S&P Global
Ratings

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Research Update:

Swiss Reinsurer Echo Re Outlook Revised To Positive On Improved Operating Performance; 'A-' Ratings Affirmed

August 29, 2023

Overview

- The operating performance of Echo Rueckversicherungs-AG (Echo Re) is improving on the back of more solid underwriting results supported by a net combined (loss and expense) ratio of 96.2%, while the company enjoyed strong business growth of 17.2% in 2022.
- Significant premium increases in 2023 renewals are allowing further profitable business growth and prospectively more solid and sustainable performance, which we now expect to be closer to the level of the global reinsurance market in 2023-2025.
- We continue to view Echo Re as strategically important for its parent DEVK's international diversity, and we incorporate three upward notches from the 'bbb-' stand-alone credit profile (SACP) for group support.
- We revised the outlook on Echo Re to positive from stable and affirmed the 'A-' issuer credit and financial strength ratings.
- The positive outlook reflects our view that Echo Re is well positioned to continue building a track record of more solid earnings consistent with higher-rated peers, and we also believe the group will maintain robust capitalization.

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

Rating Action

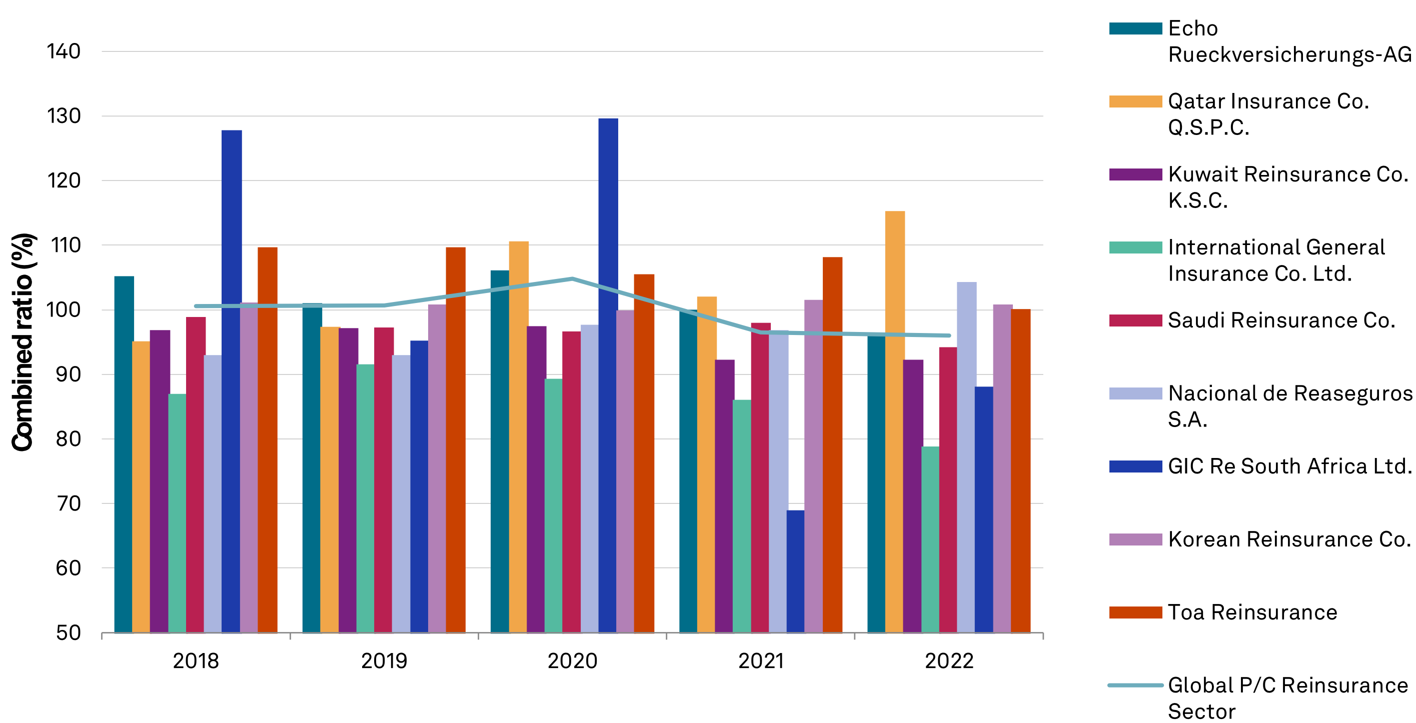
On Aug. 29, 2023, S&P Global Ratings revised its outlook on Switzerland-based Echo Rueckversicherungs-AG (Echo Re) to positive from stable. We also affirmed the 'A-' long-term issuer credit and financial strength ratings.

Rationale

The outlook revision reflects our view that Echo Re's operating performance has improved in the past few years. In 2022, the company achieved a solid combined ratio of 96.2% and return on equity (ROE) of 8.6%, which was more in line with the global reinsurance sector. We note that Echo Re in the past couple of years implemented several underwriting measures to improve business profitability, limiting underwriting risk and strengthening underwriting controls. The company's rapid business growth in the past few years increased its scale and scope of business, which is gradually improving portfolio diversification. We expect that the company will continue to source solid profitable growth opportunities to further increase its scale, diversify its operations, and increase its earnings capacity in 2023-2025.

We believe that Echo Re's underwriting margins will benefit from significant price increases on global reinsurance markets in 2023. This, in our view, will support Echo Re's prospective underwriting results in 2023-2025. We expect that firmer underwriting controls, restrictive business expansion, and maintaining a prudent retrocession protection will prevent material earnings volatility in the medium term. As a result, we now think that the company will be able to deliver underwriting performance with a combined ratio of 95% or below. In addition, Echo Re's high-quality investment portfolio is likely to benefit from currently higher reinvestment rates, as well as a solid increase of investment assets due to business growth. More solid and less volatile underwriting performance and increasing investment results should support solid ROE of 8%-12%.

Echo Re versus global property/casualty reinsurance sector performance



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We believe that Echo Re's balance sheet remains solid with a strong and resilient capital position. We consider the company's investment portfolio conservative with primarily fixed-income instruments rated 'AA' on average. As such, market volatility in 2022 did not lead to significant investment losses.

We continue to consider Echo Re as a strategically important subsidiary for DEVK (A+/Stable/--), in particular for its expansion internationally. Echo Re remains DEVK's only legal carrier for reinsurance expansion outside Europe and North America. It contributes to DEVK's international business and product diversification.

Rapid business expansion in the past few years was counterbalanced by several capital injections from DEVK, which we believe will recur if needed. However, with expected good and stable earnings in 2023-2025, we now believe that Echo Re will mainly finance growth through its own solid earnings retention.

Outlook

The positive outlook indicates that we could upgrade Echo Re in the next 12-24 months if the company's underwriting and investment performance confirms more stable and solid operating results, with ROE in the range of 8%-12%. This would enable the company to sustainably generate capital for further business franchise scaling through profitable growth.

Upside scenario

We could take a positive action if:

- Echo Re's competitive position further solidifies its operations while underwriting risk benefits from business diversification, reducing capital and earnings volatility. This could be evidenced, for example, through more sustainable underwriting performance, which would be more in line with the global reinsurance sector; and
- Echo Re's capital position remains above the very strong level in our capital model.

Downside scenario

We could revise the outlook to stable if:

- Against our base-case assumptions, operating performance weakens notably below the performance of peers, for example, evidenced by a prolonged deterioration of Echo Re's combined ratio or ROE;
- Echo Re's capital adequacy weakens below the very strong level for a prolonged period over the next 12-24 months; or
- Echo Re's strategic importance to DEVK weakens, and thus group support weakens, which could be triggered by continued underperformance compared with group targets.

Ratings Score Snapshot

Echo Rueckversicherungs-AG--Ratings Score Snapshot

	To	From
Financial strength rating	**A-/Positive**	**A-/Stable**
Anchor*	bbb-	bbb-

Echo Rueckversicherungs-AG--Ratings Score Snapshot (cont.)

	To	From
Financial strength rating	**A-/Positive**	**A-/Stable**
Business risk	Fair	Fair
IICRA	Intermediate risk	Intermediate risk
Competitive position	Fair	Fair
Financial risk	Strong	Strong
Capital and earnings	Strong	Strong
Risk exposure	High	High
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support		
Group support	3	3
Government support	0	0

*We choose the higher of the dual outcome cell of 'bb+/bbb-'because Echo Re's capital adequacy is redundant at 'the AA' level. IICRA--Insurance Industry and Country Risk Assessment

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Echo Rueckversicherungs-AG		
Issuer Credit Rating		
Local Currency	A-/Positive/--	A-/Stable/--
Financial Strength Rating		

Ratings Affirmed; Outlook Action

	To	From
Local Currency	A-/Positive/--	A-/Stable/--

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