S&P Global
Ratings

RatingsDirect®

Echo Rueckversicherungs-AG

Primary Credit Analyst:
Viviane Ly, Frankfurt + 49 693 399 9120; viviane.ly@spglobal.com

Secondary Contacts:
Jure Kimovec, FRM, CAIA, ERP, Frankfurt + 49 693 399 9190; jure.kimovec@spglobal.com
Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com

Table Of Contents

Echo Rueckversicherungs-AG

Anchor	bbb-
Business Risk	**Fair**
Competitive position	Fair
IICRA	Intermediate
Financial Risk	**Fair**
Capital and earnings	Strong
Risk exposure	High
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	bbb-

+

Support	3
Group support	3
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
Expanding geographic footprint with operations in more than 53 countries.	Still weaker operating performance than global property/casualty (P/C) reinsurance peers.
Very strong capital adequacy, backed by improved retrocession and conservative investments.	Potential for material volatility of capital and earnings through substantial exposure to natural catastrophes and man-made disasters, among other large risks.
Track record of parental support with capital injections assuring financial stability and underpinning business development.	Relatively small size, which makes it more vulnerable to adverse developments.

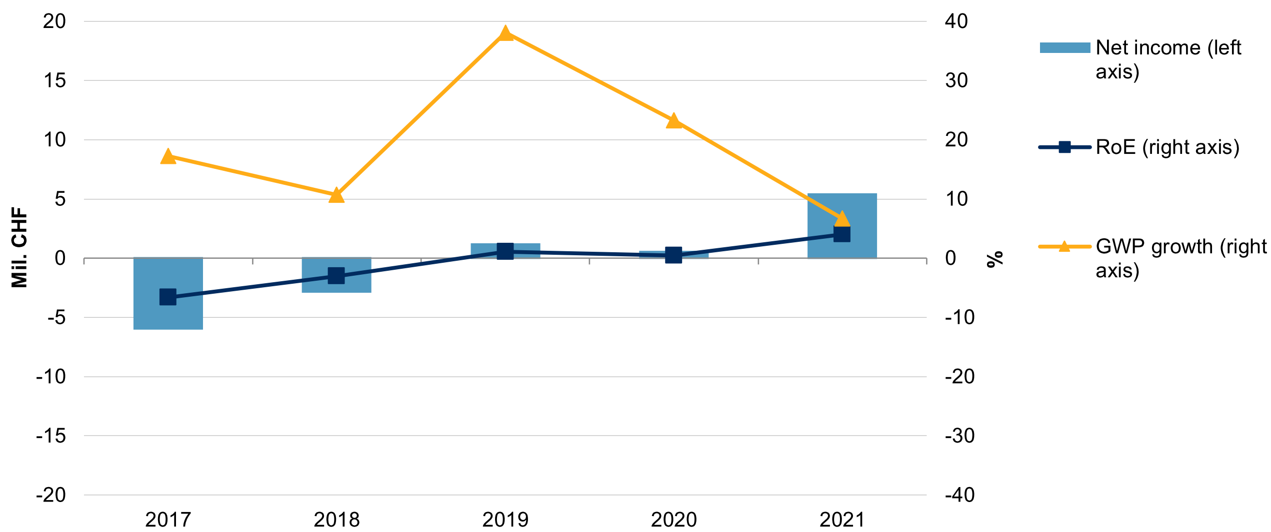
Echo Rueckversicherungs-AG (Echo Re) remains DEVK's main carrier for reinsurance expansion outside Europe, mainly in emerging Asian markets. Founded in 2008, Echo Re majorly writes non-European reinsurance business, thus enabling the group to increase its international presence. In addition, Echo Re acts as internal reinsurer for DEVK for certain German long-tail primary insurance lines, such as motor insurance business. We expect the company to grow 7%-12% per year, mainly thanks to more business in lines less exposed to natural catastrophes. In turn, this will gradually increase product diversification.

Echo Re's very sound capital adequacy continues to underpin the reinsurer's credit quality. In 2021, DEVK injected additional capital, helping Echo Re restore its capital adequacy to above the 'AA' confidence level in our capital model. We anticipate a stabilization in operating performance will enable the reinsurer to finance moderate business growth. We do not expect any dividend payments until 2024. We also believe the group will continue to firmly support Echo Re to retain capital at 'AA' level in 2022-2024, if needed.

Echo Re's operating performance is improving, but is not yet in line with the global reinsurance market. Echo Re's net combined (loss and expenses) ratio strengthened in 2021 by six percentage points to 99.9%. We note that the company retained slight underwriting profitability despite two large losses with "Bernd" and "Henan." Conversely, investment income remained stable. As a result, the company reported net income of Swiss franc (CHF) 5.4 million at end-2021 compared with CHF0.55 million in 2020. We expect income will steady at the 2021 level over 2022-2024.

Chart 1

Echo Re's Performance Has Improved On The Back Of Improvement In Underwriting Result



RoE--Return on equity. CHF--Swiss franc. GWP--Gross written premium. Source: S&P Global Ratings based on company financials.

Outlook: Stable

The stable outlook reflects our expectation that Echo Re will remain strategically important to DEVK, benefiting from financial and liquidity support if necessary. The outlook also incorporates our view that the company will expand its business franchise and improve its underwriting performance.

Downside scenario

We could take a negative rating action over the next 12-24 months if we see:

- A weakening in Echo Re's stand-alone credit profile following severe losses, leading to deterioration in its capitalization; or
- A reduction of Echo Re's strategic importance to DEVK, potentially triggered by continued underperformance of group targets.

Upside scenario

We see a positive rating action as unlikely over the next 12-24 months. In the longer term, a positive action might hinge on a stronger competitive position in its main markets, profitable and sustainable growth, and a larger capital base that offsets event-driven volatility.

Key Assumptions

- Real GDP growth in Asia-Pacific of 4%-5% in 2022-2024.
- Rising interest rates in Switzerland and the eurozone, with 10-year government bond yields increasing to 1.5% and 2.7% until 2025, respectively.

Echo Rueckversicherungs-AG--Key Metrics

	2024f	2023f	2022f	2021	2020	2019	2018	2017
Gross premium written (Mil. CHF)	>300.0	280.0-300.0	260.0-280.0	241.9	226.7	183.9	133.1	120.3
Net income (Mil. CHF)	5.0-10.0	4.0-8.0	3.0-6.0	5.4	0.6	1.2	(2.9)	(5.9)
Return on shareholders' equity (%)	4.0-6.0	4.0-6.0	3.0-5.0	4.0	0.5	1.1	(3.1)	(6.6)
P/C: Net combined ratio (%)	98.0-100.0	98.0-100.0	98.0-100.0	99.9	106.0	100.9	105.1	99.9
S&P Global Ratings capital adequacy	Very strong	Very strong	Very strong	Very strong	Satisfactory	Excellent	Very strong	Excellent
Net investment yield (%)	>1.0	>1.0	>1.0	1.0	1.1	1.1	1.1	1.1

f--S&P Global Ratings forecast. CHF--Swiss franc. P/C--Property/ casualty.

Business Risk Profile: Fair

Echo Re occupies a small position in the global reinsurance market with CHF242 million of gross written premiums (GWP) in 2021. Most of the premiums are from nongroup business, while group business accounts for around one-fifth.

Echo Re's risk profile is spread globally. Echo Re writes about 21% of its premiums in Europe (mainly Germany due to the internal quota-share agreement with DEVK) and 57% in Asia. The Middle East (8%), Africa (7%), and Latin America (7%) make up smaller shares of the company's GWP.

Echo Re offers all classes of P/C inward reinsurance predominantly as proportional treaties. Property represented 28% and motor represented 27% of inward reinsurance premium income in 2021. The rest comes from agriculture (12%), marine (10%), extended warranty (6%), engineering (4%), and other (13%). The company has progressively written more complex lines, like credit & surety, marine, and extended warranty business, to tap more profitable segments and increase diversification.

Echo Re lacks the resources to lead international nongroup contracts but provides its clients with capacity, diversification, and quick response services. We believe that Echo Re's international reinsurance, mainly from emerging markets, stretches DEVK Group's diversification and growth opportunities.

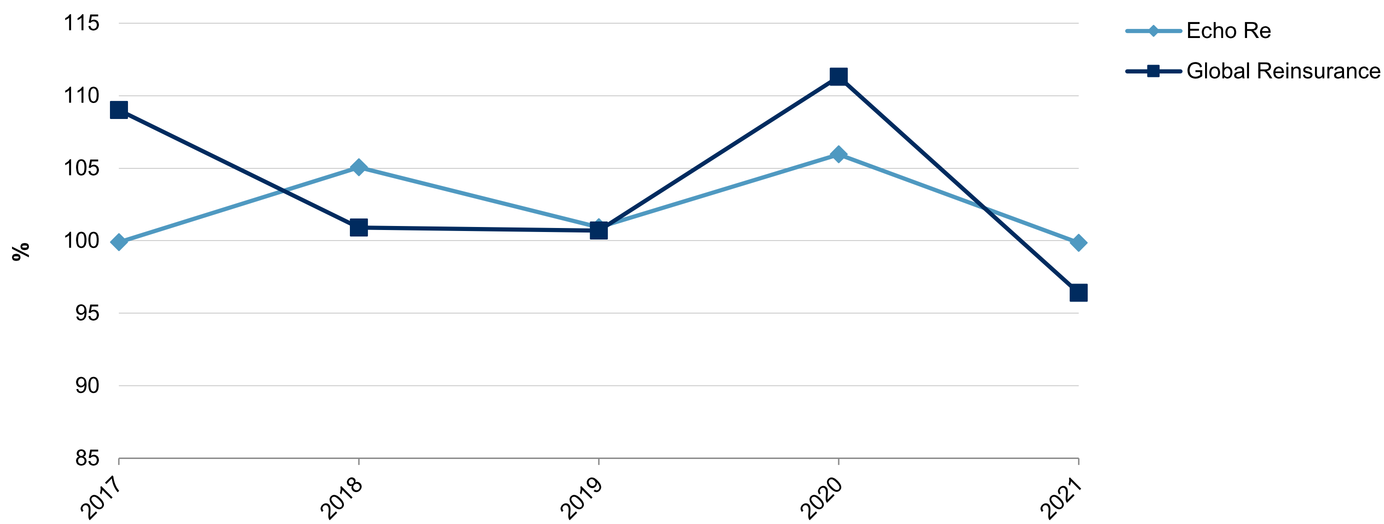
Asia, where Echo Re generates more than 50% of its GWP, remains the main growth driver. For 2022-2024, we estimate Echo Re's will write 7%-12% more premium each year. This is slightly higher than in the past years, reflecting price increases in its main Asian markets as well as Echo's continued focus on profitable growth. That said, we continue to expect the company to selectively expand its portfolio and geographic diversification based on prudent underwriting.

Despite Echo Re's increasing business diversification and larger volumes, we believe the company's still relatively modest size and low market shares make it more vulnerable to adverse operating conditions than larger, more diversified reinsurance peers. As a result, Echo Re's operating performance has been volatile over the recent past. In 2021, the company's net combined ratio improved to 99.9% after natural catastrophe related losses in 2020 cut into underwriting results. We note that impacts from the storm Bernd in Germany and the Henan flood in China in 2021 were limited; Echo Re covered the claims on its own since it did not imply exceeding the retention limit. Overall, we expect that Echo Re's 2020 enhanced reinsurance protection should somewhat protect against setbacks from natural catastrophe losses.

Assuming a normal level of natural catastrophes and further portfolio diversification, we expect Echo Re to show combined ratios of 98%-101% for 2022-2024. Ongoing improving business diversification, measures to strengthen underwriting, and increased retrocession will support this improvement. We note that Echo Re's performance has not felt an impact from the Russia-Ukraine conflict, as the company has no exposure there. Additionally, we think that China's COVID-19 zero tolerance strategy will have a limited impact on underwriting and investments exposure of the company. For now, we see inflation having a rather limited effect. Echo Re mainly operates in Asia, where rates are lower than in Europe.

Chart 2

Echo Re Versus The Global Reinsurance Market (P/C: Net Combined Ratio)



P/C--Property/Casualty. Source: S&P Global Ratings based on company financials.

Financial Risk Profile: Fair

Echo Re has a solid capital base, mainly owing to several capital injections from DEVK. The company received CHF25 million capital from its parent last year to support its growth strategy, restoring its capital adequacy to above 'AA' level. We expect Echo Re to maintain very strong capital adequacy through 2024. However, the current underlying very strong capital adequacy remains sensitive given the company's relatively small capital base and fair profitability. In particular, we consider that a one-in-10-year loss would affect Echo Re's earnings before interest and taxes more than its peers'.

In our view, underwriting risks remain a key concern for the company's balance sheet. In recent years, Echo Re has endured profitability losses due to several large catastrophe losses--like the explosions at the Tianjin port in China (2015), typhoons in Asia in 2018 and 2019, and the blast in the harbor of Beirut (2020). The company strengthened its retrocession program in 2020 to further reduce its exposure to single-loss events, and it has retained a solid program ever since. This stability, alongside gradually increased portfolio diversification, could help reduce the comparably high risk of catastrophes on Echo Re's balance sheet.

We believe that the company's investment risk and foreign exchange risk remain relatively limited. Echo Re's investment strategy, with a focus on high quality fixed-income securities rated on average in the 'AA' category, is conservative, in our view. Exposure to high-risk assets is relatively low. Overall, we believe that Echo Re's balance sheet remains less sensitive to market volatility than that of some of its larger peers.

Echo Re does not have any financial debt. If funding were needed to pursue materially better growth opportunities, the company would probably obtain support from DEVK.

Other Key Credit Considerations

Governance

We consider Echo Re's governance stable and comparable with its peers'. Echo Re's management and governance benefits from experienced leaders and underwriters. Given its limited size and reliance on key managers and underwriters, the loss of critical personnel could cause a significant disruption in operations.

Liquidity

We assess liquidity as adequate, backed by the substantial amount of liquid assets Echo Re holds. In addition, its reinsurance program supports liquidity in case of larger claims. Regular capital injections from the parent also provide underpin liquidity needs.

Group support

The ratings on Echo Re also capture our view of the company's strategic importance for DEVK. This leads us to factor in three notches for group support. We assume DEVK will continue supporting Echo Re's expansion.

Environmental, social, and governance

ESG Credit Indicators

E-1 E-2 E-3 **E-4** E-5	S-1 **S-2** S-3 S-4 S-5	G-1 **G-2** G-3 G-4 G-5
- Physical risk	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a negative consideration in our credit rating analysis of Echo Re. Echo Re's property reinsurance exposure can generate large losses in case of extreme weather and natural catastrophes. Echo Re's relatively small size makes its capital and earnings sensitive to such large claims. That said, we consider that Echo Re has a comprehensive retrocession program that protects the company against extreme natural catastrophe events. Echo Re also benefits from the support of its parent DEVK, which has injected capital into Echo Re several times.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- DEVK Insurance Group, Sept. 15, 2022
- S&P Global Ratings Top 40 Global Reinsurers And Reinsurers By Country: 2021, Sept. 30, 2021

Appendix

Echo Rueckversicherungs-AG--Credit Metrics History

Ratio/Metric (Mil. CHF)	2021	2020	2019	2018
S&P Global Ratings capital adequacy*	Very strong	Satisfactory	Excellent	Very strong
Total shareholder equity	149.2	118.8	118.2	92.1
Gross premiums written	241.9	226.7	183.9	133.1
Net premiums written	210.8	197.6	145.0	117.5
Net premiums earned	185.7	147.8	140.6	117.7
Reinsurance utilization (%)	12.9	12.8	21.2	11.7
EBIT	5.6	0.6	1.4	(2.7)
Net income (attributable to all shareholders)	5.4	0.6	1.2	(2.9)
Return on shareholders' equity (reported) (%)	4.0	0.5	1.1	(3.1)
P/C: net combined ratio (%)	99.9	106.0	100.9	105.1
P/C: net expense ratio (%)	30.8	28.5	30.2	29.8
P/C: loss ratio (%)	69.0	77.5	70.8	75.3
P/C: return on revenue (%)	2.5	0.7	(1.3)	3.5
Net investment yield (%)	1.0	1.1	1.1	1.1
Net investment yield including investment gains/(losses) (%)	1.4	1.0	2.1	0.6

CHF--Swiss franc. P/C--Property/ Casualty.

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 September 15, 2022)*

Operating Company Covered By This Report	
Echo Rueckversicherungs-AG	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Domicile	Switzerland

*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.