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Ratings

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Talanx Primary Insurance Group

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Talanx Primary Insurance Group

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
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

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

Financial strength rating
A+/Stable/--

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Increasing premiums and earnings diversification by geography and business line, supported by strategic acquisitions and organic growth, materially complementing the company's domestic market position as one of Germany's largest insurance groups.	Geopolitical and economic risks, capital market volatility, and inflation add uncertainty to financial targets.
Excellent capital adequacy, based on our internal risk-based capital model, supported by sound earnings and strong reserving.	Lower business and earnings potential from the German retail segment, albeit being the smallest segment within Talanx's primary business.
Improving underwriting performance with sound earnings potential in 2024-2026.	

S&P Global Ratings expects Talanx Primary Insurance Group (TPG) will continue to demonstrate a broad geographic footprint, successfully integrating the acquired Latin American operations from Liberty Mutual. The Talanx group operates mainly in industrial lines, German retail, international retail, and reinsurance. TPG operates in the first three segments. TPG's insurance revenue strongly increased by 16.2% to €19.7 billion at year-end 2023 and 23.9% to €11.2 billion at midyear 2024. The strong business growth was mainly attributable to retail international and industrial lines, whereas retail Germany's grew by about 4% in 2023 and at midyear 2024. The retail international business remains the growth engine within TPG. At ,midyear 2024, insurance revenue had increased by 49% to €224 million, mainly influenced by the consolidation of the acquired Latin American business. However, the organic growth was also strong at 19% currency adjusted. The Liberty Mutual transaction helped TPG to better balance its retail international portfolio between Europe and Latin America, each now contributing 50% to revenue. Industrial lines increased at midyear 2024 by 14% taking profit from the rate increases and strong new business. We expect TPG to continue to leverage its franchise increasing insurance revenue to more than €23 billion in 2024 and more than €24 billion in 2025.

TPG disclosed strong results in 2023 and at midyear 2024, despite high natural catastrophe claims and inflation. Net income in 2023 was €1.8 billion including dividends from Hannover Re. The group disclosed a strong profitability increase at midyear 2024 with a net income increase of 48% to €223 million for industrial lines and 59% to €224 million for retail international, whereas retail Germany profits declined by 7% to €82 million. We expect that the strong and diversified revenue increase will continue to support after tax results in the coming years, with a net income increase to more than €1.8 billion in 2024 and more than€1.9 billion in 2025 in the absence of natural catastrophe events exceeding TPG's large loss budget.

Capital and earnings will remain very strong and protected by sound risk controls and conservative reserving. We assess TPG's capital adequacy as redundant at the 99.99% confidence level based on our internal risk-based capital model. The group's conservative capital generation strategy allows TPG to finance its growth aspirations mainly with own resources. The group's solvency ratio remained almost stable on June 30, 2024, at 218% compared with 217% at year-end 2023. The group's ample capital base, successful risk controls, and conservative reserving will likely mitigate capital volatility, enabling TPG to cope with further market volatility, possible large manmade losses or natural catastrophe events, and inflation trends. We expect TPG's capital and earnings to remain at least very strong over our forecast horizon of 2024-2026.

Outlook: Stable

The stable outlook reflects that the group will maintain its competitive strengths, based on its strong business and regional diversification over our forecast horizon through 2025. We expect annual group earnings of more than €1.8 billion in 2024 and more than €1.9 billion in 2025 that continue to support a very strong capital position, at least.

Downside scenario

We would consider taking a negative rating action on TPG over the next 24 months if the company's capital and earnings unexpectedly and sustainably weakened and we revised our assessment to below very strong. This could occur if significantly higher insurance losses led to markedly lower earnings than we anticipate in our base-case scenario, or capital needs increased more than we expect.

Upside scenario

A positive rating action could occur over the next 24 months, if TPG continues to demonstrate more diversified and resilient earnings by geography in its industrial and retail insurance businesses, supported by synergies from the integration of its sizable Latin American acquisition.

Key Assumptions

- Decrease in long-term interest rates in the eurozone to 3.1% in 2024 and 2025, from 3.3% in 2023; and in Germany to 2.4% over the same period from 2.6% in 2023.

- Slow recovery in GDP increase in the eurozone in 2024 and 2025 to 0.7% and 1.4% from 0.6% in 2023. In Germany, we expect a similar trend with GDP increase to 0,3% in 2024 followed by an increase to 1.2% in 2025 from a 0% increase in 2023.
- Stable unemployment development in the eurozone and Germany at 6.5 in 2024 and 2025. For Germany, unemployment will slightly increase to 3.3% in 2024 and 3.2 in 2025 compared with 3.0% in 2023.
- Decline in average inflation in the eurozone and Germany in 2024 to 2.4% and 2.7%, respectively, from 5.4% and 6.0%. For 2025, average inflation to further decline to 2.2% and 2.3%, respectively.

Talanx Primary Group--Key metrics as per IFRS 17

	2025f IFRS 17	2024f IFRS 17	2023 IFRS 17	2022 IFRS 4	2021 IFRS 4
S&P Global Ratings capital adequacy	99.99%	99.99%	99.99%	Excellent	Excellent
Insurance Revenue	>24.000	>23.000	19,723	20,940	18,747
Net income	>1.900	> 1.800	1,760	1,228	1,076
Return on equity (%)	>15	>15	13.6	10.2	8.1
Net investment yield (%)	3,8-4,2	3,7 - 4,0	3.6	2.7	3.7
P/C: net combined ratio (%)	91-94	91-94	93.4	96.4	96.1
Return on revenue (%)	9-11	9-11	8.6	8.7	7.5
Financial leverage (%)	~30	~30	29.4	34.6	25.6
EBITDA fixed-charge coverage (x)	>10	>10	10.0	11.5	8.5

IFRS--International Financial Reporting Standards. *Data prior to 2023 is based on IFRS 4. f--Forecast.

Business Risk Profile: Strong

In our view, TPG benefits from its strong market position in Germany and its international business portfolios offering life and property/casualty (P/C) insurance through its defined segments. The group benefits from strong premium diversification across segments and regions. Earnings diversification has improved especially following the business increase in retail international and profitable growth in industrial lines.

In May 2023, Talanx acquired Liberty Mutual's Latin American business, adding further revenue and earnings diversification. The transaction adds scale and enhances TPG's position in the Latin American insurance markets. We believe this allows the group to better balance earnings within the international retail business, reducing its dependence on single markets like Poland or Italy. Additionally, the group strongly increased the profitability of its industrial lines business, adding business and geographic diversification to the group.

TPG's insurance revenue strongly increased by 16.2% to €19.7 billion in 2023 and 23,9% to €11.2 billion at half year 2024. The strong business growth was mainly attributable to retail international and industrial lines, whereas retail Germany's grew by about 4% in 2023 and at half-year 2024. The retail international business remains the growth engine within TPG. At half-year 2024, insurance revenues increased by 49% to €224 million, mainly influenced by the consolidation of the acquired Latin American business. However, the organic growth was also strong at 19% currency adjusted. The Liberty Mutual transaction helped TPG to better balance its retail international portfolio between Europe and Latin America, contributing now each 50% to revenues.

The improving diversification and enhancing performance of the primary operations are gradually reducing TPG's dependance on dividends from Hannover Re to reach net income targets. However, reinsurance business still contributed about 54% to the group's net income in 2023 and 52% at midyear 2024. Furthermore, the German business is facing some headwinds in its P/C and life operations. In P/C, midyear 2024 results are highly impacted by natural catastrophe losses and inflation, especially in motor, leading to a combined ratio of 99.7% from 96.1% at midyear 2023. The bancassurance operations are also facing some headwinds, as the group in recent years lost its exclusive distribution agreements with Postbank and the cooperation with Targobank will end at year-end 2025. We therefore believe that the earnings potential for retail Germany is somewhat limited over our forecast period.

Financial Risk Profile: Very Strong

At year-end 2023, TPG holds a capital buffer above the 99.99% confidence level as per our risk-based capital model. We believe that the solid capital level, continued robust operating performance, high retained earnings, a conservative asset allocation, and comfortable reserving allows TPG to retain at least a very strong capital and earnings through 2025. Furthermore, we expect the group's regulatory capital will remain at least securely within the group's target range of 150%-200%. The regulatory solvency ratio was 217% at year-end 2023 and 218% at midyear 2024. The group's sound earnings and strong reserving will continue to support our view of its capital position.

Our prospective capital view is based on our estimation of TPG's net profit of more than €1.8 billion in 2024. We expect that earnings diversification, cautious underwriting, and strong reserving will allow TPG to navigate well through geopolitical and economic risks, capital market volatility, and inflation trends in the next two years. We expect TPG to report a strong technical performance with a combined ratio of 91%-94% for 2024 and 2025, based on figures under International Financial Reporting Standard (IFRS) 17 and in the absence of natural catastrophe losses exceeding TPG's large loss budget, which is about €500 million for 2024. Higher interest rates should support the group's recurring investment income in the medium term. We therefore assume the net investment yield will increase to 3.7%-4.0% in 2024 from 3.6% in 2023.

TPG follows what we view as a balance and conservative investment strategy. Asset allocation is heavily geared

toward fixed-income investments, which account for more than 80% of the total based on half-year 2024 numbers. Moreover, its broad geographic business diversification and sound risk controls make the group reasonably resilient to capital and earnings volatility. In our view, potential volatility could result from large losses such as natural catastrophes, but this risk is mitigated by sound reinsurance protection and conservative natural catastrophe and other large-loss budgeting.

TPG has demonstrated its access to ample sources of external funding including equity, reinsurance, and debt markets, and we expect this to continue. At year-end 2023, the group's financial leverage ratio (debt plus hybrids to shareholders equity, and consolidating the Hannover Re subgroup) was 29.4%, while fixed-charge coverage stood at 10x based on IFRS 17 figures. Based on our capital and earnings forecast and assuming no major change in TPG's capital management approach, we expect leverage to remain at about 30% and the fixed-charge coverage ratio to be above 10x in 2024 and 2025.

Other Key Credit Considerations

Governance

We do not foresee any material governance issues that could affect the ratings. We believe the group can implement its management succession plans with internal and external resources, as demonstrated in recent years. We think that the management team has a consistent track record of strategic planning, strong execution, and transparent, demanding, and sophisticated financial management.

Liquidity

We expect TPG's liquidity to remain exceptional over the next two years. The group has ample liquidity sources available, mainly premium income and a highly liquid asset portfolio. Moreover, there are no refinancing risks, in our view.

Factors specific to the holding company

The ratings on Talanx AG, the group's operating holding company, are equalized with those on TPG's core entities due to its role within the wider group as internal reinsurer, further enhancing the diversity of its cash flow and its ability to honor its financial obligations. Furthermore, Talanx AG benefits from substantial levels of excess capital and moderate financial leverage.

Group support

Our assessment of Hannover Re reflects the group's stand-alone characteristics. The group is 50.2%-owned by ultimate parent Talanx AG, while the remainder of its shares are widely held. We understand that Hannover Re's strategy, capital management, and cash flow are somewhat independent from Talanx AG.

Environmental, social, and governance

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

Accounting considerations

We mainly base our assessment of TPG on its annual financial statements, including the mutual parent HDI Haftpflichtverband der Deutschen Industrie V.a.G., where we focus on the three primary insurance segments: German retail, international retail, and industrial lines, supplemented by nonpublic information on the life and P/C operations and a consolidated view on TPG including corporate operations. Our assessment of financial flexibility relies on the consolidated HDI Group figures rather than on TPG data only. In our ratings on domestic and nondomestic subsidiaries of HDI Group, we base our analysis on annual reports under local generally accepted accounting practices and IFRS. The numbers are based on IFRS 17 accounting from 2023.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Talanx Primary Group Affirmed At 'A+' After Revised Criteria; Targo Lebensversicherung Lowered To 'A' On Group Status, May 8, 2024

Appendix

Talanx Primary Group--Credit metrics history as per IFRS 17

	2023 IFRS 17
S&P Global Ratings capital adequacy	99.99%
Total invested assets	98,502
Total shareholder's equity	14,129
Insurance Revenue	19,723
Reinsurance utilization (%)	5.4
EBIT	2,166
Net income	1,760
Return on revenue (%)	8.6
Return on assets (excluding investment gains/losses) (%)	2.1
Return on equity (%)	13.6
P/C: net combined ratio (%)	93.4
PC: return on revenue (%)	5.0
EBITDA fixed-charge coverage (x)	10.0
Financial obligations / EBITDA adjusted (x)	2.5
Financial leverage adjusted including pension deficit as debt (%)	29.4
Net investment yield (%)	3.6

IFRS--International Financial Reporting Standards. *Data prior to 2023 is based on IFRS 4.

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 August 22, 2024)*

Operating Company Covered By This Report	
HDI Haftpflichtverband der Deutschen Industrie V.a.G.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Related Entities	
HDI Global Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
HDI Global Network AG	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
HDI Global SE	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
HDI Global Specialty SE	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of August 22, 2024)*(cont.)	
HDI Lebensversicherung AG	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
HDI Versicherung AG (Germany)	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
LPV Lebensversicherung AG	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
neue leben Lebensversicherung AG	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Talanx AG	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
Senior Unsecured	A+
TARGO Lebensversicherung AG	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A.	
Financial Strength Rating	
Local Currency	A+/Stable/--
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.