

Wuestenrot & Wuerttembergische AG

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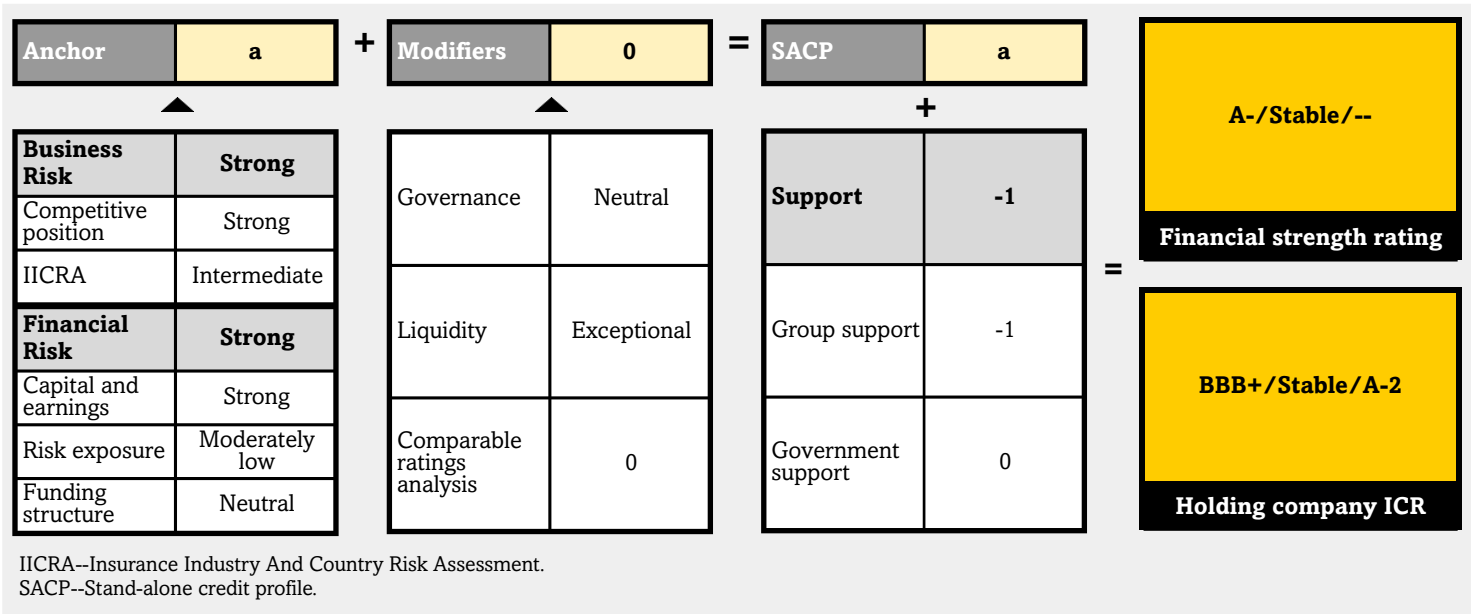
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Wuestenrot & Wuerttembergische AG



Credit Highlights

Overview	
Strengths	Risks
Diversified bancassurance group in Germany with a dual-brand, multi-distribution strategy.	Volatile capital markets, elevated inflation, and lower 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.	
Strong performance track record in the German P/C insurance segment.	

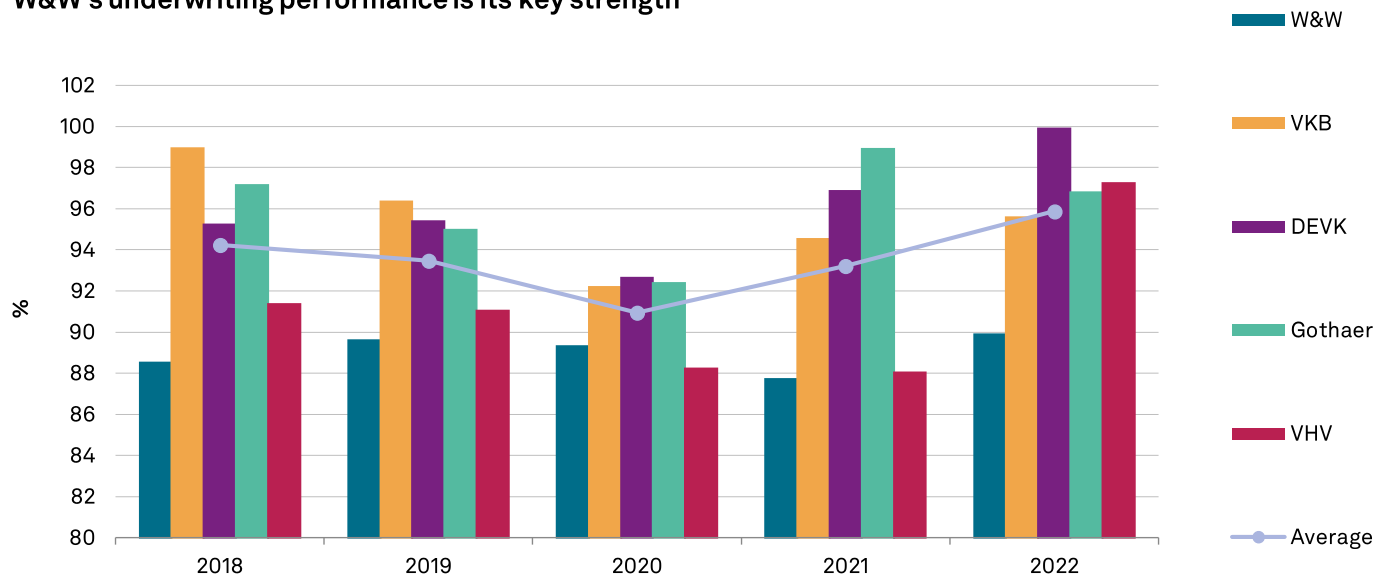
S&P Global Ratings expects Germany-based multiline insurance group Wuestenrot & Wuerttembergische AG (W&W) to maintain its strong competitive position. This is underpinned by its dual-brand strategy, the benefits of its bancassurance model, improvements in digital capabilities, and a consistent track record of sustainable and strong performance in P/C insurance. The company's outperformance of peers in the P/C business is attributed to strict underwriting guidelines, favorable reinsurance protection, and sound strategic risk-management capabilities that strengthen the group's risk-return profile and market position in the German insurance industry.

We expect W&W to sustain healthy underwriting profitability and generate robust earnings over 2023-2024. In 2022, W&W experienced a decline in earnings but remained resilient despite challenges posed by high inflation and interest rates, resulting in weaker investment results. The group's net income decreased to €261.5 million from €352.2 million in 2021. Nonetheless, the P/C business continued to generate strong earnings, primarily due to its sound underwriting profitability, demonstrated by a very strong combined (loss and expense) ratio in a German context of 89.9% in 2022. This was influenced by the normalization of claims and W&W's ability to adjust prices in the corporate segment in pace with inflation. Over 2023-2025, we expect W&W to achieve an annual net income of €200 million-€250 million despite a domestic recession, supported by its diverse income streams such as P&C insurance, life insurance, and

banking business.

Chart 1

W&W's underwriting performance is its key strength



f--Forecast. Source: S&P Global Ratings.

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We anticipate that W&W will maintain its sound capital position. Over the coming two-to-three years, we envisage W&W's capitalization will remain at the 'A' level as per our risk-based model. This expectation is underpinned by the group'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 248.8% at year-end 2022 provides additional confidence, in our view.

Outlook: Stable

The stable outlook reflects our view on W&W's group ability to sustain strong performance in the insurance sector and effectively manage potential earnings pressure arising from investment income volatility.

Downside scenario

We might lower the ratings in the next two years if, over a prolonged period and contrary to our expectations, W&W is unable to maintain capital adequacy at a level close to our 'A' standard on a consolidated basis.

This decline could occur due to an unexpectedly greater earnings reduction, possibly resulting from investment income volatility, or increased capital requirements because of aggressive growth, higher investment risk, or lower retained earnings than we expect.

It could also happen if Wuestenrot Bausparkasse (WBSK) does not maintain the current positive momentum from supportive interest rates to further improve cost structures and efficiency of its banking operations.

Upside scenario

We consider a positive rating action to be a remote possibility in the next 12-24 months. It would hinge on a material and sustained improvement in earnings diversification, mainly in the banking and life insurance operations, through which the group could enhance the resilience of its business.

Key Assumptions

- Real GDP in Germany contracts about 0.1% in 2023, before expanding 0.8% in 2024 and 1.6% in 2025, reflecting slow economic growth due to high price inflation.
- An unemployment rate in Germany of 3.0%-3.5% over 2023-2025.
- An average 10-year bond yield of 2.9% in 2023, followed by 2.6%-3.0% over 2024-2025.
- High inflation of 5.8% for the eurozone and 6.5% for Germany in 2023, as prices rise sharply due to oil and gas and supply chain disruptions.

Wuestenrot & Wuerttembergische AG--Key Metrics

	2024f	2023f	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Gross premiums written	>4550	>4500	4495.3	4718.5	4491.0	4319.7	4065.4
Net income (attributable to all shareholders)	>200	>200	261.5	352.2	210.8	249.1	215.2
Return on shareholders' equity (%)	>3	>3	6.1	7.1	4.2	5.5	5.2
Life: Net investment yield (%)	2-3	2-3	2.3	2.7	2.2	2.8	3.3
P/C: net combined ratio (%)	<95	<95	87.7	87.0	89.3	89.6	88.5

Wuestenrot & Wuerttembergische AG--Key Metrics (cont.)

	2024f	2023f	2022	2021	2020	2019	2018
Fixed-charge coverage (x)	>8	>8	20.1	31.8	23.4	23.4	20.3
Financial leverage (%)	<20	<20	13.7	11.0	5.9	6.1	5.7

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

Business Risk Profile: Strong

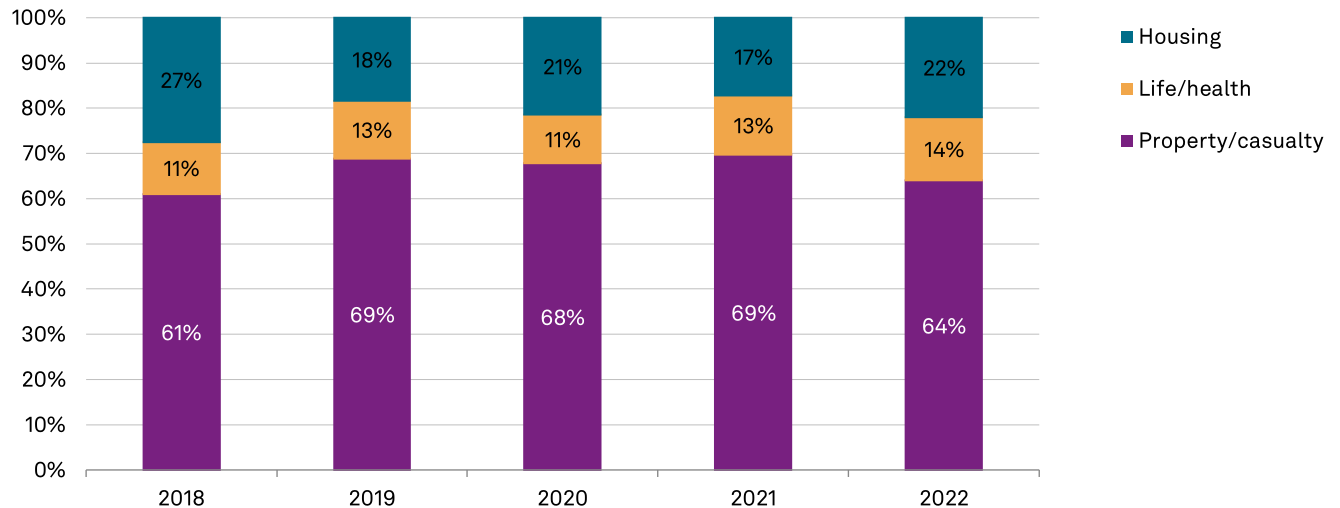
In our assessment, W&W's business profile is firmly supported by its unique bancassurance structure, strong profitability, and well-diversified product portfolio. Notably, W&W has a commendable track record of maintaining solid profitability while achieving above-market growth rates. The dual-brand, multi-distribution approach has proven successful, as evidenced by the strength of the tied-agent network, which benefits both the insurance and banking segments, enhancing W&W's competitive position.

We believe that W&W's competitive position is also bolstered by its robust earnings and well-balanced revenue streams. In 2022, W&W experienced a decline in earnings, but they were resilient despite impairments and declines in the market values of invested assets. The group's net income decreased to €261.5 million from €352.2 million in 2021.

The P/C business accounts for 64% of total earnings, followed by the housing segment at 22% (see "Wuestenrot Bausparkasse AG," published on Sept. 25, 2023), and the life segment at 14% (see chart 2). Additionally, W&W's insurance business is well-balanced, comprising 48% life/health premiums and 52% non-life premiums. We anticipate that the P/C business will remain the major earnings contributor in 2023-2025 due to the group's strong pricing discipline and effective risk management practices.

Chart 2

The P/C segment is the key earnings contributor



Source: W&W annual/half-year reports.
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In 2022, Wuerttembergische Versicherung AG (WV), W&W's P/C insurance carrier, posted a favorable combined ratio of 89.89%, despite high claim costs from storms in June and July. The five-year average (2018-2022) net combined ratio for the P/C segment stands at 88.4% (2017-2021: 88.7%).

We believe that W&W's P/C segment can absorb higher natural catastrophe losses thanks to its efficient reinsurance protection and a sound equalization reserve. Despite a challenging macroeconomic outlook for Germany over 2023-2025, we believe that the P/C segment's profitability will remain solid, supported by favorable combined ratios amid low claims, and sound cost management.

Wuerttembergische Lebensversicherung AG (WL), W&W's life insurance carrier, experienced a 17% reduction in gross written premiums in 2022, mainly driven by the 42% contraction in single premiums. Due to the expected and actual loss of purchasing power in Germany and higher competition from banking products amid increasing interest rates and high inflation, domestic single premiums sharply decreased in 2022. As a bancassurer W&W has higher exposure to single premiums volatility than the market. Nonetheless, W&W has a broad product portfolio and a back book dominated by traditional annuities and endowment products. Positively, WL has already shifted its new business portfolio toward less-capital-intensive and interest-rate-sensitive products. As a result, more than 80% of new business includes unit-linked, disability, and biometric risk products and more flexible guarantees.

Financial Risk Profile: Strong

W&W's robust earnings and prudent, diversified investment portfolio supports our expectation that the insurance group will maintain capital adequacy above the 'A' benchmark in our risk-based capital model. Furthermore, the group and its subsidiaries displayed resilience with solid Solvency II ratios at year-end 2022, standing at 248.8% for the group, 373% for WL (with transitional measures), and 221.38% for WV.

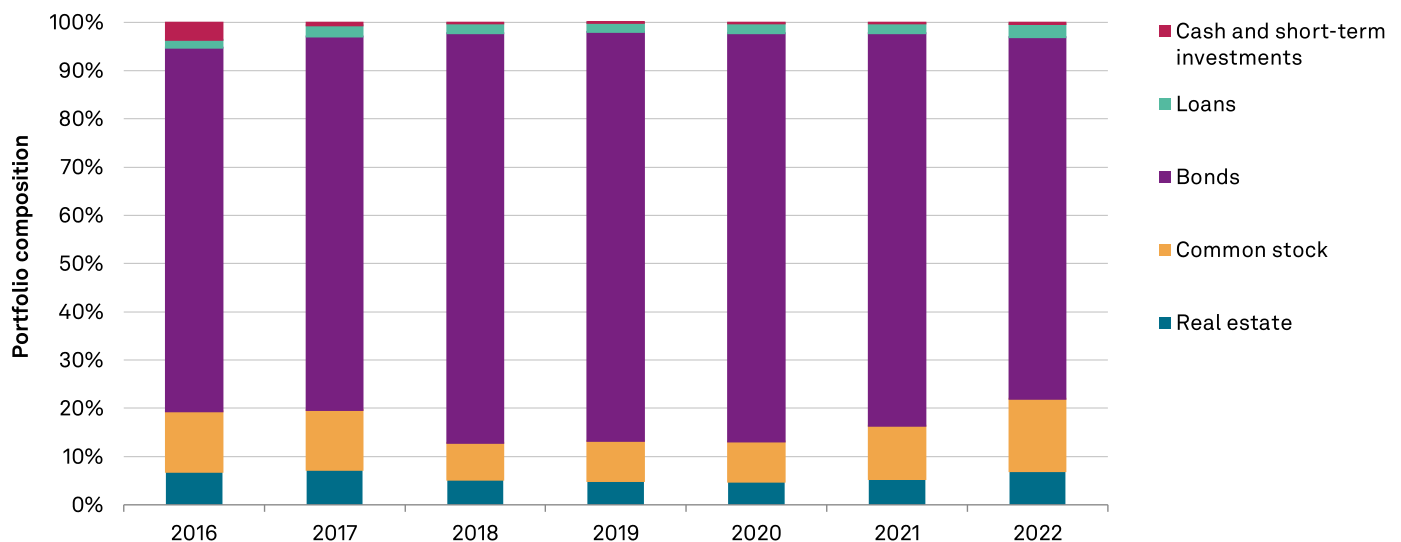
Continued pressure on investment income is expected, given the current capital market volatility and asset revaluations amid elevated interest rates. Nonetheless, we believe running investment results will improve from fixed-income investments over time.

WL benefits from a cautious bonus policy, but we assume that a further reduction in bonuses will have only a marginal effect.

In our view, W&W has a diversified investment portfolio, with over 70% of instruments being fixed-income securities with 'AA' credit quality (see chart 4). The insurance group has favorable leverage and coverage ratios. We anticipate that W&W will maintain sound financial leverage over the next two years, and that its fixed-charge coverage will remain strong, in line with our earnings forecast.

Chart 3

W&W's investment portfolio is conservative but diversified



Source: S&P Global Ratings. In 2018, W&W changed its reporting from International Accounting Standards to International Financial Reporting Standards.

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Other Key Credit Considerations

Governance

We have a favorable view of W&W's very experienced management and governance. This can be attributed to the group's proven track record of implementing sound strategic planning that emphasizes enhancing operational efficiencies. Additionally, WW's financial approach is characterized by a conservative and sophisticated outlook, further contributing to our favorable perception.

Liquidity

The liquidity profile is sound, thanks to the various liquidity sources at W&W's disposal, such as premium income, a favorable liability profile, and a very liquid asset portfolio. We do not foresee any refinancing concerns.

Factors specific to the holding company

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. Given its diversified earnings streams, low financial leverage, and active internal reinsurance operations, we regard the holding company as an operating holding company, and apply a one-notch downward adjustment from the rating on the core operating subsidiaries.

Enterprise risk management

W&W's strong strategic risk management capabilities enhance the ratings on the insurance subgroup. The group has implemented a robust and consistent risk management culture across all insurance and banking segments and business units. Our view of the group's risk controls is positive. W&W has an established record of sound strategic planning, focusing on improving operational efficiencies, as well as conservative and sophisticated financial management. Management still has inroads to make in developing and leveraging an effectively run bancassurance model with efficient processes.

Other considerations

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 somewhat weaker, at 'bbb'. We combine the subgroup SACPs to derive the group credit profile (GCP), reflecting the relative weight of the insurance and banking operations by assets, risk capital and profit contribution, and considering diversification benefits. The GCP for W&W is two notches higher than the SACP of the banking subgroup, reflecting our view that the banking subgroup is core to the overall group. We consider the insurance operations and the banking subgroups to be 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 macroeconomic tailwinds to its core baupar product, for the first time in many years. 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 aggregate creditworthiness at the current level.

Accounting considerations

W&W discloses consolidated financial statements under International Financial Reporting Standards (IFRS). Additionally, all group entities report under German generally accepted accounting principles (GAAP). We used the German GAAP figures to supplement our evaluation of the individual segments. We assess the group's capitalization by combining the capital requirements for both the banking and insurance subgroups, based on our respective criteria, using IFRS data.

We adjust W&W's capital position for the specific insurance components, as follows:

- Crediting 50% of the life insurance value-in-force not included on the balance sheet;
- Crediting 50% of the P/C reserve redundancy; and
- Adding the free and unallocated portion of the policyholder bonus reserve in life insurance.

Environmental, social and governance

ESG factors have no material influence on our credit rating analysis of W&W Group.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Wuestenrot Bausparkasse AG, Sept. 25, 2023

Appendix

Wuestenrot & Wuerttembergische AG--Credit metrics history

Ratio/Metric	2022	2021	2020
S&P Global Ratings capital adequacy*	Strong	Strong	Strong
Total invested assets	35,063	47,093	49,250
Total shareholder equity	3,710	4,874	5,085
Gross premiums written	4,495	4,719	4,491
Net premiums written	4,298	4,559	4,355
Net premiums earned	4,292	4,565	4,346
Reinsurance utilization (%)	4.4%	3.4%	3.0%
EBIT	377	499	325
Net income (attributable to all shareholders)	261	352	211
Return on assets (excluding investment gains/losses) (%)	0.5	0.7	0.4
Return on shareholders' equity (%)	6.1	7.1	4.2
P/C: net combined ratio (%)	87.7	87.0	89.3
P/C: net expense ratio (%)	26.0	25.1	24.9
P/C: return on revenue (%)	8.6	9.3	9.2
Fixed-charge coverage (x)	20.1	31.8	23.4
Financial leverage (%)	13.7	11.0	5.9
Net investment yield (%)	2.35	2.69	2.17
Net investment yield including investment gains/(losses) (%)	4.4	5.2	4.2

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-/bbb	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 25, 2023)*

Wuestenrot & Wuerttembergische AG

Financial Strength Rating

Local Currency

BBB+/Stable/--

Ratings Detail (As Of September 25, 2023)*(cont.)

Issuer Credit Rating	
<i>Local Currency</i>	BBB+/Stable/A-2
Junior Subordinated	BBB-
Related Entities	
Wuerttembergische Lebensversicherung AG	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Junior Subordinated	BBB
Wuerttembergische Versicherung AG	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Wuestenrot Bausparkasse AG	
Issuer Credit Rating	A-/Stable/A-1
Senior Secured	AAA/Stable
Subordinated	BBB
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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