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DEVK Insurance Group

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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**
An established brand in the German insurance market, especially in the railway sector.	Low-interest-rate environment coupled with high guarantees in its back-book, leading to pressure on life earnings and somewhat higher equity share than the market average.
Strong distribution capabilities, which are supported by an exclusive bancassurance contract with Sparda Bank.	Some concentration observed in the German motor business line.
Very robust capital buffers above the 'AAA' level, as per our risk-based capital model, supported by the group's sound reinsurance protection, good underwriting discipline, and debt-free balance sheet.	

DEVK Insurance Group (DEVK) will continue to use its domestic and international position to source growth in the insurance and reinsurance markets. The group benefits from stable domestic motor development and rising prices in non-motor lines where DEVK particularly profits from its strong position also in the German railway sector. In addition, its international reinsurance operations benefit from price increases and new business growth. S&P Global Ratings believes that DEVK will be able to source further growth, given its Germany-wide reach, broad product offerings, as well as expanding international reinsurance operations. This should further support premium volumes, as demonstrated by its 8% growth to €3.6 billion in 2020. For 2021-2022, we expect premium growth of 1%-3%, mainly driven by strategic expansion into the international reinsurance business, and at least stable development of DEVK's German property and casualty (P/C) business.

Good underwriting discipline, with some lockdown-related frequency benefits, was key for DEVK's strong performance in 2020. This is reflected in the group's 2020 P/C combined (loss and expense) ratio of 92.6%, which was materially below its five-year average combined ratio of 95.4%. Strong underwriting results, combined with fast recovery of capital markets in 2020, enabled to DEVK to generate sound net income of €77.1 million.

We expect DEVK will continue to deliver solid underwriting results in its primary and reinsurance segments over 2021-2023, supported by prudent underwriting and no significant deterioration in performance of its motor lines. We believe that the floods in Germany in June and July 2021 will be a major loss event for DEVK, but consider that the group to be comparably less affected than peers, given its large motor book of business and sound reinsurance protection against natural catastrophe losses.

DEVK's very sound capital position at year-end 2020 remains a key rating strength. At year-end 2020, DEVK's balance sheet remained resilient and its capital position robust above the 'AAA' level, according to our risk-based capital model. The group benefits from a constant increase in capital through earnings retention, supported by prudent margins on its P/C loss reserves and a debt-free balance sheet. We expect that DEVK will maintain capitalization above the 'AAA' range of our insurance capital model over the next two-to-three years, even in case of higher capital markets volatility, a higher-than-expected increase in claims frequencies on the domestic market, or faster-than-expected organic growth.

Outlook: Stable

The stable outlook on 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 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 earning
- We saw 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 unlikely at this time. An upgrade would require an improvement in the 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.

Key Assumptions

- For 2021, real GDP growth to improve to 3.5% after the economic downturn witnessed in 2020, reaching 4.9% in 2022 and 2.2% in 2023.
- Inflation to increase to 2.5% in 2021, before falling to 1.5%-1.6% over 2022-2023.

- Continued structurally low, long-term, risk-free rates, in Germany.

Key Metrics -- DEVK

	2022f	2021f	2020	2019	2018	2017
Gross premium written (mil. €)	> 3,700	> 3,600	3,576.7	3,303.1	3,126.8	3,007.0
Net income (mil. €)	50-70	50-70	77.1	113.5	82.2	71.0
Return on shareholders' equity (%)	2-4	2-4	3.5	5.4	3.9	3.9
P/C: Net combined ratio (%)	94-96	94-96	92.6	95.4	95.2	97.5
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
P/C return on revenue (%)	N/A	N/A	10.81	11.04	12.94	9.69
Net investment yield (%)	N/A	N/A	2.68	3.10	3.29	3.57

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

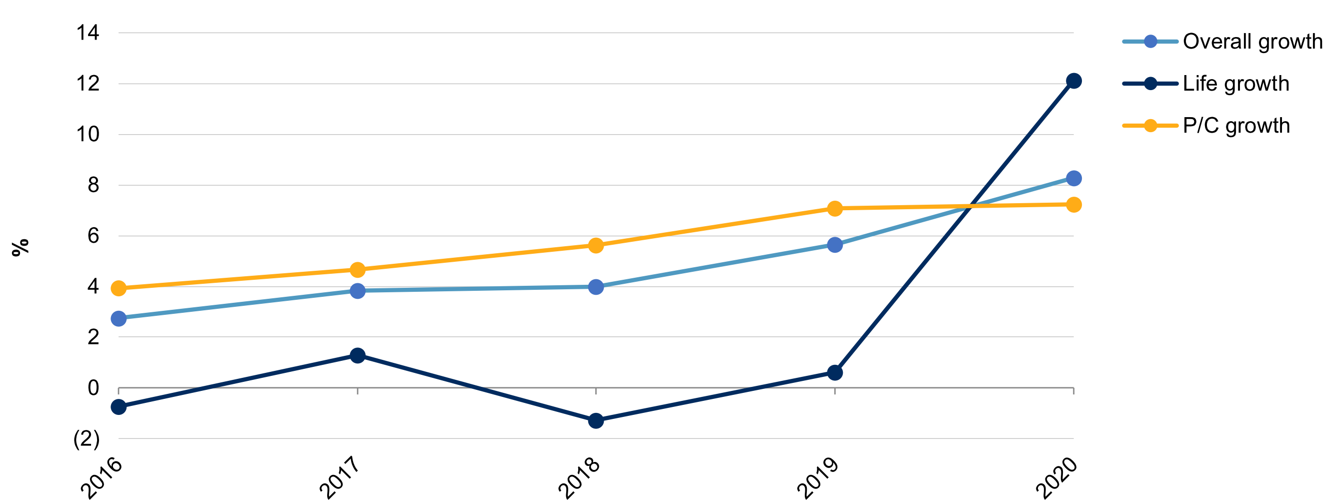
Business Risk Profile: Strong

DEVK has a longstanding and prominent market position in the German railway segment 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 a superior claims management process. The group follows a multi-distribution channel approach, writing the majority of premiums via a network of tied agents, intermediaries, and a bancassurance partnership with Sparda-Bank.

Chart 1

DEVK Continues To Show Good Premium Inflows (GPW)



Source: S&P Global Ratings and company financials. GPW--Gross written premiums. P/C--Property and casualty.
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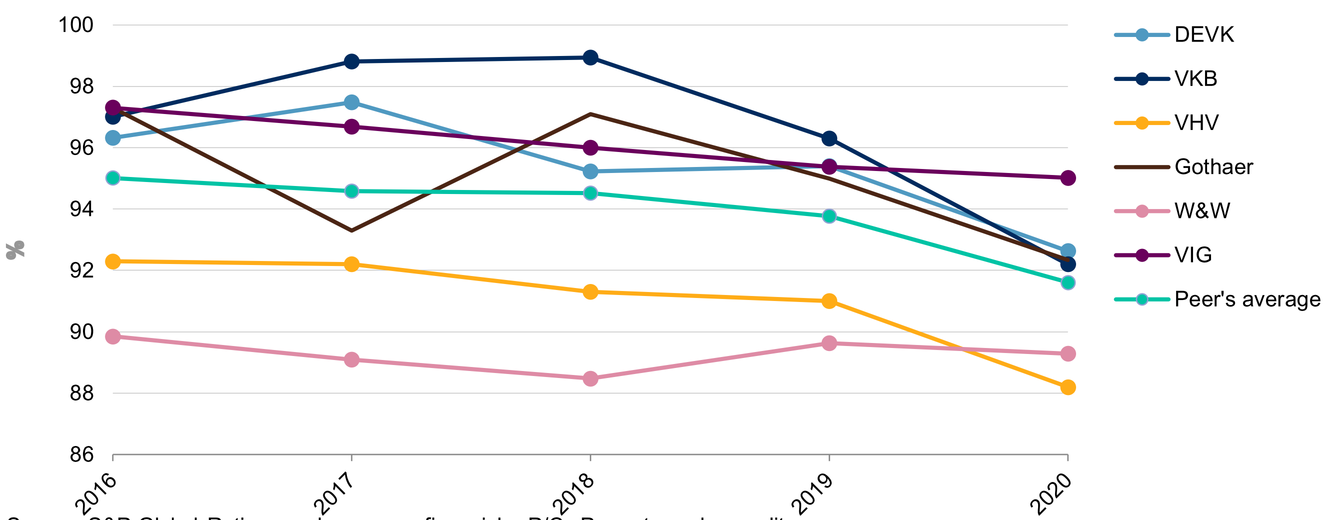
Despite the pandemic, DEVK continued to deliver sound results in 2020 thanks to its favorable business mix. It achieved net income of €77 million in 2020 compared with €113 million in 2019, thanks to strong top-line growth of 8%, solid underwriting performance (i.e., P/C combined ratio of 92.6% in 2020 compared to 95.4% in 2019), and the recovery of equity markets during the second half of 2020, in spite of high pandemic-related volatility in the market during the first half of the year. Like other German P/C insurers, DEVK benefitted from a benign claims year, in particular its largest lines of business (motor) reported materially lower claims due to several lockdowns.

Chart 2

DEVK's Net Combined Ratio In A Peer Comparison--P/C: Net Combined Ratio



Source: S&P Global Ratings and company financials; P/C--Property and casuality.

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Given that Germany continued to observe lockdowns in first-half 2021, we expect that lower claims frequencies for that period than usually. In second-half 2021 and in 2022, we a expect return to more normalized claim frequencies. This said, we expect that the group's combined ratio will remain resilient, in line with its longer-term average of about 95% in 2021-2023. We continue to see risk of capital market volatility as relatively elevated. If risk materializes, we could see pressure on DEVK investment income. However, in our base case we forecast that net income will slightly reduce to about €50 million-€70 million in 2021-2023.

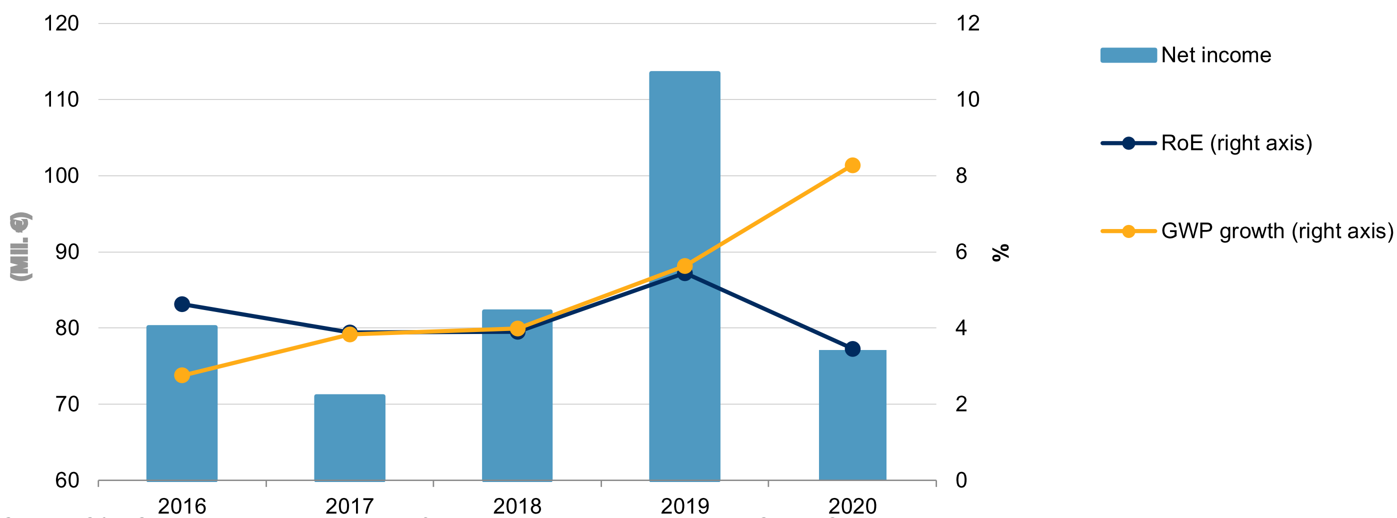
Furthermore, DEVK continues to shift its business mix toward the more profitable biometric business, aiming to reduce its exposure in traditional life business and the still-high guarantees in its back-book. In this context, DEVK benefitted also from the change in the calculation of the additional reserving requirements (ZZR), which led to some relief and reduced pressure on the life segment results. In our view, pressure on life earnings will remain given that persistent low interest rates prevail; however, we see the company as being less pressured than peers in the German market, given its stronger P/C focus. That said, we believe that going forward the P/C segment will largely underpin overall operating performance.

Financial Risk Profile: Excellent

DEVK holds sizable capital redundancy at the 'AAA' level, per our risk-based capital model, mainly stemming from the high amount of core shareholders equity, supplemented by strong reserve buffers. Given its mutual status, DEVK retains all of its operating profits. This provides good ongoing capital generation and supports the group's growth. As a result, we expect that DEVK will maintain capitalization above the 'AAA' range of our insurance capital model over the next two-to-three years, even in case of higher capital markets volatility, a higher-than-expected increase in claims frequencies on the domestic market, or faster-than-expected organic growth.

Chart 3

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



Source: S&P Global Ratings and company financials; RoE--Return on equity. GWP--Gross written premiums.

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DEVK's risk profile has remained stable and supportive of its excellent financial profile, thanks to its high-quality investment portfolio and conservative reinsurance protection strategy. We consider that the group has stable and effective reinsurance protection to shield its balance sheet from larger natural catastrophes. Overall, we expect the group will maintain strong and effective reinsurance protection, and that its reinsurance expansion will not cause any material capital volatility that would materially weigh on its balance sheet.

Although capital markets rebounded quickly in second-half 2020 and remained favorable in first-half 2021, we believe that asset risks remain elevated for the international insurance sector. DEVK's invested assets are mainly in fixed-income securities with relatively high creditworthiness. We note that around half of all fixed-income securities are rated 'AA-' or above. Due to its solid capitalization, DEVK has a historically higher equity share (8%-10%) in the asset allocation than market average, we consider its overall exposure to higher-risk assets remains modest. We note that the group has a material amount of life insurance business with guarantees. The group has continued to actively limit the risk of these policies by building additional reserving requirements (ZZR) to mitigate the low-interest-rate environment. Due to this, we consider that the group's investment risk appetite will remain stable, even if interest rates remain lower for longer.

DEVK's funding structure is supportive to the current rating. The group has a debt-free balance sheet and has demonstrated its internal funding capacity through robust capitalization and earnings generation. We believe the group's very robust capital position, good liquidity, and conservative capital structure safeguards its funding capacity in case of need.

Other Key Credit Considerations

Governance

We consider DEVK's governance stable and comparable with that of its domestic and international peers. Governance and disclosure standards in Germany are high. 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 management is focused on consistent strategic goals and improving its core capacities. Furthermore, DEVK's risk-management culture, controls, and strategic and emerging risk-management practices are appropriate for the group's overall risk profile and appetite.

Liquidity

We regard DEVK's liquidity as exceptional and don't expect any liquidity constraints will keep it from meeting its obligations, given its substantial amount of liquid assets. In addition, expanding operations provide a constant cash inflow. Although most of the P/C business is short tail, larger risks are heavily reinsured, so that larger claims are not a significant drag on the cash position.

Factors specific to the holding company

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.

Group support

We regard DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, DEVK Allgemeine Lebensversicherungs-AG, and DEVK Allgemeine Versicherungs-AG as core operating subsidiaries to DEVK Re.

We regard Echo Re as a strategically important subsidiary of DEVK and factor in three notches for group support.

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.

Ratings Score Snapshot

Ratings Score Snapshot	
Business Risk Profile	Strong
Competitive position	Strong
IICRA	Low
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	0
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-'.

Appendix

DEVK--Credit Metrics History

Mil. €	2020	2019	2018
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent
Total shareholder equity	2,284.0	2,169.9	2,039.4
Gross premiums written	3,576.7	3,303.1	3,126.8
Net premiums written	3,391.9	3,130.0	2,974.7
Net premiums earned	3,341.0	3,138.3	2,977.8
Reinsurance utilization (%)	5.2	5.2	4.9
EBIT	107.1	206.6	191.4
Net income (attributable to all shareholders)	77.1	113.5	82.2
Return on revenue (%)	2.8	5.7	5.5
Return on shareholders' equity (%)	3.5	5.4	3.9
P/C: net combined ratio (%)	92.6	95.4	95.2
P/C: net expense ratio (%)	25.3	25.6	25.1
P/C: return on revenue (%)	66.7	69.6	70.0
Life: Net expense ratio (%)	10.7	11.8	11.0
Net investment yield (%)	2.7	3.1	3.3
Net investment yield including investment gains/(losses) (%)	2.2	4.2	2.5

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

Related Research

- Insurance Industry And Country Risk Assessment: Germany Health, July 27, 2021
- Insurance Industry And Country Risk Assessment: Germany Life, July 27, 2021
- Insurance Industry And Country Risk Assessment: Germany Property/Casualty, July 27, 2021
- Natural Catastrophe Risks Rise Again For German P/C Insurers, Report Says, July 19, 2021
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 26, 2021
- DEVK Insurance Group, Sept. 29, 2020

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 November 8, 2021)*

Operating Companies Covered By This Report

Ratings Detail (As Of November 8, 2021)*(cont.)	
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/--
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/--
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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