

Echo Rueckversicherungs-AG

Key Rating Drivers

'Very Important' Subsidiary: Fitch Ratings considers Swiss reinsurer Echo Rueckversicherungs-AG (Echo Re) 'Very Important' to its parent, the German mutual insurer DEVK Deutsche Eisenbahn Versicherung Group (DEVK) (Insurer Financial Strength (IFS): A+/Stable). As a result, Echo Re's IFS rating has a two-notch uplift to its standalone credit quality.

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

Strong Capitalisation: Fitch assesses Echo Re's capitalisation as strong, as underlined by its 'Very Strong' score in Fitch's Prism Factor-Based Capital Model (Prism FBM) at end-2022. We believe the company is exposed to some volatility in its capital position, due to its small size and rapid growth. Echo Re's Swiss solvency test (SST) ratio declined to 193% at end-2022 from 206% at end-2021. This was due to strong premium growth and a fall in the value of the fixed-income assets resulting from lower interest rates.

The lower SST also reflected the aggregation of an additional natural catastrophe scenario to the company's internal model to account for uncertainties, which is pending approval from the Swiss regulator FINMA. We expect capitalisation to remain strong in 2023, as strong premium growth will be compensated by growth in retained earnings and improved diversification in its business. Fitch believes DEVK would provide further injections to maintain Echo Re's strong capitalisation, if needed.

Improving Company Profile: Fitch views Echo Re's company profile as fairly weak, albeit improving, compared with other international reinsurers'. In our view, the company's small scale constrains its competitive positioning, but we view Echo Re's increasing business diversity as well as its improving business risk profile as positive for its company profile.

Improved Underwriting Result: Echo Re's underwriting result continued to improve in 2022 as reflected in a Fitch-calculated net combined ratio of 94% in 2022 (2021: 98.8%). Its total income increased to CHF13.3 million (CHF5.4 million), by far its strongest result. We expect Echo Re's underwriting performance to become less volatile as it matures.

Adequate Reserves: The reinsurer is prone to adverse reserve developments due to its small size and rapid growth, but we regard its reserving methods as sound. KPMG conducted an independent reserve review in 2022, which confirmed that Echo Re's accounted claims reserves are in the best-estimate range.

Ratings

Echo Rueckversicherungs-AG

Insurer Financial Strength A-

Outlook

Insurer Financial Strength Stable

Financial Data

Echo Rueckversicherungs-AG

(CHFm)	2022	2021
Total assets	639	547
Total equity	162	149
Gross written premiums	284	242
Net combined ratio	94.0	98.8
Net income	13	5

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

Applicable Criteria

[Insurance Rating Criteria \(July 2023\)](#)

Related Research

[European Reinsurance Dashboard: 1Q23 Results \(May 2023\)](#)

[DEVK Deutsche Eisenbahn Versicherung \(August 2023\)](#)

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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 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

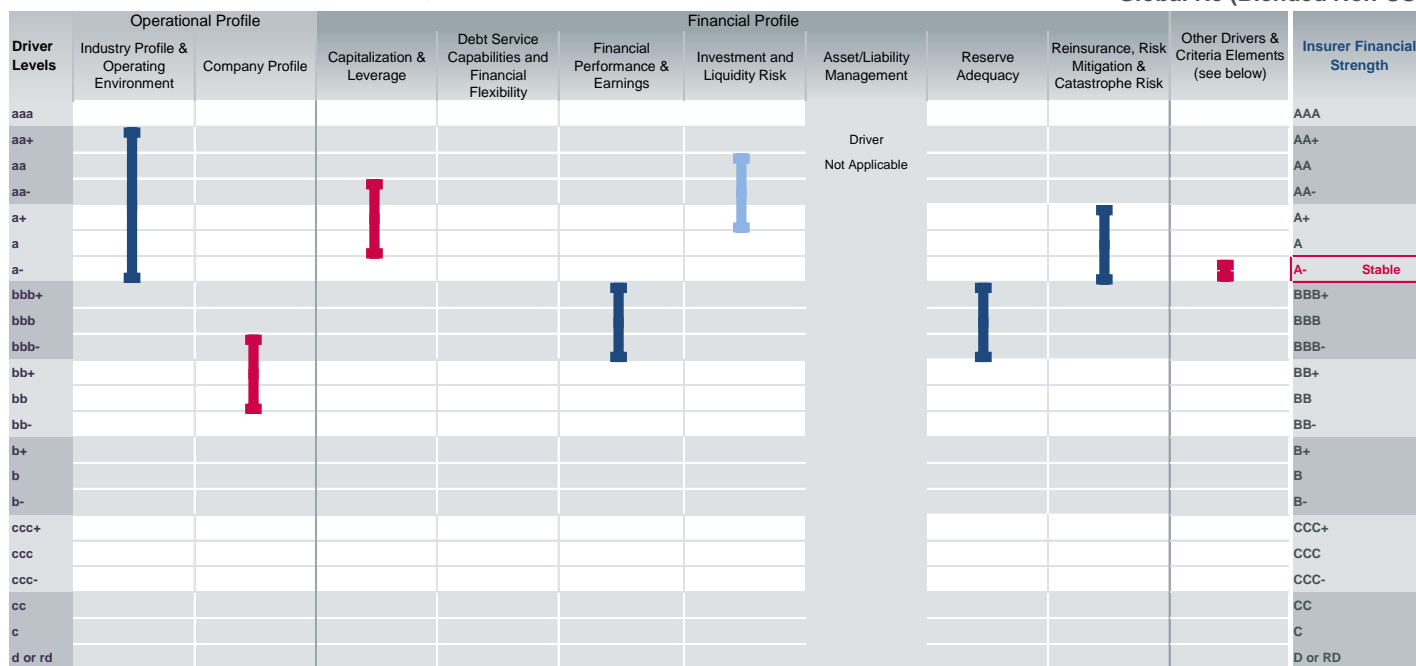
- A downgrade of DEVK’s rating.
- A reduction of Echo Re’s strategic importance to DEVK, as shown, for example, by lower business volumes.
- A deterioration in our assessment of Echo Re’s standalone credit quality as shown, for example, by a sustained reduction of the SST ratio to under 170% or a weakening company profile.

Key Rating Drivers – Scoring Summary

Echo Rückversicherungs-AG



Insurance Navigator
Global Re (Blended Non-US)



Other Drivers & Criteria Elements				
Provisional Insurer Financial Strength Rating				BBB
Non-Insurance Attributes	Positive	Neutral	Negative	+0
Ownership / Group Support	Positive	Neutral	Negative	+2
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 Driver	
Bar Colors = Relative Importance	
	Higher Influence
	Moderate Influence
	Lower Influence
Bar Arrows = Driver Outlook	
	Positive
	Negative
	Evolving
	Stable

Company Profile

Operating Scale Constrains Company Profile

Fitch ranks Echo Re's company profile as 'Least Favourable' compared with other global reinsurers due to its smaller operating scale, its 'Less Favourable' competitive positioning and its 'Least 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 in our view constrains its competitive positioning. Echo Re's gross written premiums (GWP) grew strongly by about 17% to CHF284 million in 2022, but remained far below our USD2 billion threshold for the 'Less Favourable' category. Fitch believes the company has been able to establish strong business relationships despite its small size and has a strong renewal record, as it is shown by its improved profitability despite its strong growth. We expect the premium growth to remain strong in 2023, due to the price adjustment driven by hardening reinsurance market and the company's growing underwriting capacity.

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. The premium income from Europe is mainly related to the business assumed from its parent group.

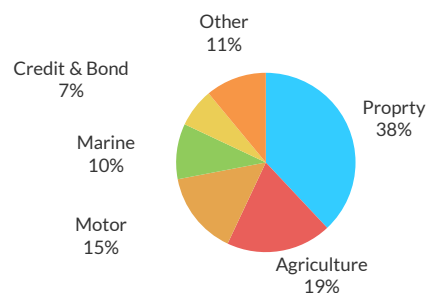
Company Profile Scoring Summary

Assessment		Sub-score/ impact
Business profile assessment	Least Favourable	bb+
Corporate governance assessment	Moderate/Favourable	0
Company profile factor score		bb+

Source: Fitch Ratings

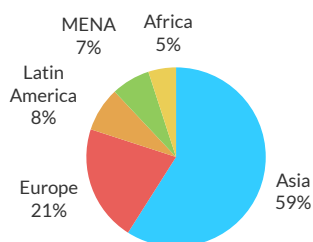
Premium Income

By line of Business, 2022



Premium Income

By Geography, 2022



Ownership

Fitch views Echo Re's ownership as credit positive. Its rating benefits from a two-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.

Capitalisation and Leverage

Capitalisation Supportive of Rating

Fitch considers Echo Re's capitalisation to be strong, as it is shown by Echo Re's Prism FBM model score of 'Very Strong' at end-2022. The score has declined from 'Extremely Strong' at end-2021, mainly due to the unrealised capital losses on fixed-income investment driven by higher market interest rates. We expect the Prism score to be at least 'Very Strong' at end-2023.

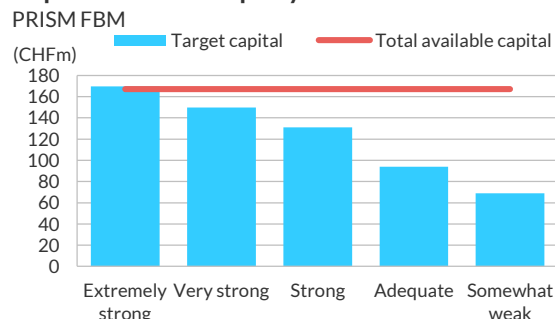
Echo Re's SST result declined to 193% at end-2022 from 206% at end-2021. To calculate its SST, Echo Re used the FINMA standard model and an internal natural catastrophe model, which is being approved. To compensate the uncertainties within the natural catastrophe model the company was requested to the aggregation of an additional natural catastrophe scenario. This along with market value losses on fixed-income assets and strong premium growth lead to the deterioration of the SST ratio. We expect company's capitalisation to remain strong in 2023, with the expected strong premium growth compensated by growth in retained earnings and the improved diversification of the business.

Financial Highlights

	2022	2021
Total equity (CHFm)	162	149
SST (%)	193	206
Financial leverage ratio (%)	0	0
Non-life net written premiums/equity (x)	1.4	1.3
Non-life net leverage (x)	3.2	3.1

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

Capitalisation Adequacy



Source: Fitch Ratings

Financial Highlights

	2022	2021
Prism score	Very Strong	Extremely Strong
Prism total AC (CHFm)	167	161
Prism AC/TC at Prism score (%)	112	114
Prism AC/TC at higher Prism score (%)	99	n.a.

AC - Available capital. TC - Target capital
Note: Reported on a yearly basis.
Source: Fitch Ratings, Echo Re

Debt Service Capabilities and Financial Flexibility

Financial Flexibility Is Reliant on Parent

Echo Re's financial flexibility is dependent on DEVK's ability and willingness to provide support. DEVK has shown its willingness to support Echo Re through multiple capital injections totalling CHF150 million in 2010-2023.

The reinsurer has no debt outstanding and no plans to issue debt in near future.

Financial Performance and Earnings

Underwriting Profitability Remains Strong

Echo Re has steadily improved its underwriting profitability over recent years and reported a Fitch-calculated net combined ratio of 94% in 2022 (2021: 99%) – which is the company’s best underwriting result since its foundation in 2008. This was due to the low level of catastrophe losses in 2022 and favourable results from group internal business. We also believe the good underwriting result is due to business risk improving over the years as the portfolio has become more mature and diversified. The company’s five-year average combined ratio improved to 99% in 2018-2022 from 100% in 2017-2021. 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’s main catastrophe loss in 2022 was from floods in South Africa, with about CHF8 million net losses. The company’s underwriting result has also benefited from about CHF8 million expected reserve developments from previous years. There were no major single losses in 1H23.

Echo Re’s total income increased to CHF13.3 million (CHF5.4 million), which is the company’s strongest result so far. Due to the improvement of Echo Re’s net income over the past three years, its average return on equity (ROE) has improved significantly. Echo Re’s ROE reached 8.5% at end-2022 (end-2021: 4%) and averaged of 2.2% in 2018-2022, an increase from -0.8% in 2017-2021. We expect the reported net income to remain strong in 2023, given the low catastrophe losses so far and the expected recovery in investment income.

Echo Re’s reported bottom-line profitability is exposed to foreign-exchange volatility since about half of Echo Re’s capital resources are managed in euros.

Financial Highlights

(%)	2022	2021
Net income (CHFm)	13	5
Net combined ratio ^a	94.0	98.8
Operating ratio ^a	93.0	96.6
Return on equity	8.5	4.0
GWP growth	17.2	6.7

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

Fitch’s 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, due to its strong risky-asset ratio of 13% at end-2022 (end-2021: 11%).

Fitch views Echo Re’s investment allocation as prudent, with about 76% of its investments held in fixed-income investment at end-2022 (end-2021: 72%). The quality of the fixed-income portfolio is strong with 99.5% invested in investment-grade bonds. Other significant asset classes were cash (14%), real estate (4%) and equities (4%).

Echo Re’s liquid investments were 139% of loss reserves and loss adjustment expense reserves at end-2022. Due to the changes in market interest rate at end-2022 the company has about CHF22 million unrealised losses. We expect these losses to have declined in 2023 and do not believe this has a negative effect on the company’s liquidity.

Financial Highlights

(%)	2022	2021
Risky-assets ratio	13	11
Unaffiliated common stocks ratio	8	8
Non-investment-grade bonds ratio	1	1
Liquid assets to loss and loss adjustment expense reserves	139	142

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 2022. This confirmed that Echo Re's accounted claims reserves are well within the best estimate range. This has been also proven by positive reserve developments in recent years.

Financial Highlights

(%)	2022	2021
Loss reserve development/surplus	-3.4	-2.3
Loss reserve development/net earned premiums	-2.6	-1.7
Net technical reserves/net earned premiums	144	149
Paid losses/incurred losses	0.7	0.7

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

We view Echo Re retrocession programme is comprehensive and include both proportional and non-proportional cessions. Net of the reinsurance cover, Echo Re's one-in-250-year probable maximum loss is limited to CHF31.1 million, which is about 18% of reported shareholders' equity (including the claims equalisation reserve). We regard this level as very strong.

In 2022, the company has increased its net retention to CHF7.5 million per single claim from CHF5 million. The increase in retention lowers company's reinsurance expenses, but it also makes the company more vulnerable to underwriting years with a high frequency of exceptional mid-range claims.

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

Fitch's 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 reinsurers, 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 two notches and SI Re’s by one notch.

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 ‘bbb’.

Peer Comparison

(As per August 2021)	IFS rating	Business profile	Capitalisation	Debt service	Financial performance	Investment & asset risk	Reserve adequacy	Reinsurance & risk mitigation	Ownership
SI Re	A-	bbb-	aa-	n.a.	bbb+	a+	a	a+	1-notch uplift
Echo Re	A-	bb+	a+	n.a.	bbb	aa-	bbb	a	2-notch uplift

Note: IFS ratings and navigator scores as at 1 September 2022.
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

Below is a summary of additional ratings considerations that are part of Fitch’s *Insurance Rating Criteria*.

Group Insurance Financial Strength (IFS) Rating Approach

Fitch assesses Echo Re’s standalone credit quality 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 two-notch uplift to its standalone credit quality.

Notching

For notching purposes, Fitch assesses Switzerland’s regulatory environment as being ‘Effective’ and classified as following a groupsolvency 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		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

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.

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

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 Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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