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Ratings

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DEVK Insurance Group

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Table Of Contents

DEVK Insurance Group

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Low
Financial Risk	**Excellent**
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

\+

Support	0
Group support	0
Government support	0

=

A+/Stable/--

Financial strength rating

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

Credit Highlights

Overview

Strengths	Risks
A long-established brand in the German insurance market, especially in the railway sector.	Low interest-rate environment, coupled with high guarantees in its back-book, leads to pressure on life insurance earnings.
Strong distribution capabilities, which are supported by an exclusive bancassurance contract with Sparda Bank.	Some concentration observed in the German motor business line.
Robust capitalization as per our risk based capital model, coupled with solid solvency levels.	Somewhat higher equity share in asset allocation than the market average leading, to earnings volatility during the current market turbulences after the COVID-19 outbreak.

S&P Global Ratings expects DEVK Insurance Group (DEVK) will continue to demonstrate stable premium growth and sustainable earnings while maintaining its established position in the German railway sector. Despite the outbreak of COVID-19, we expect a solid increase in gross premiums written (GPW) in 2020, taking into account DEVK's strong position in the German railway sector and the company's ongoing expansion in the reinsurance sector. We expect premium growth will normalize to 2%-4% in 2021-2022, mainly thanks to stable development of DEVK's German property and casualty (P/C) business and some strategic expansion into the international reinsurance business. We expect DEVK will deliver ongoing solid underwriting results in its primary and reinsurance segments over 2020-2022, because the business mix is not materially negatively affected by COVID-19-related claims, mainly given the large book of business for motor insurance.

We expect capitalization will remain DEVK's key strength, with a strong redundancy on AAA-level, driven by conservative reserving and strong retained earnings. In our view, the group will continue to strengthen its capital, driven mainly by the group's prudent reserving practices and solid earnings generation. The group is gradually shifting its life business portfolio toward biometric risks, which we believe will ease pressure on its capital requirements.

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 even with the COVID-19 crisis.

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 are consistently weaker than our base-case assumptions, underperforming peers in the German market;
- We thought DEVK could no longer maintain capital adequacy at the 'AAA' level, which could happen as a result of aggressive growth, higher investment risk, or lower-than-expected retained earnings; or
- We see higher capital and earnings volatility, for instance if the group significantly increases its international catastrophe exposure through its third-party reinsurance business.

Upside scenario

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

Key Assumptions

- Expected real GDP growth of -6.0% owing to the economic downturn for 2020, then improving to 4.3% for 2021.
- Inflation to remain at 1.0%-1.2%, coupled with continuously low unemployment rates of 3.6%-3.8% in Germany over 2020-2021.
- Continued structurally low, long-term, risk-free rates in Germany.

(Mil. €)	2021f	2020f	2019	2018	2017	2016
Gross premium written	>3.500	>3.400	3,303.1	3,126.8	3,007.0	2,895.9
Net income	>55	>10	113.5	82.2	71.0	80.1
Return on shareholders' equity (%)	2-4	0-2	5.4	3.9	3.9	4.6
P/C: Net combined ratio (%)	97-99	97-99	95.4	95.2	97.5	96.3
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
PC Return on revenue (%)	N/A	N/A	11.0	12.9	9.7	9.3
Net investment yield (%)	N/A	N/A	3.1	3.3	3.6	3.8

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

Business Risk Profile: Strong

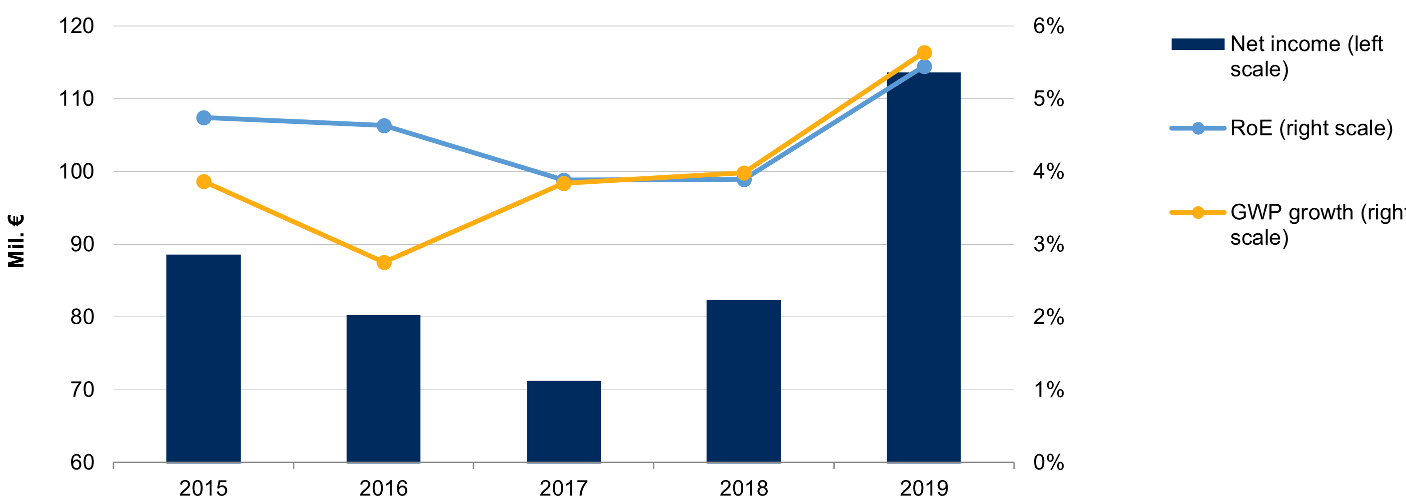
DEVK is a well-known insurer in the German non-life insurance sector. The group has a long-standing and well established market position in the German railway segment and a very good reputation as a leading low-cost provider in private lines, mainly motor.

We believe DEVK differentiates itself from other players by offering high standards of service and a better claims management process. The group follows a multi-distribution channel approach, writing majority of premiums via a network of tied agents, intermediaries, and a bancassurance partnership with Sparda-Bank.

In 2019, the group increased its GPW by 5.6%, mainly thanks to DEVK's P/C business. Top line growth, coupled with a solid underwriting performance (P&C combined ratio of 95.4% in 2019 compared with 95.2% in 2018) and the development in equity markets at the year-end 2019, helped the group achieve a record net income of €113 million in 2019 (versus €82 million in 2018).

Chart 1

DEVK Has Achieved Solid Net Income Levels To Build Up Its AAA Capitalization



RoE--Return on equity. Source: S&P Global Ratings and company financials.

In our view, DEVK's overall performance was in-line with that of peers operating in similar geographies and business segments. In the prevailing low-interest-rate environment, DEVK benefits from its stronger focus on nonlife insurance compared with that of its peers in the German market. The group is gradually shifting its life business portfolio toward the biometric business and reducing the traditional business in its life book. Overall, the pressure on life insurance earnings will remain for the longer term in a low interest-rate environment due to the still-high guarantees in DEVK's back book. The shift to capital-light products will only slightly and gradually offset the pressure.

We do not expect a material negative impact in 2020 on the insurance side despite the COVID-19 pandemic, thanks to a favorable business mix. Motor, property (mainly homeowner and household insurance cover) and accident insurance are the largest business lines. DEVK saw materially lower claims during lockdown in motor and property. Given that these are the largest lines of business, we do not expect a material deterioration in technical performance. Improving technical performance in 2020 will depend on if DEVK makes any premium refunds.

Financial Risk Profile: Excellent

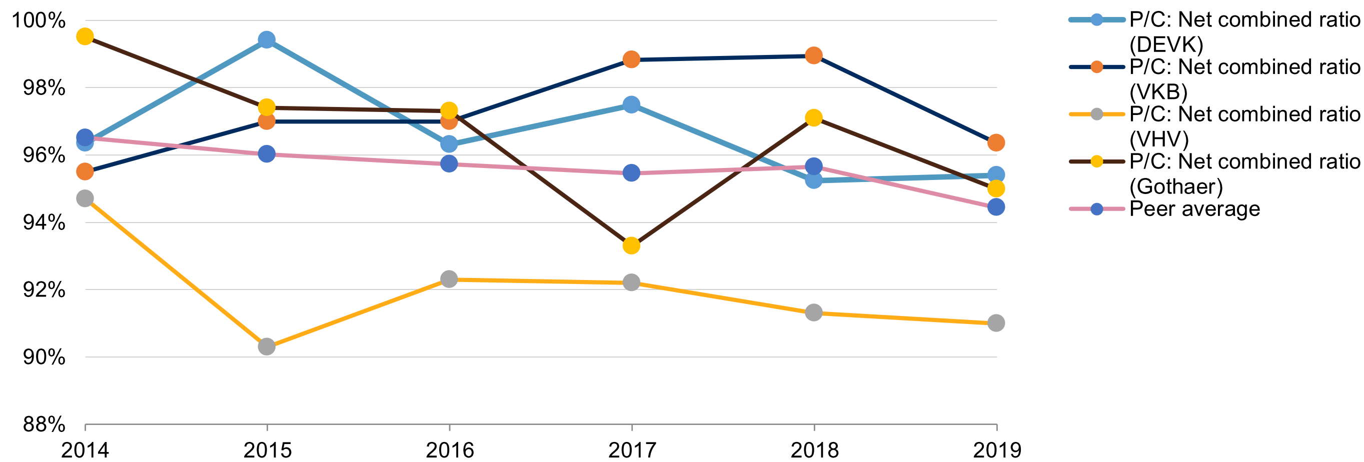
DEVK holds sizable capital redundancy at the 'AAA' level, as per our risk-based capital model, mainly stemming from strong reserve buffers, a favorable business mix, and ongoing retained earnings, which remains key strength of the group. DEVK's conservative reserving strategy and strong retained earnings helps it cope with the current economic environment, particularly in the German life business.

DEVK reported a net income of €113 million in 2019, fueled by a solid underwriting performance and sound investment gains, which will support maintenance of sound capitalization levels to in line with sustainable business growth. Given the COVID-19 pandemic, we believe net income will come under pressure in 2020 due to lower investment income as a result of capital market volatilities. Overall, we expect a decrease in the net income for 2020, given the potential impairments and write-offs on the investment side, in particular for equity investments. Due to its solid capitalization levels, DEVK has historically had a higher equity share in investments of 8%-10%. We forecast the net income will remain above €10 million and we do not expect 2020 results will have a negative impact on the 'AAA' capitalization levels in our risk-based capital model.

If the business environment normalizes, we believe DEVK's underwriting discipline will help the group generate net income of €55 million-€70 million over 2021-2022, with combined ratios of 97%-99% (the lower the combined ratio, the more profitable; a ratio of more than 100% signifies an underwriting loss). Historically, DEVK has slightly underperformed its peer group, but the combined ratios have been sufficient to support its service-oriented strategy as a mutual insurer and to achieve solid and sustainable earnings over the long term. Furthermore, in the last two years the combined ratio has improved and we believe DEVK will continue to focus on risk-adequate underwriting.

Chart 2

DEVK's Net Combined Ratio In A Peer Comparison



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

The change in the calculation of the additional reserving requirements (ZZR) in Germany will lead to some relief and reduced pressure on the life segment results. However, the prevailing low-yield conditions will increase the overall impact of these changes. Going forward, we believe the P/C segment will largely underpin the overall operating performance.

DEVK currently follows a conservative investment strategy, with its fixed income investments having an average credit quality of 'AA', and we do not foresee any significant changes in DEVK's investment portfolio in the future. However, we see a slightly higher equity share in the asset allocation, which could bring some volatility into the investment results. We believe a slightly higher equity quota is backed by DEVK's capital excess at the 'AAA' capitalization level. DEVK does not have any financial debt on its balance sheet, and has successfully demonstrated its internal funding capacity through robust capitalization and earnings generation.

Other Key Credit Considerations

Liquidity

DEVK's liquidity profile is sound and stable, thanks to the availability of liquid sources at its disposal, such as premium income and a highly liquid asset portfolio. We do not foresee any refinancing concerns for the group.

Factors specific to the holding company

DEVK Rueckversicherungs- und Beteiligungs-AG-DEVK RE (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.

Environmental, social, and governance

We believe DEVK's exposure to environmental and social risks are in line with the German insurance industry and its peers. Much of DEVK's exposure to environmental factors stems from its natural-catastrophe and man-made exposure. For example, climate change could cause an increase in the frequency and severity of claims from extreme weather events, including natural catastrophes. The group's life operations are exposed to social factors such as demographic trends relating to improved longevity or rising chronic diseases. These trends could increase its liabilities in Germany. That said, this is a common problem for life insurers and DEVK has in general a higher portion of P/C business in its business mix.

DEVK's management team has historically demonstrated a clear strategy with respect to specific client and product segments while focusing on efficiency and prudent operational management. In our view, DEVK's risk-management culture, controls, and strategic and emerging risk management practices are appropriate for the group's overall risk profile and appetite.

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.

Appendix

DEVK--Credit Metrics History

Ratio/Metric (mil. €)	2019	2018
S&P Global Ratings capital adequacy*	Excellent	Excellent
Total shareholder equity	2,169.9	2,039.4
Gross premiums written	3,303.1	3,126.8
Net premiums written	3,130.0	2,974.7
Net premiums earned	3,138.3	2,977.8
Reinsurance utilization (%)	5.2	4.9
EBIT	206.6	191.4
Net income (attributable to all shareholders)	113.5	82.2
P/C Return on revenue (%)	5.7	5.5
Return on shareholders' equity (%)	5.4	3.9
P/C: net combined ratio (%)	95.4	95.2
P/C: net expense ratio (%)	25.6	25.1
P/C: return on revenue (%)	69.6	70.0
Life: Net expense ratio (%)	11.8	11.0
Net investment yield (%)	3.1	3.3
Net investment yield including investment gains/(losses) (%)	4.2	2.5

P/C--Property/casualty.

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

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+
Strong	**aa-/a+**	a+/a	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 September 29, 2020)*

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/--
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/--

Ratings Detail (As Of September 29, 2020)*(cont.)	
Issuer Credit Rating	
Local Currency	A+/Stable/--
DEVK Rueckversicherungs- und Beteiligungs-AG-DEVK RE	
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.