S&P Global Ratings

RatingsDirect®

Research Update:

Germany-Based DEVK Insurance Group Ratings Affirmed At 'A+' Following Revised Capital Model Criteria; Outlook Stable

June 28, 2024

Overview

- Under our revised criteria for analyzing insurers' risk-based capital, "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," published Nov. 15, 2023, there is no material impact on our view of the financial strength of DEVK Insurance Group and its subsidiaries.
- We therefore affirmed our 'A+' ratings on DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, DEVK Allgemeine Lebensversicherungs-AG, DEVK Allgemeine Versicherungs-AG, and DEVK Rueckversicherungs- und Beteiligungs-AG - DEVK RE.
- The outlook on the 'A+' ratings on the DEVK insurance entities is still stable.

PRIMARY CREDIT ANALYST

Jure Kimovec, FRM, CAIA, ERP
Frankfurt
+ 49 693 399 9190
jure.kimovec@spglobal.com

SECONDARY CONTACT

Johannes Bender
Frankfurt
+ 49 693 399 9196
johannes.bender@spglobal.com

Rating Action

On June 28, S&P Global Ratings affirmed its 'A+' long-term issuer credit and financial strength ratings on the core operating entities of Germany-based DEVK insurance group: DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, DEVK Allgemeine Lebensversicherungs-AG, DEVK Allgemeine Versicherungs-AG, and DEVK Rueckversicherungs- und Beteiligungs-AG - DEVK RE. The outlook is stable.

Impact Of Revised Capital Model Criteria

- The application of our revised capital adequacy framework has no material effect on DEVK's capital adequacy. We expect capital adequacy will continue to exceed our 99.99% confidence level over 2024-2026.
- In our new capital criteria, we now give full credit to over-reserving, which remains a material

part of DEVK's capital structure.

- Our analysis now captures the benefits of risk diversification more explicitly, which supports our assessment of DEVK's capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

Credit Highlights

Overview

Key strengths	Key risks
A long-established brand in the German insurance market, especially in the railway sector.	Some concentration in the German motor business line, which has experienced margin pressure lately due to an increase in both expenses and claim frequency.
Strong distribution capabilities, supported by an exclusive bancassurance contract with Sparda-Bank.	Geopolitical and economic risks, capital market volatility, and inflation could still lead to some volatility in the group's earnings, especially for its life insurance business.
Very robust capitalization as per our risk-based capital model, coupled with robust regulatory solvency levels and good reinsurance protection.	

Outlook

The stable outlook reflects our view that, over the next two years, DEVK will successfully defend its strong competitive position in the German market and that its earnings will gradually recover--despite current weaker results in the motor market in Germany--while maintaining an excellent capital position.

Downside scenario

A negative rating action on DEVK over the next 12-24 months is unlikely. Rating pressure might stem from:

- Consistently less-than-anticipated earnings that were also weaker than peers' in the German market;
- DEVK's capital reducing below the 99.99% confidence level of our risk-based capital model, which could happen because of aggressive growth or if the group incurred very large losses, for example due to severe financial market stress; or
- Greater 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 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. We do not foresee this over the next 12-24 months.

DEVK Insurance Group Key Metrics

	2025f	2024f	2023	2022	2021	2020
Gross premium written (mil. €)	~5,000	~4,700	4,463	3,971	3,781.8	3,576.7
Net income (mil. €)	60.0-100.0	50.0-90.0	79.0	35.4	91.6	77.1
Return on shareholders' equity (%)	3.0-5.0	3.0-5.0	3.1	1.5	3.9	3.5
P/C: Net combined ratio (%)	97-100	97-101	100.7	99.9	96.9	95.4
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
PC Return on revenue (%)	5.0-9.0	5.0-9.0	6.3	9.1	9.9	10.8
Net investment yield (%)	2.3-3.0	2.2-2.9	2.6	2.8	2.6	2.7

f--S&P Global Ratings forecast.

Rationale

Capitalization remains one of DEVK's key rating strengths. The group's capital adequacy at end-2023 materially exceeded the 99.99% confidence level. Our view is supported by DEVK's very solid solvency ratio of 219% (based on the standard formula, no transitional adjustment) at the end of last year. The group displays conservative capital and financial management, including strong reserving practices. These support DEVK's capital buffers, since our new capital criteria gives full credit to any over-reserving, which continue to be a material part of DEVK's capital structure. The rest of the capital mainly comes from shareholders' equity, equalization reserves, and policyholder capital. As a result, we consider DEVK's consolidated capital to be of good quality.

We think the group will sustain its excellent capital position through 2026. With material capital buffers above our 99.99% confidence level, we assume that persistent challenges in the German motor market will not materially impair the group's capital position. We expect the group's overall underwriting performance to remain satisfactory and that investment results continue to gradually strengthen because of increasing reinvestment opportunities. Together, these developments should allow continued capital generation and somewhat support anticipated strong business growth in 2024-2026. We assume DEVK's sizable capital buffers would further help the group withstand current macroeconomic uncertainties and potential capital market volatility over the next two to three years.

Strong premiums growth in 2024 will support underwriting results. We expect premiums growth will remain strong in 2024-2026 at 6%-10%. DEVK still shows strong growth in reinsurance premiums at DEVK Re and Echo Rueckversicherungs-AG, which are benefiting from firmer reinsurance pricing. In addition, we assume the group will further expand into new risk areas within its reinsurance operations. DEVK's German non-life business, where DEVK continues to actively adjust prices to reflect inflation, should also support the growth momentum. We now expect the growth rate of DEVK's motor business, which posted weak results in 2022 and 2023, will be in line, or slightly above, the group's overall growth rate. This is because persistent inflation in claim costs prompted DEVK to introduce additional underwriting measures with pronounced price increases, which we expect to continue in the next few years. These should support overall premium volumes throughout 2026. Overall, we expect DEVK to protect its established position in the German retail and railway sector.

In our view, challenges in the German motor business will not derail the overall group performance in 2024-2026. The performance of DEVK's motor business remained subdued in 2023 because of persistent claims cost inflation on the market, which kept loss cost trends above DEVK's expectations. As a result, the motor business continues to see significant underwriting losses. DEVK has taken several measures to limit the claims costs, including reduction of discounts offered, price increases, and less coverage offered, which is bundled. All of this should improve the underwriting results of the motor business from 2024 on. Furthermore, to sustainably reposition its motor business, DEVK continues to digitalize its operations and improve customer convenience measures. This enables the group to sustain its core strengths of excellent customer service and competitive price quality. We note that the group's generally conservative reserving policy further limits the risks associated with high inflation and provides considerable flexibility for the repositioning of the motor line in the mid-term future.

The strong reinsurance and property business will continue to offset the weak performance of German motor business. DEVK is benefiting from its strategic expansion into the international reinsurance business and the German property business, both of which the group developed in the last decade. The hardening of the international reinsurance and the German property markets in 2022 and 2023 and DEVK's prompt reaction to claim cost trends in the past few years mean that the performance of those two lines has solidified. We expect that persistent inflation and increased frequencies of natural catastrophes will remain a tailwind for the group's non-motor lines, as it continues to react to evolving claim cost trends in a timely manner. Under our base-case scenario, we assume the group will deliver solid earnings and a stabilized group underwriting performance toward the mid to lower end of our forecast combined ratio of 97%-101% by 2026. Moreover, elevated reinvestment rates due to the current high interest rates in Germany and the eurozone will support investment results in the near term. Overall, we expect the group's operating performance will gradually recover, with a net income of €50 million–€100 million. This would correspond to a return on equity of 3%-5% in 2024-2026.

DEVK's risk profile has remained relatively stable and supports its excellent financial profile. In our view, the group pursues a balanced investment strategy with slightly higher allocation to more risky assets, which is offset with a fixed income portfolio with low credit risk. We think DEVK will continue to benefit from a gradual rise in investment income because of higher reinvestment rates. Exposure to less liquid assets, such as property, private debt, and private equity, is mainly concentrated on real estate, which represents about 17% of the group's total invested assets. We expect that the risk of a repricing in real estate markets will remain modest for the group. Most of the real estate investments are in the group's life business, where policyholders have 90% participation in the performance of the assets. DEVK's real estate investments are mainly concentrated in prime residential and commercial areas in Germany. The portfolio remained relatively stable and resilient in 2022 and 2023. We note that the equity share in DEVK's investments has historically been higher than that of peers. We continue to assess the risk of capital market volatility as relatively elevated in 2024-2026. If material declines in asset prices occurred, DEVK's investment income could come under pressure.

DEVK managed to source solid reinsurance protection for 2024. With now lower capacities and materially higher prices on international reinsurance markets at the end 2023, the group now slightly adjusted its reinsurance program and showed moderate increase in risk retention. That said, we do not expect that now higher retention will lead to material capital or earnings volatility as DEVK has substantial balance sheet buffers in form of equalization reserve and over-reservings, which it could use to offset large catastrophes. We expect that DEVK will continue to safeguard its balance sheet from material capital and earnings volatility with an effective and cost-competitive reinsurance protection. We think that further expansion to international reinsurance sector remains limited where underwriting volatilities from reinsurance business don't lead to significantly higher capital and earnings volatility for the group.

In our view, DEVK liquidity position remains exceptional. The group's liquidity ratio at end-2023 rose after some reduction at end-2022 due to capital market volatility and an increase in interest rates. In 2023 the group reported fewer unrealized losses on its balance sheet as fixed income securities are now gradually returning to par and some reduction in interest rates compared with end-2022. We expect liquidity will further increase in the medium term. In addition, DEVK's expanding operations provide constant cash inflows, while some of its life insurance businesses are protected against surrendering. Moreover, larger risks are heavily reinsured, meaning the negative effect of larger claims on the group's cash position is limited.

Ratings Score Snapshot

Financial strength rating	A+/Stable/--
Anchor*	a+
Business risk	Strong
IICRA	Low
Competitive position	Strong
Financial risk	Excellent
Capital and earnings	Excellent
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

DEVK Insurance Group Credit Metrics History

Ratio/Metric (mil. €)	2023	2022	2021	2020
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent
Total shareholder equity	2,568.4	2,448.0	2,389.0	2,284.0
Gross premiums written	4,463.2	3,971.1	3,781.8	3,576.7
Net premiums written	4,158.2	3,717.9	3,562.2	3,391.9
Net premiums earned	4,068.0	3,714.5	3,521.0	3,341.0

DEVK Insurance Group Credit Metrics History (cont.)

Ratio/Metric (mil. €)	2023	2022	2021	2020
Reinsurance utilization (%)	6.8	6.4	5.8	5.2
EBIT	113.6	99.7	185.1	107.1
Net income (attributable to all shareholders)	79.0	35.4	91.6	77.1
Return on revenue (%)	3.2	5.8	-0.1	2.8
Return on shareholders' equity (%)	3.1	1.5	3.9	3.5
P/C: net combined ratio (%)	100.7	99.9	96.9	95.4
P/C: net expense ratio (%)	25.9	25.4	25.6	25.6
P/C: net loss ratio (%)	74.7	74.4	70.9	69.6
P/C: return on revenue (%)	6.3	9.1	9.9	11.0
Net investment yield (%)	2.6	2.8	2.6	2.7
Net investment yield including investment gains/(losses) (%)	3.3	1.8	3.9	2.2

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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 RE	
DEVK Allgemeine Versicherungs-AG	
DEVK Allgemeine Lebensversicherungs-AG	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--