S&P Global Ratings

RatingsDirect®

Research Update:

German-Based W&W Insurance Group And Core Subsidiaries 'A-' Ratings Affirmed Following Revised Capital Model Criteria

June 25, 2024

PRIMARY CREDIT ANALYST

Silke Sacha
Frankfurt
+ 49 693 399 9195
silke.sacha
@spglobal.com

SECONDARY CONTACTS

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

Claudio Hantzsche
Frankfurt
+ 49 693 399 9188
claudio.hantzsche
@spglobal.com

RESEARCH CONTRIBUTOR

Pratik C Giri
CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under the revised criteria, we assess the financial risk profile for W&W Insurance Group as having improved to a very strong level.
- We therefore affirmed our 'A-' ratings on W&W Group's core subsidiaries and our 'BBB+' rating on W&W AG.
- The stable outlook reflects our view that the group's historically strong performance in P/C insurance will recover and that the group will cope with potential pressure on earnings from volatility in investment income and claims development.

Rating Action

On June 25, 2024, S&P Global Ratings affirmed its 'A-' insurer financial strength and long-term issuer credit ratings on German bank insurance (bancassurance) group W&W Insurance Group's (W&W's) core operating entities.

We also affirmed our 'BBB+' issuer credit and financial strength ratings on W&W AG, the group's operating holding company, our 'BBB' issue rating on the junior subordinated notes issued by Wuerttembergische Lebensversicherung, our 'BBB-' issue rating on the junior subordinated notes issued by W&W AG, and our 'BBB' issue rating on the subordinated notes issued by Wuestenrot Bausparkasse (WBSK). The outlook on the long-term ratings is stable.

Impact Of Revised Capital Model Criteria

- The improvement in insurance capital adequacy primarily reflects an increase in total adjusted capital owing to the full recognition of the contractual service margin, which we consider equity-like life reserves.

- We also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

Credit Highlights

Overview

Key strengths	Key risks
A diversified bancassurance group in Germany with a dual-brand, multidistribution strategy.	Volatile capital markets, elevated inflation, and lower economic growth in Germany, which could pressure the earnings profile.
Well-diversified product profile offering property and casualty (P/C) insurance, life insurance, home savings, and other banking products.	Comparably low profitability and cost efficiency, and high dependence on the German residential real estate sector for Wuestenrot Bausparkasse.
Strong performance track record in the German P/C insurance segment despite recent pressures from natural catastrophe (natcat) and large claims.	

Outlook

The stable outlook reflects our view that W&W's historically strong performance in P/C insurance will recover and the group will cope with potential pressure on earnings from volatility in investment income and claims development.

Downside scenario

We might lower the ratings over the next two years if, over a prolonged period and contrary to our expectations, W&W cannot:

- Further improve the cost structure and efficiency of its banking operations. This mainly affects its building-savings loans, and its residential real estate lending franchise; or
- Maintain consolidated capital adequacy above our 99.8% level. Deterioration could result from a stronger decline in earnings than we expect, for example, following volatility in investment income, from elevated P/C claims, or due to an increase in capital requirements.

Upside scenario

We consider a positive rating action a remote possibility in the next 12-24 months. It would hinge on a material recovery in P/C insurance earnings at least to levels observed in prior years and a sustained improvement in earnings diversification, mainly fueled by the banking and life insurance operations.

Rationale

We anticipate W&W will maintain its sound capital position. Over the coming two-to-three years, we forecast the group's insurance capital adequacy will remain at least at the 99.95% confidence level as per our risk-based model. This expectation is underpinned by W&W's adeptness in effectively balancing capital, earnings, and business growth, as well as its prudent dividend distributions and conservative investment practices. Furthermore, the robust Solvency II ratio of 248.5% at year-end 2023 and 231% as of first-quarter 2024 provides additional confidence in the group's balance-sheet strength.

We expect W&W to maintain its strong competitive position. Underpinning this are the group's dual-brand strategy, the benefits of its bancassurance model, improvements in digital capabilities, and a recovery to sustainable and strong performance in P/C insurance. W&W has a good track record of maintaining solid profitability while achieving above-market growth rates. We think this is attributable to strict underwriting guidelines, favorable reinsurance protection, and sound strategic risk-management capabilities that have strengthened the group's risk-return profile and market position in the German insurance industry. The company's combined ratio of about 99% in 2023 was comparably weaker, however, and just in line with the German P/C insurance market, which suffered from heightened inflation and extraordinary natcat claims. Assuming normalized natcat claims and lower inflation, we expect W&W to gradual recover its P/C underwriting earnings in 2024-2026 with a combined ratio of below 98%.

In 2023, the group's earnings dropped, with net income at €141 million versus €238 million in 2022. From 2024-2026, we expect W&W to achieve annual net income of €120 million-€200 million because of heightened inflation and increased natcat claims, which earnings from life insurance and banking income streams that we expect to benefit from higher investment yields will only partially offset. Combined, this net income target is below the more than €200 million from previous years.

In our view, W&W has a diversified investment portfolio, with over 70% of instruments being fixed-income securities with 'AA' credit quality. The group has favorable leverage and coverage ratios. We anticipate W&W will maintain sound financial leverage over the next two years, and its fixed-charge coverage will remain strong, in line with our earnings forecast.

We rate the holding company, W&W, one notch lower than the group's core operating entities. This reflects the structural subordination of the holding company's creditors to the group's insurance policyholders and bank depositors. The rating benefits from W&W's diversified earnings streams from insurance and banking, low financial leverage, and own internal reinsurance operations. The latter leads us to regard the holding company as an operating holding company.

We assess the stand-alone credit profile (SACP) of the insurance subgroup at 'a' and continue to see the SACP of the banking segment as comparably weaker, at 'bbb'. We combine the SACPs to derive the group credit profile (GCP), reflecting the relative weight of the insurance and banking operations by assets and risk capital, and considering diversification benefits not captured in either subgroup SACP. We consider the insurance operations and the banking subgroups core parts of the group and assess their overall GCP at 'a-'.

In our assessment of WBSK's stand-alone creditworthiness, we view as positive the subgroup's capitalization and expect net interest margins to benefit from higher interest rates. Beyond the ongoing benefits to WBSK from its group membership, which includes access to a diversified and stable customer base and moderate return targets, we continue to recognize that the diversification benefits of W&W's bancassurance business model will continue to support the group's overall creditworthiness at the current level.

Ratings Score Snapshot

Financial strength rating	A-
Anchor*	a
Business risk	Strong
IICRA	Intermediate risk
Competitive position	Strong
Financial risk	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	-1
Group support	-1
Government support	0

*This is based on our view of W&W's relatively weaker capital position than higher rated peers. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Wuestenrot & Wuerttembergische AG	
Issuer Credit Rating	
Local Currency	BBB+/Stable/A-2
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Wuerttembergische Lebensversicherung AG	
Wuerttembergische Versicherung AG	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Financial Strength Rating	
Local Currency	A-/Stable/--
Wuestenrot & Wuerttembergische AG	
Junior Subordinated	BBB-
Wuerttembergische Lebensversicherung AG	
Junior Subordinated	BBB