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DEVK Insurance Group

Primary Credit Analyst:
Jure Kimovec, FRM, CAIA, ERP, Frankfurt + 49 693 399 9190; jure.kimovec@spglobal.com

Secondary Contacts:
Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com
Viviane Ly, Frankfurt + 49 693 399 9120; viviane.ly@spglobal.com

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DEVK Insurance Group

Anchor	a+	+	Modifiers	0	=	SACP	a+		

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

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

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.

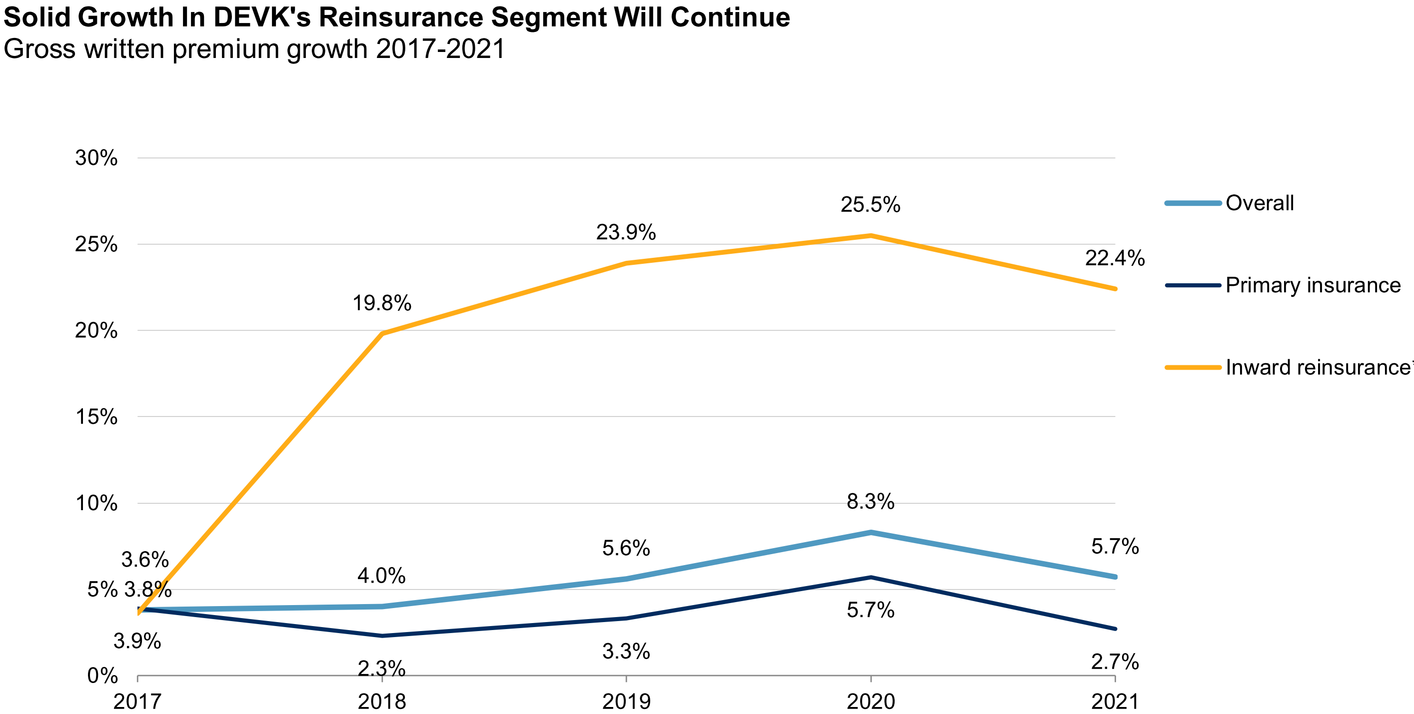
Credit Highlights

Overview

Strengths	Risks
Long-established brand in the German insurance market, especially in the railway sector.	Despite interest rate rises in first-half 2022, volatile capital markets could still pressure life insurance earnings.
Strong distribution capabilities, supported by an exclusive bancassurance contract with Sparda-Bank.	Some concentration observed in the German motor business line.
Very robust capitalization, as per S&P Global Ratings' risk-based capital model, coupled with robust regulatory solvency levels and good reinsurance protection.	

Steady premium growth will support sustainable earnings for DEVK Insurance Group (DEVK) going forward, which will protect its established position in the German retail and railway sector. S&P Global Ratings expects premium growth to normalize at 3%-6% in 2022, mainly spurred by insurance rates hardening and new business acquisitions through continued strategic expansion into international reinsurance, as well as property lines in its primary business. We expect that the group will adjust its pricing, in particular in motor lines, in a timely manner to reflect normalization of claims frequencies and higher inflation. This should further support its premium volumes at about 3%-5% in 2023-2024.

Chart 1

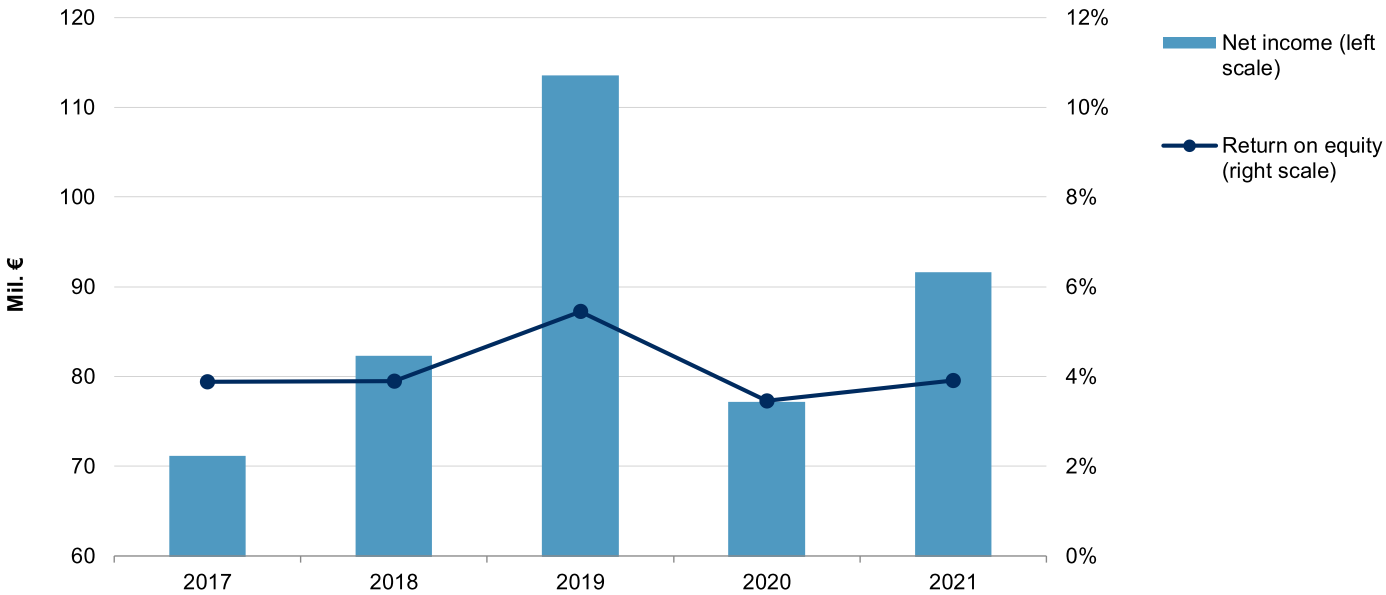


*Includes only reinsurance premiums from outside DEVK Group. Source: S&P Global Ratings.

Good underwriting discipline and timely premium adjustments will safeguard solid earnings for DEVK. We expect that the group's German property/casualty (P/C) business will remain profitable. In our view, current pressure on motor lines in Germany will slightly reduce underwriting results in the segment. However, improved performance in other lines, as well as further business digitalization, will provide some relief. Equally, we expect an only limited negative effect from inflation on the company's underwriting results because it will be offset by timely premium adjustments. Moreover, rising interest rates in Germany and the eurozone will gradually improve investment results. Therefore, we believe that DEVK will continue to deliver solid operating results in its primary and reinsurance segments over 2022-2024.

Chart 2

DEVK's Solid Net Income Levels Allow Constant Capitalization Build-Up



Source: S&P Global Ratings.

Capitalization remains a key rating strength. At year-end 2021, DEVK's balance sheet remained very firm with its capital position robust above the 'AAA' level, according to our risk-based capital model. Due to a favorable capital structure, mainly composed of shareholders' equity, we consider that DEVK's capital position was not significantly affected by capital market volatility in first-half 2022. In our view, DEVK's sizable capital buffers provide a cushion against a further deterioration in business conditions and moderate capital market volatility. As a result, we expect the group to maintain capitalization above the 'AAA' range of our insurance capital model over the next two-to-three years.

Outlook: Stable

The stable outlook on DEVK reflects our view that the group will defend its strong competitive position in the German market and its earnings will remain stable, despite expected moderating macroeconomic conditions in Germany. This should enable the group to maintain capital adequacy above the 'AAA' level even with expected more challenging macroeconomic conditions in Germany.

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;
- DEVK's capital reduced below the 'AAA' confidence level in our risk-based capital model, which could happen as a result of aggressive growth or if the group incurred very large losses, for example, due to severe financial market stress; or
- 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 forecast over the next 12-24 months.

Key Assumptions

- For 2022, German real GDP growth is expected to moderate to 1.9% and then remain at similar levels for the next two years.
- German inflation will remain elevated at 7.6% in 2022 but moderate to below 2.5% by 2024. We continue to expect unemployment will remain low at about 3% in 2022-2024.
- An expected gradual increase in German long-term interest rates to 1.8% in 2022-2024.

DEVK Insurance Group--Key Metrics

	2023f	2022f	2021	2020	2019
Gross premium written (mil. €)	> 4,000	> 3,900	3,781.8	3,576.7	3,303.1
Net income (mil. €)	60 - 80	60 - 80	91.6	77.1	113.5
Return on shareholders' equity (%)	3 - 5	3 - 5	3.9	3.5	5.4
P/C: Net combined ratio (%)	97 - 100	97 - 100	96.9	92.6	95.4
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
P/C Return on revenue (%)	6 - 9	6 - 9	9.9	10.8	11.0

DEVK Insurance Group--Key Metrics (cont.)					
	2023f	**2022f**	**2021**	**2020**	**2019**
Net investment yield (%)	> 2.3	> 2.3	2.6	2.7	3.1

f--S&P Global Ratings forecast. P/C--Property/casualty.

Business Risk Profile: Strong

DEVK is a well-known insurer in the German non-life sector. The group has a long-standing and well-established relationship with the German railway segment and a very good reputation as one of the leading low-cost providers in private lines, in particular motor. As a mutual company, DEVK has solid and stable performance, which enables the group to continue developing its German business and expanding its international reinsurance business. That said, compared with those of higher-rated peers, DEVK's operations have lower geographical and product diversity.

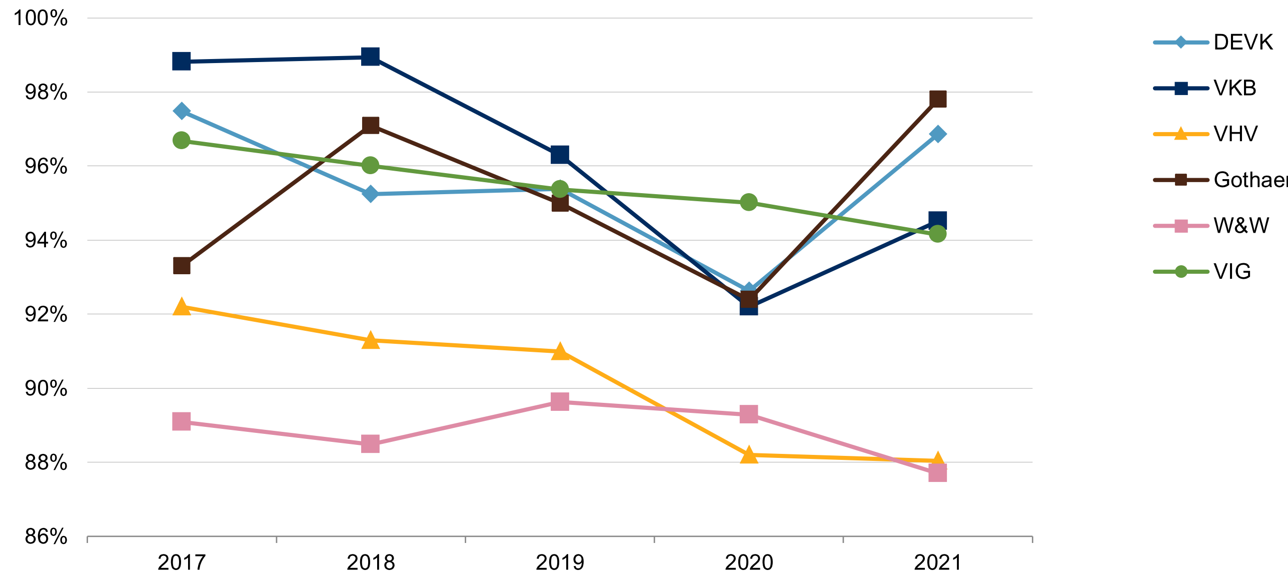
We believe DEVK differentiates itself from other players by offering high standards of service and a superior claims management process. The group follows a multi-distribution channel approach, with the writing of most premiums sourced via a network of tied agents, own agents, and a bancassurance partnership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

Material flood events in Germany last year saw the company's underwriting performance deteriorate. That said, performance was well protected through comprehensive and conservative reinsurance coverage, which allowed its net non-life combined ratio (loss and expense) to stay at a still-solid 96.8% in 2021. This underwriting performance remained comparable with that of other rated German insurance peers. The group also experienced lower claims frequency in its motor business during COVID-19-related lockdowns last year.

We expect DEVK's underwriting performance will remain relatively resilient over 2022-2024 with only limited effects from normalization of claims frequencies, higher inflation, and increasing wages and other costs. In our view, the group will adapt to these challenges through good underwriting controls, its very comfortable reserve position, and ongoing business digitalization. We also expect that its underwriting and investment risk appetites will remain stable. In turn, it should retain satisfactory underwriting profitability, with combined ratios of 97%-100% over 2022-2024.

Chart 3

DEVK's Property/Casualty Underwriting Performance Will Remain Comparable To That Of Peers
Net combined ratio in 2017-2021



Source: S&P Global Ratings.

In our view, DEVK benefits from its stronger focus on non-life than peers in the German market. Increases in German interest rates in first-half 2022 should also slightly reduce pressure on DEVK's traditional life insurance back book. That said, in view of the duration of the asset portfolio, it will take time for the life segment to benefit from rising investment yields. We expect that the group's biometric business and capital-light savings business will remain relatively stable premium and earnings contributors in 2022-2024.

Overall, we expect that DEVK's diverse insurance and reinsurance offering will allow some growth. This will mainly come from price adjustments in its primary operations, expansion in new business, and further reinsurance growth. Overall, we expect that premium growth will remain solid at about 3%-6% in 2022 and then gradually moderate toward 2%-5% over 2023-2024, driven by moderating economic developments, expected lower inflation, and stabilization of claims frequencies. Besides resilient underwriting results, we expect the group to gradually benefit from higher interest rates, allowing slightly stronger investment results. This should support continued solid operating performance with a net income of €50 million–€90 million, translating to a return on equity of 3%-5% during 2022-2024.

Financial Risk Profile: Excellent

DEVK holds sizable capital redundancy at the 'AAA' level, as per our risk-based capital model. In our view, its very robust capital standing remains a key strength. We note that the group's capital position mainly stems from sizable shareholder equity, strong reserve buffers, and ongoing good earnings, which are fully retained given the mutual model. DEVK reported a net income of €92 million in 2021, resulting from good investment results, supported by favorable capital market developments, as well as still-solid underwriting results in non-life lines. Solid and stable earnings supported capitalization build-up in line with business growth. We believe that the current capital position and its very conservative reserving strategy offer a degree of flexibility to weather headwinds from increased claims frequencies due to economic reopening, a more challenging economic environment with higher inflation, and more intense competition in motor insurance.

In our view, DEVK's risk profile has remained relatively stable and supportive of its excellent financial profile. We consider that DEVK has stable and effective reinsurance protection, which shields its balance sheet from larger natural catastrophes. This was retested by intense floods in Germany last year, which led to limited net claims. Despite some price increases in the reinsurance market, we expect DEVK will maintain solid reinsurance protection to protect its balance sheet against material capital and earnings volatility.

The group has more life insurance business with guarantees than some direct domestic peers. However, it has continued to actively limit the risk of these policies by strengthening additional life reserves (ZZR). Increasing interest rates in first-half 2022 could lead to low or even no additional contributions for additional reserving requirements in Germany in 2022. In our view, this will help the group to stabilize its balance sheet amid capital market volatility and interest rate rises. In addition, slightly higher interest rates in the eurozone should offer some suitable yield investment opportunities in the less risky fixed-income space. Overall, we continue to expect that most of the company's earnings will be generated in non-life primary and reinsurance business in 2022-2024.

DEVK's invested assets are mainly in fixed-income securities with the portfolio having relatively high creditworthiness, including about half at 'AA-' or above. Due to its very solid capitalization levels, DEVK has a historically higher equity share of investments while its overall exposure to higher-risk assets remains modest, in our view.

DEVK's funding structure is neutral 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 safeguard its funding capacity in case of need.

Other Key Credit Considerations

Governance

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.

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 going forward.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of DEVK.

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.

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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- EMEA Insurance Mid-Year Outlook 2022: In The Eye Of The Perfect Storm, July 11, 2022
- German Insurers Brace For More Resiliency Tests In 2022-2023, May 6, 2022
- DEVK Insurance Group, Nov. 8, 2021
- Echo Rueckversicherungs-AG, Oct. 15, 2021

Appendix

DEVK Insurance Group--Credit Metrics History

Ratio/Metric (mil. €)	2021	2020	2019
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent
Total shareholder equity	2,389.0	2,284.0	2,169.9
Gross premiums written	3,781.8	3,576.7	3,303.1
Net premiums written	3,562.2	3,391.9	3,130.0
Net premiums earned	3,521.0	3,341.0	3,138.3
Reinsurance utilization (%)	5.8	5.2	5.2
EBIT	185.1	107.1	206.6
Net income (attributable to all shareholders)	91.6	77.1	113.5
Return on revenue (%)	4.6	2.8	5.7
Return on shareholders' equity (%)	3.9	3.5	5.4
P/C: net combined ratio (%)	96.9	92.6	95.4
P/C: net expense ratio (%)	25.6	25.3	25.6
P/C: net loss ratio (%)	70.9	66.7	69.6
P/C: return on revenue (%)	9.9	10.8	11.0
Net investment yield (%)	2.6	2.7	3.1
Net investment yield including investment gains/(losses) (%)	3.9	2.2	4.2

P/C--Property/casualty.

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 15, 2022)*

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/--
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/--

Ratings Detail (As Of September 15, 2022)*(cont.)	
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.