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Ratings

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Research Update:

DEVK Insurance Group Core Subsidiaries 'A+' Ratings Affirmed; Outlook Stable

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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

Overview

- DEVK Insurance Group enjoys a long-standing and well-established market position in the German railway sector, along with very good reputation as a leading low-cost provider in private lines, mainly motor.
- The group has a sizable capital buffer at the 'AAA' level, per our risked based model, mainly stemming from its conservative reserving strategy and strong retained earnings.
- We are affirming our 'A+' ratings on DEVK's subsidiaries.
- The stable outlook indicates our projections that DEVK will sustain capital at current levels and results at least in line with its German peers', notably in the property and casualty (P/C) market.

Rating Action

On Aug. 9, 2019, S&P Global Ratings affirmed its 'A+' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of Germany-domiciled DEVK Insurance Group (DEVK): DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, DEVK Rueckversicherungs- und Beteiligungs-AG, DEVK Allgemeine Versicherungs-AG, and DEVK Allgemeine Lebensversicherungs-AG. The outlook is stable.

Outlook

The stable outlook on DEVK reflects our view that the group will defend its strong competitive position in the German market, particularly in the P/C market and that its earnings will remain stable, in line with our base-case assumptions. This is despite ongoing low interest rates. As a result, the group should be able to maintain capital adequacy above the 'AAA' level.

Downside scenario

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

- The group's earnings were consistently weaker than our base-case assumptions, underperforming peers in the German market;
- We thought the group 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 perceived higher capital and earnings volatility, for instance if the group materially 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 substantially diversified its earnings by business line or region. We do not foresee this occurring over the next 12-24 months.

Rationale

The rating on DEVK reflects the group's established market position in the German railway sector, as well as the group's distinguished reputation as a leading low-cost provider in private lines in Germany. In our opinion, DEVK differentiates itself from other players by offering high standards of service and quick response times in claims management, in addition to general services. DEVK's operating performance was in line with that of peers operating in similar geographies and business segments during the past two years. For 2019-2021, we expect gross premiums written to increase by 3%-4%, mainly driven by stable development in DEVK's German business and further sustainable expansion in international reinsurance.

DEVK's key strength is its sizable capital buffer at the 'AAA' level, per our risked based model. This mainly stems from the group's conservative reserving strategy and strong retained earnings. We believe this will help DEVK cope with the current economic environment, particularly in the German life business. In our view, DEVK's underwriting discipline and its favorable business mix will help the group to generate net income in the €60 million-€70 million range over 2019-2021, with combined (loss and expense) ratios of 97%-99% (the lower, the more profitable, since a ratio of more than 100% signifies an underwriting loss).

The group does not have any financial debt on its balance sheet and has successfully demonstrated its internal funding capacity through robust capitalization and earnings generation.

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.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong

IICRA	Low risk
Financial Risk Profile	**Excellent**
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	
Financial Strength Rating	**A+**

*We choose the lower anchor of 'aa-/a+' because we see somewhat weaker competitive strength and regional diversification compared with peers rated 'AA-'.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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 Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn	
DEVK Rueckversicherungs- und Beteiligungs-AG	
DEVK Allgemeine Versicherungs-AG	
DEVK Allgemeine Lebensversicherungs-AG	
Issuer Credit Rating	A+/Stable/--
Financial Strength Rating	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.