Research Update:

Talanx Primary Insurance Group Upgraded To 'AA-' On Enhanced Diversification And Earnings Resilience; Outlook Stable

February 5, 2025

Overview:

- Talanx Primary Group (TPG) has significantly enhanced its revenue and earnings diversification across segments and regions, driven by the expansion of retail international business in Latin America and profitable growth in the global corporate and specialty business.
- We believe TPG's diversified operations have strengthened the resilience of its business risk profile in line with 'AA-' rated peers.
- We therefore raised our ratings on the operating holding Talanx AG and related core insurance operating entities to 'AA-' from 'A+'.
- The stable outlook reflects our expectation that the group will sustain its robust earnings generation and diversified business growth, which continue to support its very strong capital and earnings position.

PRIMARY CREDIT ANALYST

Manuel Adam

Frankfurt

+ 49 693 399 9199

manuel.adam
@spglobal.com

SECONDARY CONTACT

Johannes Bender

Frankfurt

+ 49 693 399 9196

johannes.bender
@spglobal.com

Rating Action:

On Feb. 05, 2025, S&P Global Ratings raised its long-term financial strength and issuer credit ratings on the operating holding of Germany-based Talanx Primary Group (TPG), Talanx AG, and related core operating entities to 'AA-' from 'A+' and upgraded TPG's highly strategic subsidiaries to 'A+' from 'A'. The outlooks on all our long-term ratings remain stable.

We also raised the issue ratings to 'A' from 'A-' on its junior subordinated notes and to 'AA-' from 'A+' on its senior unsecured notes.

Rationale

TPG has strengthened its diversification, now benefiting from a well-balanced portfolio that generates revenue and earnings across a broad range of business lines and regions in its three segments: Retail International (~42% earnings contribution for the first nine months of 2024), Corporate and Specialty (~44%), and Retail Germany (~14%). The group has substantially enhanced its earnings generation and diversification through successful expansion in Latin America and strong, profitable growth in its corporate and specialty business.

In our view, this diversification improves the group's capacity to withstand challenging economic and market conditions and remain in line with peers rated 'AA-', which led us to revise our assessment of its competitive position to very strong and, ultimately, we see its overall business risk profile as very strong.

TPG's wide geographic diversification supports its growth ambitions. In retail international, the acquisition and successful integration of Liberty Mutual companies in Latin America throughout 2023 and 2024 enhanced TPG's market position. It furthermore improved the balance of its retail international portfolio between Europe and Latin America, each now contributing 50% to revenue (against approximately 75% Europe and 25% Latin America in 2020). In the corporate and specialty segment, the group has established a sound global presence with top positions in various large markets.

The group's consolidated property/casualty combined ratio (loss and expense) has markedly improved to 92.4% for the first nine months of 2024 versus 93.8% for the same period in 2023, despite elevated large natural catastrophe and man-made losses. This improvement can mainly be attributed to disciplined underwriting controls, strategic repricing in the corporate and specialty segment, and premium adjustments linked to inflation.

We anticipate that robust underwriting standards, cost discipline, and profitable growth will support profitability in the coming years, with a net income exceeding €1.9 billion in 2024, and €2.1 billion over 2025-2026. In our view, TPG can sustain a return on equity above 12%, assuming that natural catastrophe and major man-made events will not surpass TPG's loss budget. The improving performance of the primary operations has reduced TPG's dependance on earnings from Hannover Re to reach net income targets.

We believe that high retained earnings, comfortable reserving, and the management commitment allows TPG to retain at least a very strong capital and earnings position over 2025-2026. We include Talanx AG's mutual parent HDI Haftpflichtverband der Deutschen Industrie V.a.G. in our assessment of Talanx's capital adequacy, which has a positive effect on excess capital and retained earnings. The group's solvency ratio supported our view and remained almost stable on Sept. 30, 2024, at 220%, compared with 215% at year-end 2023. As a reminder, Solvency II does not give credit to regulatory excess capital of Hannover Re beyond its regulatory capital requirements.

In line with most multiline European insurance groups, TPG has prudent asset allocation, with more than 80% of the total invested in fixed-income instruments, of which 93% is allocated to investment grade-rated instruments, based on figures from the first nine months of 2024.

TPG has demonstrated its access to ample sources of external funding. Based on our capital and earnings forecast and assuming no major change in TPG's capital management approach, we expect leverage to be about 30% and the fixed-charge coverage ratio to be above 10x in 2025-2026.

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, which further enhances 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.

Outlook

The stable outlook indicates that, in our view, the group is expected to maintain its very strong competitive position and prudent capital management over the next two years, including capital adequacy well above our 99.95% level.

Downside scenario

We could lower the ratings over the next two years if:

- Operating performance were to decline materially, causing our capital and earnings assessment to sustainably fall below very strong. This could result from a severe capital market downturn or considerably higher insurance claims than we expect in our base case;
- We observe a fundamental weakening in underwriting discipline that could lead to a significant underperformance over a prolonged period; or
- A material re-risking of the investment portfolio notably weakens TPG's capital adequacy prospects.

Upside scenario

We do not expect to raise our ratings on TPG over the next two years, as the group has a narrower geographic presence and business diversification than its 'AA' rated peers such as Allianz, Munich Re, and Zurich Insurance.

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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Talanx AG		
HDI Lebensversicherung AG		
HDI Global SE		
Issuer Credit Rating	AA-/Stable/--	A+/Stable/--
Talanx AG		
neue leben Lebensversicherung AG		
Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A.		
HDI Versicherung AG (Germany)		
HDI Lebensversicherung AG		
HDI Haftpflichtverband der Deutschen Industrie V.a.G.		
HDI Global Specialty SE		
HDI Global SE		
HDI Global Network AG		
HDI Global Insurance Co.		
Financial Strength Rating		
Local Currency	AA-/Stable/--	A+/Stable/--
HDI Global Insurance Co.		
neue leben Lebensversicherung AG		
Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A.		
HDI Versicherung AG (Germany)		
HDI Haftpflichtverband der Deutschen Industrie V.a.G.		
HDI Global Specialty SE		
HDI Global Network AG		
Issuer Credit Rating		
Local Currency	AA-/Stable/--	A+/Stable/--
HDI Specialty Insurance Company		
TARGO Lebensversicherung AG		
LPV Lebensversicherung AG		
Financial Strength Rating		
Local Currency	A+/Stable/--	A/Stable/--
TARGO Lebensversicherung AG		
LPV Lebensversicherung AG		
Issuer Credit Rating		
Local Currency	A+/Stable/--	A/Stable/--
Talanx AG		
Senior Unsecured	AA-	A+
Junior Subordinated	A	A-

Upgraded

	To	From
Talanx Finanz (Luxemburg) S.A.		
Junior Subordinated	A	A-

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.