

Research Update:

# German Insurance Group Gothaer 'A-' Rating Affirmed; Outlook Remains Positive

September 22, 2020

S&PGR Affirms Gothaer Group At 'A-'; Outlook Positive

## Overview

- We expect Gothaer's profitability will be resilient to COVID-19 related pressure, and assume they will post net income of €70 million-90 million in 2020, and more than €100 million from 2021.
- Gothaer's sound solvency ratio and capital buffer securely above the 'AA' range according to our capital model further support the rating.
- We are affirming our 'A-' long-term issuer credit and financial strength ratings on Gothaer's core operating subsidiaries.
- The positive outlook indicates that we could upgrade Gothaer in the next 12-18 months if the group establishes a track record of firmly consolidating capital at very strong levels, while stabilizing investment risks at current levels.

## Rating Action

On Sept. 22, 2020, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on the core operating entities of German mutual Gothaer insurance group. The outlook is positive.

## Outlook

The positive outlook indicates that we could upgrade Gothaer in the next 12-18 months if the group establishes a track record of firmly consolidating capital at very strong levels, while stabilizing investment risks at current levels.

## Downside scenario

We could revise the outlook to stable if Gothaer's capital adequacy weakens below the 'AA' level

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for a prolonged period over the next 12-18 months because of rising capital requirements, significantly lower retained earnings, or a return to a more aggressive risk appetite. The same could apply the impact of COVID-19 results in significant underperformance compared with our base case capital and earnings forecast.

### Rationale

In our opinion, capital market volatility and the economic downturn following the outbreak of COVID-19 will put pressure on Gothaer's performance in 2020, and that of its mutual peers. As for the sector as a whole, we believe equity price drops, widening spreads, and a further decline in interest rates will affect the insurer's investment performance. This, coupled with uncertainties concerning COVID-19-related insurance claims will likely negatively impact Gothaer's earnings in 2020.

However, we believe the group's earnings generation capabilities and underwriting discipline will help it weather this economic storm. Furthermore, the group's equity investments are low, with less than 2% of total invested assets invested, which makes Gothaer less susceptible to equity price drops. A further increase of the asset duration will help the group withstand a further interest rate decline, in our view.

We have not yet observed any negative impact on the group's year-to-date business development from the COVID-19 outbreak. We assume overall flat growth in 2020, followed by gradual recovery in 2021, also based on our macroeconomic forecasts. For health insurance specifically, we expect modest cost and claims increases related to testing against the virus, and medical treatments. At the same time, these will likely be offset by cost savings following postponement or cancellation of medical treatments and increased hygiene measures that mitigate the risk for other diseases. For the property and casualty (P&C) business, we anticipate business interruption will have the most significant impact on performance, but this should be offset by improving technical profitability in motor, household, and other business lines. In our view, the life business will suffer most from the market volatility and low interest rates, but Gothaer will mitigate this risk with the steady move toward less capital-intensive products.

In our base case, we assume Gothaer will post net income of €70 million–€90 million in 2020, improving to more than €100 million from 2021. At the same time, Gothaer's capital buffer prior to the pandemic was already solid, and we believe the insurer will maintain its capital adequacy in the 'AA' range over the next two years once the COVID-19-related investment volatility subsides. Our view is further backed by Gothaer's strong solvency ratio, which stood at 276% (including transitionals) at year-end 2019.

Our ratings on Gothaer continue to reflect its established market position in the German insurance market and the group's stable earnings, which are supported by a diverse product portfolio. The group's business across all three insurance segments (life, P&C, and health) makes it less vulnerable to adverse developments in single a product line, despite focusing on the mature German markets.

### Ratings Score Snapshot

<b>Business Risk Profile</b>	<b>Strong</b>
Competitive position	Strong
IICRA	Intermediate Risk

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<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
<b>Financial Strength Rating</b>	<b>A-/Positive</b>

\*This is influenced by the group's still somewhat weaker nonlife profit metrics compared with those of higher rated peers.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

## Ratings List

### Ratings Affirmed

#### Gothaer Allgemeine Versicherung AG

#### Gothaer Lebensversicherung AG

#### Gothaer Krankenversicherung AG

Issuer Credit Rating	
Local Currency	A-/Positive/--
Financial Strength Rating	
Local Currency	A-/Positive/--
<b>Gothaer Allgemeine Versicherung AG</b>	
Junior Subordinated	BBB

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