S&P Global
Ratings

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Gothaer Insurance Group

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Gothaer 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

=

A/Positive/--
Financial strength rating

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

Credit Highlights

Overview

Key strengths	Key risks
Competitive edge, resulting from a diverse product portfolio and a well-established distribution network.	Lower geographical reach compared to higher-rated European peers.
Very strong capital and earnings, with capital adequacy above the 99.95% confidence level.	Potential volatility in group earnings due to geopolitical and economic risks, capital market volatility, and inflation.
Strict asset-liability management and sound earnings generation.	

Gothaer Insurance Group (Gothaer) is set to further improve its market position via the planned merger with Barmenia. We believe the announced merger of Gothaer with Barmenia Versicherungen will further improve the group's competitiveness via larger scale and diversification. Like Gothaer, Barmenia has a product range combining health, life, and property and casualty (P/C) insurance. While Gothaer has a focus on P/C insurance, Barmenia would add a large health insurance portfolio that would dominate Barmenia's business mix. Moreover, while Barmenia is focused on retail customers, Gothaer has a strong market position in the German SME and commercial segment providing more potential for diversification.

Capitalization will remain sound, supported by retained earnings and a conservative investment strategy. Gothaer's capital adequacy in 2023 remained sound and was above the 99.95% confidence level according to S&P Global Ratings' capital model. Our base case is that the combined group will maintain its very strong financial risk profile after the merger. This is supported by Barmenia's sound Solvency II ratio of 342% in 2023, which benefits from its significant exposure to German health business with low asset-liability mismatch risks, thanks to the ability to adjust premiums.

Outlook: Positive

The positive outlook reflects our view that we could raise the ratings over the next 12-24 months by one notch if the merger goes ahead as planned and improves the combined group's competitiveness, with Gothaer maintaining its very strong financial risk profile.

Downside scenario

We could revise the outlook to stable over the next 12-24 months if:

- The merger of Gothaer and Barmenia does not proceed as planned, for example because of no regulatory or mutual shareholder approval;
- Execution risks of the merger materialize, for example via lower synergy potential than anticipated, cannibalization of distribution capabilities, or misalignments in management and company culture; or
- The group's earnings are consistently weaker or more volatile than our base-case assumptions and are below those of German peers.

Upside scenario

We could raise the ratings on Gothaer by one notch over the next 12-24 months if:

- The merger of Gothaer and Barmenia goes ahead as planned and improves the combined group's scale and diversification; and
- The combined group maintains capital adequacy above the 99.95% confidence level, balancing investment risk, business growth, and capital generation.

Key Assumptions

- Modest GDP growth in Germany with 0.3% and 1.2% in 2024 and 2025.
- After 6.1% in 2023, inflation of 2.7% and 2.2% in 2024 and 2025 in Germany.
- 10 year government bond yields of 2.4% in 2024 and 2025 in Germany.

Gothaer Insurance Group--Key metrics*

	2025f	2024f	2023	2022	2021	2020	2019	2018
Gross premiums written (mil. €)	>5,000	>5,000	4,897	4,570	4,694	4,557	4,525	4,383
Net premiums written (mil. €)	>4,400	>4,400	4,340	4,078	4,249	4,203	4,168	3,992
Net income (mil. €)	75-90	75-90	78.3	83.2	82.1	72.4	115.0	118.8
Return on shareholders' equity (%)	4-7	4-7	5.1	5.7	6.0	5.6	9.5	10.8
Net investment yield (%)	>2	>2	3.2	2.6	2.5	2.7	2.6	2.8
P/C: Net combined ratio (%)	96-99	96-99	99.6	96.8	98.9	92.4	95.0	97.1
Life: Return on assets (%)	~1	~1	0.9	0.8	0.9	0.7	0.9	0.8

Gothaer Insurance Group--Key metrics* (cont.)								
	2025f	2024f	2023	2022	2021	2020	2019	2018
PC: Return on revenue (%)	5-7	5-7	5.4	6.6	7.3	8.4	8.4	6.9
Financial leverage (%)	<20	<20	15.6	16.2	16.9	18.0	18.7	21.8
EBITDA fixed-charge coverage (x)	>6	>6	9.2	10.0	11.7	12.9	12.3	9.4

*Excluding the merger. f--S&P Global Ratings forecast.

Business Risk Profile: Strong

We understand that the planned merger of Gothaer and Barmenia, announced in the third quarter of 2023, is progressing as planned. According to both groups' public statements, due diligence has been completed and initial decisions about the future structure have been made. Under the new group structure, the group will be headed by two parent companies. An intermediate holding company will be holding the insurance subsidiaries. According to the announcement, the life insurers--Gothaer Lebensversicherung AG and Barmenia Lebensversicherung AG--will merge. The merger process of the health insurers--Gothaer Krankenversicherung AG and Barmenia Krankenversicherung AG--will start in 2025.

In our view, the merger could significantly increase scale and diversification by lines of business, distribution channels, and customers. The new enlarged group will have gross written premiums of about €8 billion based on 2023 results, which could make it a top 10 insurance group in Germany.

Like Gothaer, Barmenia's product range combines health, life, and P/C insurance. While Gothaer has a P/C focus, Barmenia would add a large health insurance portfolio that would dominate Barmenia group's business mix. Moreover, while Barmenia is focused on retail customers, Gothaer has a strong market position in the German SME and commercial segment providing more potential for diversification. The combined group's well-diversified business across all three insurance lines (life, P/C, and health) would make it less vulnerable to adverse developments in any business segment, in our view.

We believe earnings potential will improve mainly because of diverse income streams. While Gothaer, like the wider German insurance market, saw claims inflation mainly in P/C and motor in 2023--with an overall combined ratio of 99.5%--the group posted net income of €78 million. This reflected improving investment returns and solid contributions from life and health. Under our base case we assume Gothaer will continue its focus on underwriting profitability with a combined ratio of 96%-99% in 2024-2025 and net income, excluding the merger, of €75 million-€90 million. We believe the merger has the potential to further improve the competitiveness if execution risks such as lower synergy potential than anticipated, cannibalization of distribution capabilities, or management and company culture imbalances remain contained.

Financial Risk Profile: Very Strong

Gothaer's capital adequacy in 2023 remained sound and was above the 99.95% confidence level according to S&P Global Ratings' capital model.

Gothaer benefits from sound earnings to finance its organic growth and a conservative investment strategy. Equity investments are low, at about 2.5% of total invested assets, which makes the group less susceptible to equity price drops. The group's weighted average credit quality has improved over the years and was at the upper 'A' level in 2023. Furthermore, we regard Gothaer's investment portfolio as diverse, with no substantial segment or single obligor concentration.

Under our base case, we also believe that the combined group will maintain its very strong financial risk profile after the merger, which is supported by Barmenia's sound Solvency II ratio. The ratio, which stood at 342% at year-end 2023, benefits from Barmenia's significant exposure to the German health business market and low asset-liability mismatch risks that result from Barmenia's ability to adjust premiums.

Gothaer's leverage and fixed-charge coverage are within our acceptable thresholds, and we do not foresee any material deviations. The group issued subordinated debt in 2015 that it used to refinance another maturing hybrid issuance that was callable in 2016.

Other Key Credit Considerations

Governance

Gothaer's management and governance assessment is supported by its progress in executing its strategic plans, which are, in our opinion, transparently communicated. The group also has a highly experienced management team that complements its operational needs. Gothaer has an established risk-management framework, with pre-defined risk tolerances at all entity levels. Overall, we do not see any governance deficiencies in our assessment.

Liquidity

We do not foresee any liquidity or refinancing concerns owing to the strength of available liquidity sources, and we expect that the group would withstand severe liquidity pressure in a stress scenario.

Group support

We consider Gothaer Lebensversicherung AG, Gothaer Allgemeine Versicherung AG, and Gothaer Krankenversicherung AG to be core operating entities of the group.

Environmental, social, and governance ESG factors have no material influence on our credit rating analysis of Gothaer Insurance Group.

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

Appendix

Gothaer Insurance Group--Credit metrics history

Ratio/Metric	2023	2022	2021
S&P Global Ratings capital adequacy	99,95%*	Satifsfactory	Strong
Total invested assets	35,010	34,682	34,368
Total shareholder equity	1,574	1,503	1,422
Gross premiums written	4,897	4,570	4,694
Net premiums written	4,340	4,078	4,249
Net premiums earned	4,313	4,064	4,236
Reinsurance utilization (%)	11.38%	10.77%	9.48%
EBIT	156.8	172.3	196.5
Net income (attributable to all shareholders)	78.3	83.2	82.1
Return on revenue (%)	2.8%	3.4%	3.8%
Return on shareholders' equity (reported) (%)	5.1%	5.7%	6.0%
P/C: Net combined ratio (%)	99.6%	96.8%	98.9%
P/C: Net expense ratio (%)	30.1%	30.0%	30.1%
P/C: Return on revenue (%)	5.4%	6.6%	7.3%
Health: Medical loss ratio (%)	79.3%	75.4%	76.4%
Health: Return on revenue (%)	12.4%	16.4%	15.6%
EBITDA fixed-charge coverage (x)	9.18	9.95	11.71
EBIT fixed-charge coverage (x)	8.51	9.42	11.10
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	8.51	9.42	11.10
Financial obligations / EBITDA adjusted	1.72	1.59	1.40
Financial leverage including pension deficit as debt (%)	15.57%	16.18%	16.95%
Net investment yield (%)	3.15%	2.55%	2.49%
Net investment yield including investment gains/(losses) (%)	2.70%	2.52%	3.30%

*Confidence level based on revised capital model criteria: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023.

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 June 20, 2024)*

Operating Company Covered By This Report	
Gothaer Allgemeine Versicherung AG	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	
Local Currency	A/Positive/--
Junior 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.