key risks

Potential earnings volatility due to natural catastrophe exposure.

Limited geographic diversification compared with higher-rated peers in the reinsurance sector.

**S&P Global Ratings believes Deutsche Rueckversicherung Group (DR Group) will leverage the well-established client relationships it has forged over the years to further cement its standing in the German PLI sector.** Furthermore, we believe this will enable the group to maintain stable premium and earnings development in its property and casualty (P/C) reinsurance business.

**We expect capitalization will remain robust, supported by DR Group's prudent underwriting and conservative reserving strategy.** We believe capital will remain at the 'AAA' level, as per our risk-based capital model over 2020-2022. We expect some pressure on capital and earnings due to the global capital market turmoil in 2020 as a result of COVID-19. However, we think DR Group is well prepared to weather the adverse economic conditions, backed by its conservative asset allocation, solid reserving strategy, and underwriting discipline.

*We believe the PLI sector is a key advantage for DR Group in terms of business generation, network effects, and capital support in a potential stress scenario.* Given DR Group plays a significant strategic role, providing both diversification and risk-management know-how to public law insurers in Germany, we choose the higher anchor of 'a+'.

## Outlook: Stable

The outlook is stable because we expect DR Group will maintain comfortable excess capital at the 'AAA' stress level, according to our risk-based capital model, benefitting from an ongoing prudent reserving strategy. We also expect DR Group will generate healthy business in the PLI sector and the broader market over the next 12-24 months.

### Downside scenario

We could lower the ratings on DR Group if:

- The group discloses weaker underlying profitability than forecast in our base case;
- The COVID-19 pandemic leads to material increases in claims beyond our expectations, which will lead to a reduction of capital below the 'AAA' confidence level, under our risk-based capital model.
- We believe the group's capital and earnings volatility could increase, for example, because of increasing net exposure to natural catastrophes; or
- The group's strong ties to the German PLI sector weaken significantly.

### Upside scenario

We see a positive rating action as remote at this stage, due to DR Group's more limited diversification outside of the German reinsurance market compared with that of higher-rated peers.

## Key Assumptions

- Germany's real annual GDP to contract by 5.4% for 2020, followed by growth of about 4.7% in 2021.
- Unemployment levels to remain broadly stable, in the 4% range over this period.
- Inflation to remain low, at about 0%-1% over 2020-2023.

## Deutsche Rueck Group--Key Metrics

(Mil. €)	2021f	2020f	2019	2018	2017	2016
Gross premium written	>1,160	>1,140	1,107.9	1,108.4	1,201.6	1,175.0
Net income	7-12	0-5	13.5	56.0	3.0	14.5
Return on shareholders' equity (%)	2-4	0-3	4.64	22.11	1.30	6.42
P/C: Net combined ratio (%)	97-99	100-103	97.82	95.88	97.78	96.84
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage including pension deficit as debt (%)	<25	<25	17.03	18.02	21.49	21.01

## Deutsche Rueck Group--Key Metrics (cont.)

(Mil. €)	2021f	2020f	2019	2018	2017	2016
EBITDA fixed-charge coverage (x)	>5	>5	20.22	50.42	23.02	10.64
P/C: Return on revenue (%)	N/A	N/A	4.76	6.65	5.16	3.54
Net investment yield (%)	N/A	N/A	2.16	2.57	3.05	2.40

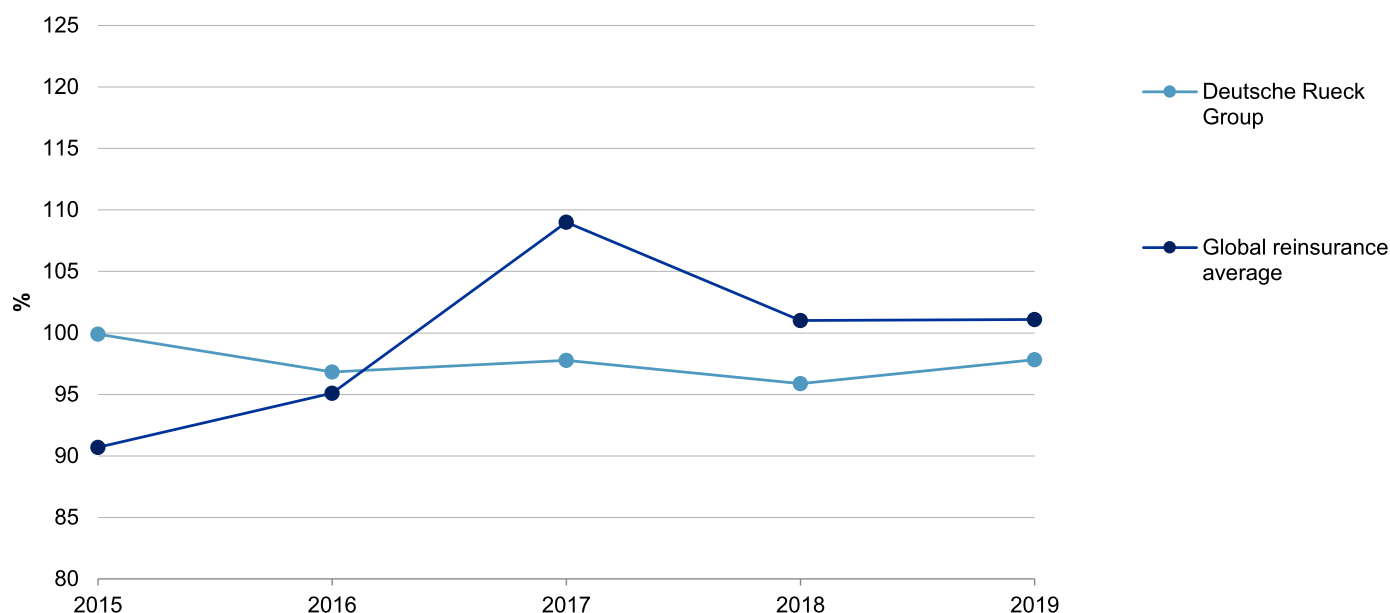
f--Forecast. P/C--Property/casualty. N/A--Not applicable. S&P Global Ratings forecast.

## Business Risk Profile: Strong

As the go-to reinsurer in the PLI sector, the group's majority business stems from the German P/C insurance market. The group has long-standing and well-established relationships with its main clients, which, in our opinion, gives it a certain competitive edge over its peers. DR Group has historically demonstrated stable underwriting performance, with a five-year average net combined ratio (loss and expense) of 97.6%, and we expect this will continue. Based on its business model and the integration in the German PLI sector, DR Group has a unique business position in the segment. However, comparing underwriting profitability, DR Group has outperformed the global reinsurance sector in the past five years, with an average combined ratio of 97.6% versus 99.4% for the sector. This is mainly because DR Group was not exposed to regions with severe natural catastrophes, such as the typhoons Hagibis and Faxai in Asia in 2019 and the hurricanes Harvey, Irma, and Maria in the U.S. and Latin America in 2017.

### Chart 1

#### Deutsche Rueck Group's P/C Net Combined Ratio Versus Global Reinsurance Market Average



P/C--Property/casualty. Source: S&P Global Ratings.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Although we expect some pressure on its investment and underwriting performance in 2020 due to unfavorable market conditions, we expect DR Group will remain profitable. DR Group could suffer higher claims, in particular from business interruption claims as a result of the lockdown in Germany. So far, pandemic-related losses are lower than expected, but we include higher potential claims in our forecast for 2020 because they could arise in the last quarter of 2020. As a result, we expect a combined ratio, depending on the development of the pandemic, of 100%-103%, and net income of €0 million-€5 million for 2020. We expect the combined ratio will improve to 97%-99% over 2021-2022, and overall net income of €7 million-€12 million over 2021-2022, including further reserve strengthening. Furthermore, we do not expect DR Group's performance will materially deviate from that of its peers that operate in similar geographies and business lines.

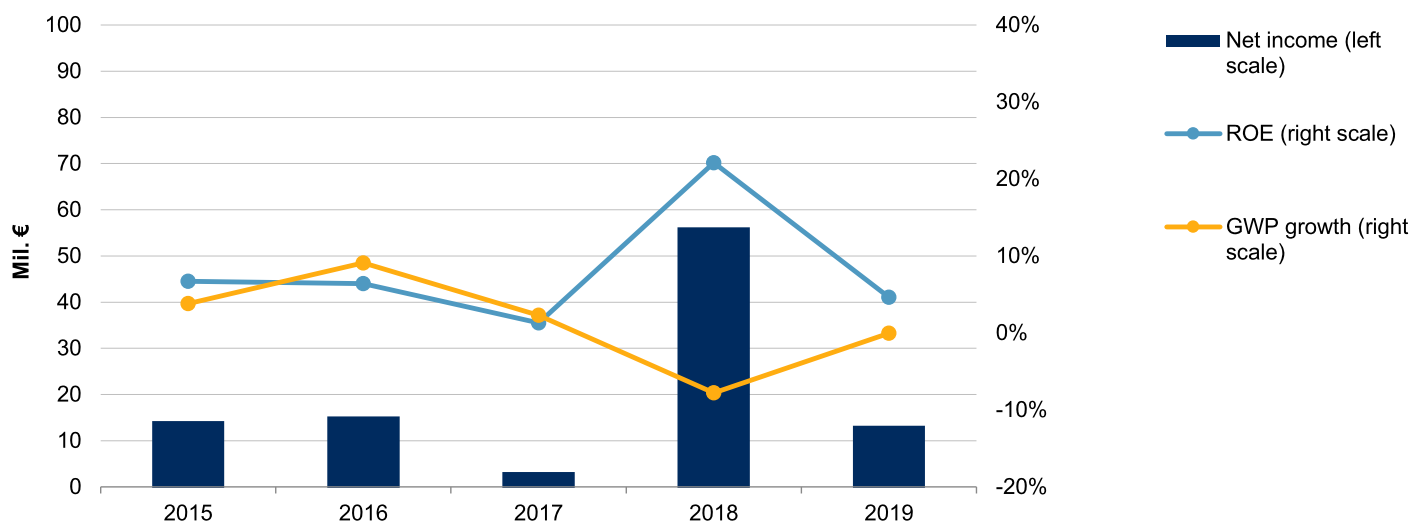
In line with its strategy, DR Group continues to cautiously diversify its business via its two operating entities, Deutsche Rueckversicherung AG (DR AG) and Deutsche Rueckversicherung Schweiz AG (DR Swiss), by focusing on select European clients as well as on profitable growth in the Middle East. We believe that this diversification is a prospective growth driver that will increase the group's top- and bottom-line diversification and further reduce volatility in earnings. Nevertheless, in our opinion, DR Group's current business will stay focused on Germany in the short term.

## Financial Risk Profile: Very Strong

The group's excess of capital at the 'AAA' level is supported by its track record of sound earnings generation, restructuring efforts in the PLI business, and continuous reserve strengthening. In our view and in line with its strategy, DR Group will continue to maintain its capital at the 'AAA'-level over the next two years through a further buildup of reserves and retained earnings. In a normal environment, we would expect DR Group to deliver net income of €7 million-€12 million. In 2018, DR Group made extraordinary investment gains and in 2017 it saw an extraordinary tax load due to a change in tax legislation.

Chart 2

### Deutsche Rueck Group Is Delivering Solid Results For Building Up Its Capital



ROE--Return on equity. GWP--Gross written premium. Source: S&P Global Ratings. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Although the group is exposed to potential earnings volatility due to exposure to natural catastrophe risks, we note that its risk appetite and exposure is lower than that of global reinsurance peers. Furthermore, we also acknowledge DR Group's ability to withstand extreme claim events, such as a one-in-250-year claim. We believe its capital adequacy will remain on a solid level under our capital model in the context of lower underwriting and investment earnings in 2020 after the outbreak of COVID-19.

In our view, DR Group also benefits from its ability to share risks with the PLI sector and raise funds from its PLI shareholders in the form of equity and hybrid capital, which was demonstrated in 2016 when it issued a €62 million hybrid. Having said that, in our opinion, the group has a limited track record of raising funds from other capital market sources, when compared with large reinsurers.

## Other Key Credit Considerations

### Liquidity

The liquidity profile is sound, thanks to the various liquid sources available to DR Group, such as its premium income, favorable liability profile, and a very liquid asset portfolio. The group can generate recurring cash flows from its operations and we do not foresee any refinancing concerns.

### Environmental, social, and governance

DR Group's exposure to environmental and social risks is in line with the industry. Standards for corporate governance are typically high in Germany and in other countries where DR Group operates. DR Group is mainly exposed to

environmental factors through its reinsurance business. In particular, climate change could cause an increase in the frequency and severity of claims from extreme weather events, including natural catastrophes. The group has catastrophic event modelling in place that provides a powerful tool to monitor and price windstorm, flood, and hail accumulation risk. The benefits of these can be seen in the group's underwriting performance. Since DR Group also deals in life insurance, the group is, to some extent, exposed to social factors like demographic trends. For example, changes to longevity and mortality could increase liabilities.

DR Group has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives particularly to maintain its strong market position in core markets. DR Group will further expand outside the PLI sector to diversify the group's business in the future. The group benefits from diligent strategic planning and an experienced management team.

### Accounting considerations

Both DR Group and DR AG report according to German generally accepted accounting principles (GAAP), whereas DR Swiss' financial statements are prepared under Swiss GAAP. Our analysis is based mainly on the consolidated accounts. DR Group applies a strong degree of conservatism in its accounting figures.

In our assessment of earnings, we take into account internal figures on ultimate loss and combined ratios after reviewing the group's reserves. We also adjust EBITDA for movements in equalization reserves for our analysis of fixed-charge coverage to better compare it with that of global reinsurers.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy, June 7, 2010

## Appendix

Deutsche Rueck Group--Credit Metrics History		
	2019	2018
S&P Global Ratings' capital adequacy*	Excellent	Excellent
Total invested assets	2,200.5	2,078.9
Total shareholder equity	300.8	280.8
Gross premiums written	1,107.9	1,108.4
Net premiums written	725.9	733.5
Net premiums earned	736.2	728.8
Reinsurance utilization (%)	34.48	33.82

## Deutsche Rueck Group--Credit Metrics History (cont.)

	2019	2018
EBIT	26.9	80.1
Net income (attributable to all shareholders)	13.5	56.0
Return on revenue (%)	4.91	12.21
Return on assets (excluding investment gains/losses) (%)	1.60	4.24
Return on shareholders' equity (reported) (%)	4.64	22.11
P/C: Net combined ratio (%)	97.82	95.88
P/C: Net expense ratio (%)	30.03	29.62
P/C: Return on revenue (%)	4.76	6.65
Life: Net expense ratio (%)	79.79	79.77
EBITDA fixed-charge coverage (x)	20.22	50.42
EBIT fixed-charge coverage (x)	20.22	50.42
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	14.36	42.82
Financial obligations / EBITDA adjusted	1.63	0.65
Financial leverage including pension deficit as debt (%)	17.03	18.02
Net investment yield (%)	2.16	2.57
Net investment yield including investment gains/(losses) (%)	2.36	4.41

P/C--Property/casualty.

## Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
<b>Strong</b>	aa-/a+	<b>a+/a</b>	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of November 11, 2020)\*

## Operating Companies Covered By This Report

## Deutsche Rueckversicherung AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--



**Ratings Detail (As Of November 11, 2020)\*(cont.)****Deutsche Rueckversicherung Schweiz 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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).