

Research Update:

# Germany-Based Wuestenrot & Wuerttembergische Group Affirmed At 'A-'; Outlook Stable

July 19, 2019

## Overview

- Diversified bank insurance group Wuestenrot & Wuerttembergische's (W&W's) capital adequacy has improved to the 'A' level, backed by solid retained earnings and favorable profitability, despite a difficult operating environment.
- The banking subsidiary demonstrates strong capital buffers and benefits from cross-selling opportunities across the group. However, its revenue remains under material pressure in the low interest rate environment
- We are affirming our ratings on W&W at 'A-' based on its stable revenue base and profitability metrics.
- The outlook is stable because we expect the company to maintain its performance in insurance and cope with pressure on its banking franchise in the low-rate environment through ongoing efficiency measures.

## Rating Action

On July 19, 2019, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on German bank insurance (bancassurance) group Wuestenrot & Wuerttembergische's (W&W's) core operating entities (see the ratings list below for further details).

We also affirmed our 'BBB+' issuer credit rating and financial strength rating on W&W AG, which is the holding company of the group, and the 'BBB' ratings on the junior subordinated notes of Wuerttembergische Lebensversicherung and subordinated notes of Wuestenrot Bausparkasse (WBSK). The outlook is stable.

## Outlook

The stable outlook reflects our assumption that W&W's insurance and banking operations will at least maintain the revenue base, as per our base case, and stable profitability metrics.

### PRIMARY CREDIT ANALYSTS

**Silke Longoni**  
Frankfurt  
(49) 69-33-999-195  
silke.longoni  
@spglobal.com

**Benjamin Heinrich, CFA, FRM**  
Frankfurt  
+ 49 693 399 9167  
benjamin.heinrich  
@spglobal.com

### SECONDARY CONTACTS

**Johannes Bender**  
Frankfurt  
(49) 69-33-999-196  
johannes.bender  
@spglobal.com

**Michal Selbka**  
Frankfurt  
+49 (0) 69-33999-300  
michal.selbka  
@spglobal.com

### ADDITIONAL CONTACT

**Financial Institutions Ratings Europe**  
FIG\_Europe  
@spglobal.com

## **Downside scenario**

We might lower the ratings over the next two years if, contrary to our expectations, W&W was unable over a prolonged period to:

- Further improve the cost structure and efficiency of its banking operations to offset the negative effects on profitability from low interest rates--mainly on its Bauspar and residential real estate lending franchise.
- Maintain capital adequacy close to our 'A' level on a consolidated basis. Deterioration could result from a stronger decline in earnings than we currently expect, for example, as a consequence of prevailing low interest rates, or due to an increase in capital requirements for market risks.

## **Upside scenario**

We consider a positive rating action a remote possibility during the next two years, given the ongoing pressure on capital and earnings from the low-yield environment, both in the life insurance and the banking businesses.

## **Rationale**

Our assessment of W&W combines our views on both the insurance and the banking subgroups. In our view, the multiline insurance group's business risk profile has proven resilient to difficult operating conditions thanks to its strong property/casualty (P/C) insurance performance. Furthermore, we think that W&W's sound consolidated capital and earnings position is supported by the group's conservative investment strategy and prudent dividend payments, which have offset restructuring costs in the insurance and banking segments.

The group's unique bancassurance model offers distribution and diversification for its insurance and banking segments. We view the banking segment's business position to be moderate, in view of its concentrated and moderately profitable business profile compared with that of banks in countries with similar industry risk.

The affirmation reflects our view that W&W group's capital adequacy improved to the 'A' level and will remain there due to strong earnings. We expect net income of €200 million–€220 million per year for 2019–2021 supported by benign claims and cost reductions in the non-life business.

W&W's strong enterprise risk management capabilities enhance the ratings of 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, and especially its strategic risk management, is positive.

WBSK's banking franchise, with a focus on building loan contracts (bauspar) and residential mortgage products, remains very sensitive to external interest rate levels. It continues to suffer from costly bauspar deposits that, exacerbated by very low interest rates, have negatively affected its interest income. We expect the bank to mitigate pressure through ongoing cost cutting measures and the realization of reserves on its security portfolio. In our view, earnings will remain moderate until at least 2021 when the share of legacy bauspar contracts with high deposit rates and bonus commitments has reduced materially. However, we believe that WBSK has yet to demonstrate that it can sustainably generate adequate revenue with bauspar products in a

## Research Update: Germany-Based Wuestenrot & Wuerttembergische Group Affirmed At 'A-'; Outlook Stable

permanent low-rate environment. We view as positive the business stability and ongoing support provided by the group, in particular access to a diversified and stable customer base and moderate return targets, which have allowed it to weather difficult conditions until tariffs with higher deposit rates expire.

WBSK's stand-alone capitalization remains a key rating strength and rests on our expectation that it will maintain a risk-adjusted capital (RAC) ratio of 14.0%-15.0% until year-end 2021. We anticipate the full retention of its net income, which is broadly in line with growth in our risk-weighted assets (RWA) metric.

We assess the stand-alone credit profile (SACP) of the insurance subgroup at 'a' and continue to see the SACP of the banking segment somewhat weaker at 'bbb+'. We combine the subgroups' SACPs to derive the group credit profile (GCP), reflecting the relative weight of the insurance and banking operations by risk capital, profit contributions, and considering diversification benefits. The GCP on W&W is one notch 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 unsupported GCP at 'a-'.

We rate the holding company, W&W AG, 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 re-insurance operations, we regard the holding company as an operating holding and apply a one-notch differential to the operating core subsidiaries.

The short-term rating on WBSK is 'A-1', as we believe the parent's liquidity is exceptional and would be available to the subsidiary in case of distress. We assign a higher short-term rating to the group's core subsidiary to reflect this strength, if the long-term rating on the subsidiary is 'A-'.

## Ratings Score Snapshot

### W&W Group

<b>Business Risk Profile</b>	<b>Strong</b>
Competitive position	Strong
IICRA	Intermediate risk
<b>Financial Risk Profile</b>	<b>Strong</b>
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

## W&W Group (cont.)

<b>Group Support</b>	-1
<b>Financial Strength Rating</b>	<b>A-/Stable/--</b>

\*The anchor is mainly influenced by our view of W&W's track record, with the outperformance of the property and casualty business and superior strategic risk management capabilities enhancing the business risk profile. IICRA--Insurance Industry And Country Risk Assessment.

## WSBK

<b>Issuer Credit Rating</b>	<b>A-/Stable/A-1</b>
<b>Anchor</b>	<b>a-</b>
Business position	Moderate (-1)
Capital and earnings	Strong (+1)
Risk position	Moderate (-1)
Funding and liquidity	Average & Adequate (0)
<b>SACP*</b>	bbb+
<b>Group Support</b>	+1

\*SACP--Stand-alone credit profile

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- 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

## Ratings List

### Ratings Affirmed

#### Wuestenrot & Wuerttembergische AG

Issuer Credit Rating	
Local Currency	BBB+/Stable/A-2
Financial Strength Rating	
Local Currency	BBB+/Stable/--

#### Wuestenrot Bausparkasse AG

Issuer Credit Rating	A-/Stable/A-1
----------------------	---------------

#### Wuerttembergische Lebensversicherung AG

#### Wuerttembergische Versicherung AG

Issuer Credit Rating	
Local Currency	A-/Stable/--
Financial Strength Rating	
Local Currency	A-/Stable/--

#### Wuestenrot Bausparkasse AG

Subordinated	BBB
--------------	-----

#### Wuerttembergische Lebensversicherung AG

Junior Subordinated	BBB
---------------------	-----

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.