

Echo Rueckversicherungs-AG

Key Rating Drivers

'Very Important' Subsidiary: Fitch Ratings considers Echo Rueckversicherungs-AG (Echo Re) as 'Very Important' to its parent, the German mutual insurer DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (DEVK; Insurer Financial Strength (IFS) rating: A+/Stable). As a result, Swiss reinsurer Echo Re's IFS rating benefits from a three-notch uplift to its standalone credit quality.

Operational and Capital Support: DEVK's ownership provides Echo Re with support in risk management, reinsurance expertise and capital. We believe Echo Re is wholly integrated in group's strategy and plays a key role in DEVK's plan to increase its reinsurance premium and expand its worldwide reinsurance operation.

Strong Capitalisation: We assess Echo Re's capitalisation as strong. However, we believe the company is exposed to some volatility in its capital position, due to its small size and rapid growth. Echo Re's Prism Factor-Based Capital Model (Prism FBM) score remained 'Extremely Strong' at end-2021.

The company Swiss Solvency Test (SST) ratio improved significantly to 206% at end-2021 (end-2020: 151%), driven by a CHF25 million capital injection in August 2021 by DEVK to support its growth. We expect the SST ratio to slightly deteriorate again in 2022, mainly due to continuing business growth but to remain comfortably above 170%. Fitch believes DEVK will provide further injections to maintain Echo Re's strong capitalisation, if necessary.

Improving Company Profile: We view Echo Re's company profile as fairly weak but improving. Our assessment is driven by the company's small scale that in our view constrains its competitive positioning as well as its moderately diversified business and improving business risk profile.

Improved Underwriting Result: Echo Re's underwriting result continued to improve in 2021 as shown by company's Fitch-calculated net combined ratio of 98.8% in 2021 (2020: 106.3%). We believe that the underwriting performance of Echo Re will improve further and become less volatile as company matures.

Adequate Reserves: Echo Re is prone to adverse reserve developments due to its small size and rapid growth, but we regard its reserving methods as good. KPMG conducted an independent reserve review in 2021, which confirmed that Echo Re's accounted claims reserves are in the upper end of the best estimate range.

Ratings

Echo Rueckversicherungs-AG

Insurer Financial Strength A-

Outlooks

Insurer Financial Strength Stable

Financial Data

Echo Rueckversicherungs-AG

(CHFm)	2021	2020
Total assets	547	424
Total equity	149	119
Gross written premiums	242	227
Net combined ratio	98.8	106.3
Total debt and hybrids	0	0

Note: Reported on a single-entity basis.
Source: Fitch Ratings, Echo Re

Applicable Criteria

[Insurance Rating Criteria \(July 2022\)](#)

Related Research

[European Reinsurance Dashboard: 1Q22 Results \(May 2022\)](#)

[European Reinsurers' Earnings Much Improved in 2021 \(March 2022\)](#)

[DEVK Deutsche Eisenbahn Versicherung \(August 2022\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An increase in Echo Re’s strategic importance to core status to DEVK.
- An improvement in our assessment of Echo Re’s standalone credit quality, as shown, for example, by an improved company profile.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of DEVK’s group rating.
- A reduction of Echo Re’s strategic importance to DEVK. This may be manifested through a reduction in the importance of Echo Re within DEVK’s reinsurance operations, as shown, for example, by lower business volumes.
- A deterioration in our assessment of Echo Re’s standalone credit quality as shown, for example, by a sustained reduction of the SST ratio to under 170%.

Latest Developments

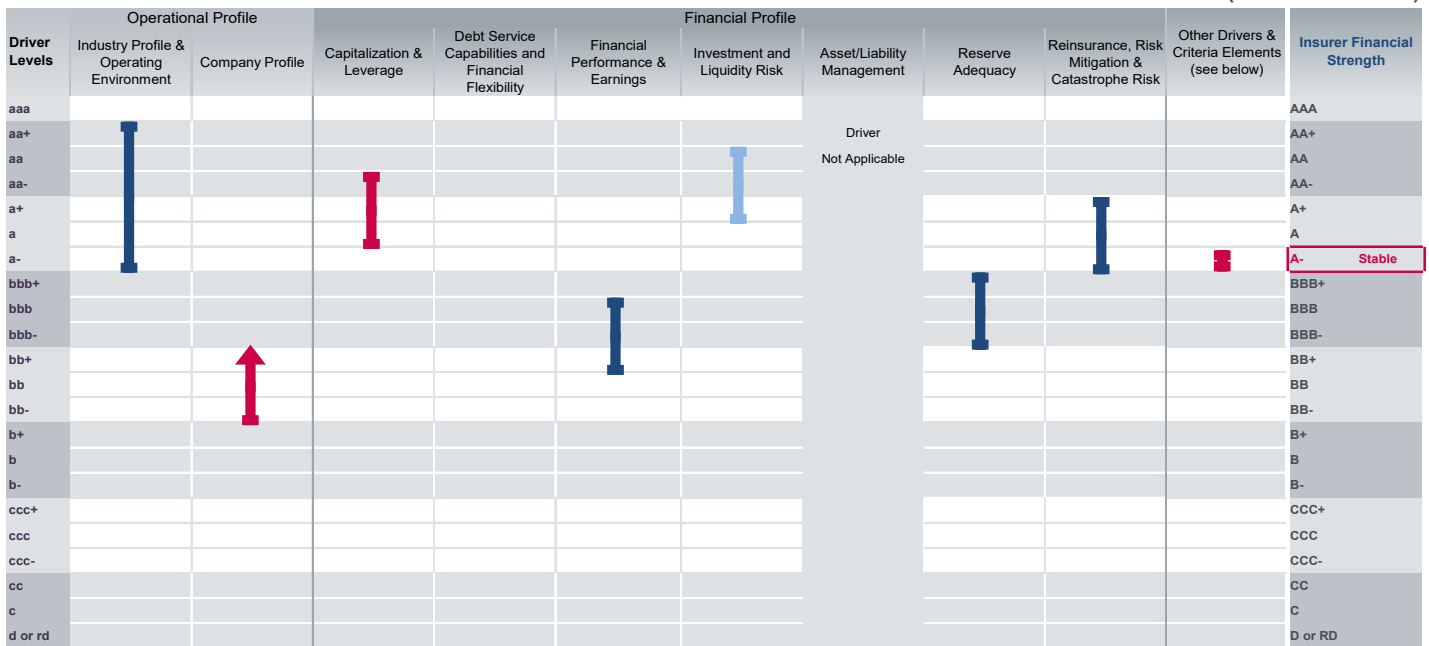
In 1H22, Echo Re’s premium growth was in line with 1H21. The company had one major loss related to floods in South Africa that resulted in net claims of CHF5 million.

Key Rating Drivers - Scoring Summary

Echo Rückversicherungs-AG



Insurance Navigator Global Re (Blended Non-US)



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength Rating				
Non-Insurance Attributes	Positive	Neutral	Negative	+0
Ownership / Group Support	Positive	Neutral	Negative	+3
Transfer & Convertibility / Country Ceiling	Yes	No	AAA	+0
Insurer Financial Strength Rating				Final: A-
IFS Recovery Assumption	Good			-1
Issuer Default Rating (IDR)				Final: n.a.

Bar Chart Legend:	
Vertical Bars = Range of Factor	
Bar Colors = Relative Importance	
	Higher Influence
	Moderate Influence
	Lower Influence
Bar Arrows = Factor Outlook	
	Positive
	Negative
	Evolving
	Stable

Company Profile

Operating Scale Constrains Company Profile

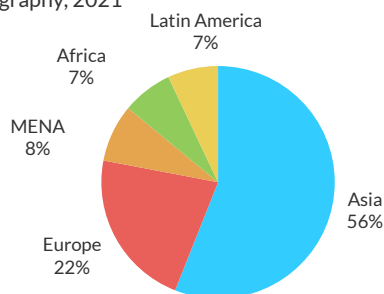
Fitch ranks Echo Re's company profile as 'Least Favourable' compared to other global reinsurers due to its small operating scale, its 'Least Favourable' competitive positioning and its 'Less Favourable' business risk profile. Given this ranking, Fitch scores Echo Re's company profile at 'bb' under its credit factor scoring guidelines.

Our assessment of Echo Re's competitive positioning is driven by company's small operating scale, which constrains its competitive positioning. Echo Re reported CHF242 million gross written premiums (GWP) in 2021, which is far below our USD2 billion threshold for the 'Less Favourable' category. However, we believe the company was able to establish strong business relationships and has a strong renewal record despite this disadvantage.

Echo Re's business risk profile is improving, in our view, as its more mature risk appetite gradually converges to that of the market. Its company profile also benefits from its notable geographical and segmental diversification for its size. Echo Re's main concentration remained in Asia, but the proportion has declined.

Premium Income

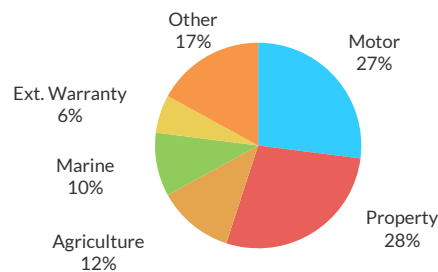
By Geography, 2021



Source: Fitch Ratings, Echo Re

Premium Income

By Line of Business, 2021



Source: Fitch Ratings, Echo Re

Ownership

Fitch views ownership as credit positive. Echo Re's rating benefits from a three-notch uplift from its standalone credit quality due to its DEVK group membership. Echo Re is wholly owned by DEVK through a direct investment. DEVK is the operating holding company of a mutual insurance group, the DEVK group.

The group consists of several life and non-life insurers and two reinsurers, including Echo Re. We view Echo Re as an integral part of the group and expect DEVK to support Echo Re when necessary, as demonstrated by several capital injections in recent years.

Capitalization and Leverage

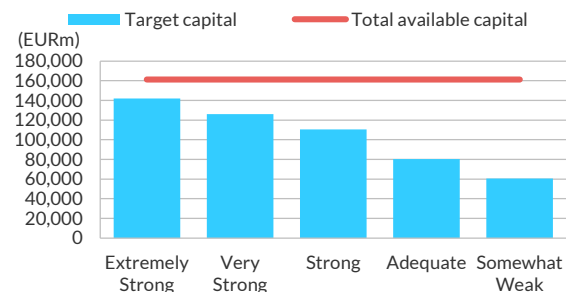
Capitalisation Supportive of Rating

We consider Echo Re's capitalisation to be strong. Echo Re's SST result increased to 206% at end-2021 from 151% at end-2020, driven by CHF25 million capital injection from DEVK in 2021. The ratio also benefited from lower underwriting risk and increased diversification. Due to Echo Re's small size and its high growth rate, the SST has been very volatile in recent years. We expect the SST ratio to deteriorate in 2022, mainly due to the expected high premium growth, but to remain comfortably above 170%.

Echo Re's Prism FBM model score remained 'Extremely Strong' at end-2021. Catastrophe risk is the main driver for Prism FBM's target capital. Fitch regards Echo Re's capital quality within Prism FBM as high, with shareholder funds, equalization reserve and unrealised capital gains the only contributors to available capital.

Capitalisation Adequacy

PRISM FBM



Source: Fitch Ratings

Financial Highlights

	2021	2020
Prism score	Extremely Strong	Extremely Strong
Prism total AC (EURm)	161,280	130,569
Prism AC/TC at Prism score (%)	114	110
Prism AC/TC at higher Prism score (%)	n.a.	n.a.

AC – Available capital. TC – Target capital

Note: Reported on a yearly basis.

Source: Fitch Ratings, Echo Re

Fitch Expectations

- The SST ratio to weaken due to the pressure arising from high growth rates, but to remain over 170%.

Debt Service Capabilities and Financial Flexibility

Financial Flexibility Is Reliant on Parent

Echo Re’s financial flexibility is solely dependent on DEVK’s ability and willingness to provide support. DEVK has shown its willingness to support Echo Re in the past through multiple capital injections totalling CHF150 million in 2010-2021.

Echo Re has no debt outstanding and no plans to issue debt.

Fitch Expectations

- Echo Re will not issue any debt in the near future and is likely to raise money from DEVK if necessary.

Financial Performance and Earnings

Underwriting Profitability Has Improved

Echo Re has steadily improved its underwriting profitability over recent years and reported a Fitch-calculated net combined ratio of 98.8% in 2021 (2020: 106.3%) – its best underwriting result in past eight years. The company’s five-year average combined ratio improved to 102.4% in 2017-2021 from 106.5% in 2016-2020). The volatility of the underwriting result also reduced in past five years as the company’s portfolio grew larger and became more diversified.

Echo Re was exposed to one major catastrophe in 1H22 related to flood losses in South Africa, with expected net losses of CHF5 million. The largest claims in 2021 were related to flood losses in Germany and a typhoon in the Philippines. The top 10 claims in 2021 cumulatively increased the net combined ratio by 7pp, compared with 10pp in 2020.

Echo Re has reported positive total income for the past three years which has resulted in a significant improvement in its average return on equity (ROE). Echo Re’s ROE reached 4% at end-2021 (end-2020: 0.5%) and an average of -0.8% in 2017-2021, an increase from -5.5% in 2016-2020. We believe the reported net income will remain positive in 2022.

Echo Re’s reported bottom-line profitability is exposed to currency exchange volatility since about half of Echo Re’s capital resources are managed in euros to reduce significant currency effects in DEVK group accounts.

Financial Highlights

(%)	2021	2020
Net income (CHFm)	5	1
Net combined ratio ^a	98.8	106.3
Operating ratio ^a	96.6	104.4
Return on equity	4.0	0.5
GWP growth	6.7	23.3

^a Excluding claims equalisation reserve development.
 Note: Reported on a single entity basis.
 Source: Fitch Ratings

Fitch Expectations

- The net combined ratio to increase slightly in 2022 due to high inflation but to remain strong.
- Volatility in the underwriting result to further decrease.

Investment and Asset Risk

Low Investment and Liquidity Risk

We regard Echo Re's investment risk as low, driven by its strong risky asset ratio of 11% at end-2021 (end-2020: 12%).

Fitch views Echo Re's investment allocation as prudent, with only about 5% of its investments held in equities at end-2021 (end-2020: 4%). The quality of the fixed-income portfolio is strong: almost all fixed-income investments carry an investment-grade rating, and only CHF 1.2 million or 0.6% of total investments were non-investment-grade.

In terms of bond ratings, 19.3% of all fixed-income bonds were rated 'AAA', 30.5% were 'AA', 40.0% were 'A' and 9.6% were 'BBB'.

Echo Re's liquid investments were 142% of loss reserves and loss adjustment expense reserves at end-2021. This strong ratio indicates strong liquidity, influenced by Echo Re's shareholder funds, and by the fact that Echo Re only invests in traded fixed-income securities.

Financial Highlights

(%)	2021	2020
Risky assets ratio	11	12
Unaffiliated common stocks ratio	8	7
Below-investment-grade bonds ratio	1	3
Liquid assets to loss and loss adjustment expense reserves	142	136

Note: Reported on a single entity basis.
 Source: Fitch Ratings, Echo Re

Reserve Adequacy

Loss Reserves Include Safety Margin

Echo Re is prone to adverse reserve developments due to its small size and rapid growth rate. However, its claims reserves provide a modest safety margin, which is supported by an independent reserve review that has been conducted by KPMG in 2021, which confirmed that Echo Re's accounted claims reserves are in the upper end of the best estimate range.

Further adverse developments in Echo Re's loss reserves are possible due to the company's rapid growth in recent years and its short operating history.

Financial Highlights

(%)	2021	2020
Loss reserve development to surplus	-2.3	-2.6
Loss reserve development to net earned premiums	-1.7	-2.3
Net technical reserves to net earned premiums	149	152
Change in the ratio	-3	25

Note: Reported on a single entity basis.
 Source: Fitch Ratings, Echo Re

Reinsurance, Risk Mitigation and Catastrophe Risk

Catastrophe Risks Limited by Adequate Reinsurance Programme

Echo Re buys reinsurance cover for large natural catastrophe and man-made risks. The reinsurance programme is modelled and placed by a large global reinsurance broker. Net of the reinsurance cover, Echo Re's one-in-250-year probable maximum loss (PML) is limited to CHF26.1 million, which is about 17% of reported shareholders' equity (including the claims equalisation reserve). We regard this level as very strong.

The company holds a net retention of CHF5 million per single claim, which is fairly large for Echo Re's small size. This leads to volatility within its underwriting result despite having a low one-in-250-year net PML. The high retention lowers reinsurance expenses, but it also makes the company more vulnerable to underwriting years with a high frequency of exceptional mid-range claims.

Fitch views Echo Re's single claim exposure as acceptable within the context of the overall DEVK group. However, we view it as fairly high for Echo Re's standalone assessment and believe this increases volatility in Echo Re's underwriting and bottom-line profitability.

The credit quality of Echo Re's reinsurers is strong, with most of the reinsurers' ratings being in the 'AA' or 'A' categories.

Fitch Expectations

- The catastrophe loss risk to remain low over the next 12-24 months.
- The credit quality of reinsurers will remain strong.

Appendix A: Peer Analysis

Among Fitch's rated European insurers, only SIGNAL IDUNA Rueckversicherungs AG (SI Re; IFS: A-/Stable) and Echo Re have a company profile ranked below the 'a' category and with low operating scale. Ownership raises Echo Re's IFS rating by three notches and SI Re's by two notches.

However, SI Re and Echo RE operate with different business models. While SI Re has a clear focus on European reinsurance business, Echo Re focuses on reinsurance business from outside Europe. SI Re's key credit factor scores are stronger than Echo Re's, resulting in an overall stronger standalone credit quality of 'bbb' – Echo Re's standalone credit quality is one notch lower at 'bbb-'.

Peer Comparison

(As per August 2021)	IFS rating	Company profile	Capitalisation	Debt service	Financial performance	Investment & asset risk	Reserve adequacy	Reinsurance & risk mitigation	Ownership
SI Re	A-	bbb-	aa-	n.a.	a-	a+	a-	a+	2-notch uplift
Echo Re	A-	bb	a+	n.a.	bb+	aa-	bbb	a	3-notch uplift

Note: IFS ratings and navigator scores as at 1 September 2021.
 Source: Fitch Ratings

Appendix B: Industry Profile and Operating Environment

Industry Profile and Operating Environment (IPOE)

Click [here](#) for a link to a report that summarises the main factors driving the above IPOE score.

Appendix C: Other Rating Considerations

Group Insurance Financial Strength (IFS) Rating Approach

Fitch assesses Echo Re's SCP as 'BBB-'. Fitch regards the company as 'Very Important' to the DEVK group under its insurance group rating approach, and DEVK's IFS rating benefits from a three-notch uplift to its SCP.

Group Insurer Financial Strength Ratings – Noncore Entities

Name	Standalone Credit Quality	Type	Strategic category	Rating assigned	Uplift
Echo Rückversicherungs-AG	BBB-	IFS	Very important	A-	3

Source: Fitch Ratings

Notching

For notching purposes, Fitch assesses Switzerland's regulatory environment as being 'Effective' and classified as following a group solvency approach.

Notching Summary

IFS Ratings

A baseline recovery assumption of 'Good' applies to the IFS rating, and standard notching was used from the IFS anchor rating to the implied operating company IDR.

Operating Company Debt

Not applicable.

Holding Company IDR

Not applicable.

Holding Company Debt

Not applicable.

Hybrids

Not applicable.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating
Source: Fitch Ratings

Debt Maturities

Not applicable.

Short-Term Ratings

Not applicable.

Hybrid – Equity/Debt Treatment

Not applicable.

Hybrids Treatment

Not applicable.

Recovery Analysis and Recovery Ratings

Not applicable.

Recovery Ratings

Not applicable.

Transfer and Convertibility Risk (Country Ceiling)

Not applicable.

Criteria Variations

No criteria variations were applied.

Appendix D: Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation		Overall ESG Scale		
Echo Rückversicherungs-AG has 7 ESG potential rating drivers				
<ul style="list-style-type: none"> ➔ Echo Rückversicherungs-AG has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations but this has very low impact on the rating. ➔ Echo Rückversicherungs-AG has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating. ➔ Echo Rückversicherungs-AG has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating. ➔ Governance is minimally relevant to the rating and is not currently a driver. 	key driver	0	issues	5
	driver	0	issues	4
	potential driver	7	issues	3
	not a rating driver	2	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	3	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Company Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Company Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Company Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Company Profile	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Company Profile	2
				1

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Consideration

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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