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DEVK Insurance Group

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DEVK Insurance Group

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a+	+	Modifiers	0	=	a+	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	A+/Stable/--
Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Extremely Strong										

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths	Weaknesses
<ul style="list-style-type: none"> Long-standing and strong reputation in the German insurance market, especially in the railway sector. Strong distribution capabilities, supported by an exclusive bancassurance partner. Well capitalized with a sizable buffer at the 'AAA' level. 	<ul style="list-style-type: none"> Prevailing low-interest-rate environment, leading to pressure on earnings for the group's life business. Somewhat concentrated in the German motor business.

Rationale

DEVK is a horizontal German mutual insurance group, headed by property/casualty (P/C) mutual insurer DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (DEVK-VVaG) and life mutual DEVK Deutsche Eisenbahn Versicherung Lebensversicherung a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (DEVK-Leben-VVaG; not rated). The group also comprises P/C, health, legal expense, pension funds, life insurance, and reinsurance subsidiaries, including Switzerland-based reinsurer Echo Rueckversicherungs-AG (A-/Stable/--). All insurance companies are joint-stock companies with majority ownership by DEVK-VVaG's intermediate holding and internal reinsurance company, DEVK Rueckversicherungs- und Beteiligungs-AG (DEVK Re, A+/Stable/--). Ultimately, all the insurance subsidiaries are wholly owned by DEVK Insurance Group. The two mutual parent companies write business in the public transportation sector, mainly with customers that work in the railway segment, while the other insurance subsidiaries offer business to the general public.

Outlook: Stable

The stable outlook on Germany-based DEVK Insurance Group (DEVK) reflects our view that the group will defend its strong competitive position in the German market and that its earnings will remain stable, in line with our base-case assumptions, despite ongoing low interest rates. This should enable the group to maintain capital adequacy above the 'AAA' level.

Downside scenario

A negative rating action on DEVK over the next 12-24 months is unlikely, but we might lower the ratings if:

- The group's earnings were consistently weaker than our base-case assumptions, underperforming peers in the German market;
- We thought it could no longer maintain capital adequacy at the 'AAA' level, which could result from aggressive growth, higher investment risk, or lower-than-expected retained earnings; or
- We were to perceive higher capital and earnings volatility, for instance if the group significantly increased its international catastrophe exposure through its third-party reinsurance business.

Upside scenario

A positive rating action is remote at this time. An upgrade would require an improvement in the group's competitive position, which could occur if the group significantly diversified its earnings by business line or region, which we do not foresee over the next 12-24 months.

Macroeconomic Assumptions

- We anticipate moderate economic growth and inflation, as well as continuously low unemployment rates in Germany over 2018-2020.
- Continuation of structurally low, long-term, risk-free rates, with German 10-year government bond yields of 0.9% in 2018, slightly recovering to 1.4% in 2019 and 1.7% in 2020, based on our economic estimates.

Key Metrics

	2019F	2018F	2017	2016	2015	2014
Gross premium written (mil. €)	~3,200	~3,100	3,007	2,896	2,818	2,713
Net income (mil. €)	50-60	50-60	71	80	88	68
Return on shareholders' equity (%)	~3.0	~3.0	3.7	4.5	5.3	4.3
P/C net combined ratio (%)	97-99	97-99	97.5	96.3	99.4	96.4
S&P Global Ratings capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong
P/C return on revenue (%)	9.0-9.5	9.0-9.5	9.7	9.3	8.5	8.7
Life prebonus pretax earnings/total assets (%)*	N/A	N/A	1.2	1.2	1.0	1.4
Net investment yield (%)	N/A	N/A	3.6	3.8	4.1	4.2

*DEVK Lebensversicherungs-AG. F--Forecast. N/A--Not applicable. P/C--Property/casualty.

Business Risk Profile: Strong

In the German non-life insurance sector, in which the group mainly operates, DEVK is one of the most well-known insurers, with a long-standing and strong position in the German railway sector and a very good reputation as a leading low-cost provider in private lines, mainly motor. DEVK differentiates itself from other players by offering high service standards and quick response times in claims management, as well as general services. In 2017, the group increased its gross premium written (GPW) by 3.8%. Premiums originated, to a large extent, from activity in the German P/C market (55.8%) and life market (28.6%), and to some extent from German health insurance (2.6%), and French P/C (4.2%) and global P/C reinsurance (8.7%). For 2018-2020, we expect GPW will increase by about 2%-4%, mainly driven by stable development in DEVK's German business and some expansion in international reinsurance. The group follows a multi-distribution-channel approach, writing more than 60% of premium via a network of tied agents and a bancassurance partnership with Sparda-Bank. In the prevailing challenging, low-interest-rate environment, DEVK benefits from its stronger focus on non-life compared with that of its peers in the German market. DEVK is gradually increasing the amount of biometric business and reducing the portfolio of traditional business in its life book.

Financial Risk Profile: Extremely Strong

DEVK holds sizable capital redundancy at the 'AAA' level, per our model, mainly stemming from a sound and diversified business mix. The group's conservative reserving and strong retained earnings help it cope with the current economic environment, particularly in German life business, and will further strengthen capital adequacy in 2018 and thereafter. We also anticipate that the group will operate with similar capital adequacy levels in 2018-2020. The group

reported 2017 net income of €71 million, fueled by a strong underwriting result. We forecast the net income will be €50 million–€60 million over 2018-2020 and combined ratios of 97%-99% (the lower the combined ratio, the more profitable; a ratio of more than 100% signifies an underwriting loss). In the prevailing low-yield conditions, we expect additional reserving requirements will weigh further on life results, which will limit the life segment's contribution to overall earnings. Due to a gradual decrease in investment returns, we believe that the P/C segment will largely underpin overall operating performance. DEVK follows a conservative investment strategy with an average credit quality of 'AA-', and has moderately increased its exposure to property investments in response to the low-yield conditions. The group does not have any financial debt and has successfully demonstrated its internal funding capacity through extremely strong capitalization and robust earnings.

Other Assessments

In our view, DEVK's risk-management culture, risk controls, and strategic and emerging risk management are appropriate to DEVK's risk profile and appetite. The group's risk management and risk controls have improved in recent years. However, we have not yet seen a long track record for asset-liability management risk controls.

DEVK's management team is experienced and has demonstrated a clear strategy, emphasizing specific client and product segments, while focusing on efficiency and prudent operational management.

DEVK's liquidity profile is sound and stable, thanks to the strength of available liquidity sources, such as premium income and a highly liquid asset portfolio. The group has no refinancing concerns.

Rating Score Snapshot

Table 1

DEVK -- Rating Score Snapshot	
Financial Strength Rating	A+/Stable/--
Anchor	a+
Business Risk Profile	Strong
IICRA*	Low
Competitive Position	Strong
Financial Risk Profile	Extremely Strong
Capital & Earnings	Extremely Strong
Risk Position	Intermediate
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0

Table 1

DEVK -- Rating Score Snapshot (cont.)	
Government Support	0

*Insurance Industry and Country Risk Assessment.

Other Considerations

DEVK Re is the intermediate holding company for the group's subsidiaries, operating in reinsurance internally and with external clients. We regard DEVK Re as a regulated operating holding company and equalize our ratings on DEVK Re with those on the group's core operating subsidiaries. This reflects our view of DEVK Re's highly diverse sources of earnings and liquidity and its status as a pool for the majority of the group's excess capital.

Accounting Considerations

DEVK prepares its consolidated financial statements and the accounts for the legal entity under local generally accepted accounting principles. Furthermore, we take into account nonpublic information such as the composition of the gross surplus in life, additional investment-related information for the whole group, and information on reserving in P/C.

Related Criteria

- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, 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 August 29, 2018)

Operating Companies Covered By This Report

DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

Ratings Detail (As Of August 29, 2018) (cont.)

DEVK Allgemeine Lebensversicherungs-AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

DEVK Allgemeine Versicherungs-AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

DEVK Rueckversicherungs- und Beteiligungs-AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

Related Entities**Echo Rueckversicherungs-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.

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