FitchRatings

Insurance
Reinsurers
Switzerland

Echo Rueckversicherungs-AG

Key Rating Drivers

Very Important Subsidiary: Fitch Ratings considers Swiss reinsurer 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; A+/Stable). Echo Re diversifies DEVK's business with strategically important international reinsurance and contributes positively to the group. As a result, Echo Re's rating has a two-notch uplift from its standalone credit quality.

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. Fitch believes DEVK would provide capital injections to maintain Echo Re's strong capitalisation, if needed, as proven multiple times in recent years.

Better Financial Performance: Improved underwriting experience and favourable reinsurance pricing led to strong operating performance in 2023, with a Fitch-calculated net combined ratio of 91.9% and a 14.3% return on equity (ROE). Echo Re's total income rose to CHF25 million. Fitch expects Echo Re to maintain a Fitch-calculated net combined ratio below 96% in 2024-2026, assuming normal levels of natural catastrophes. Improved underwriting and investment results should support an ROE of 8%-10%, with a net income of CHF15 million-25 million.

Improved Business Profile: Echo Re's business profile improved in 2023 by increasing the diversification and resilience of the portfolio. Premiums grew by 31.4%, driven by premium rises and expanding operations in Asia. Its small scale constrains its competitive positioning, but Echo Re has strong business relationships, and geographical and segmental diversification. We expect gross written premiums to fall in 2024 by around 10%, mainly due to the termination of quota-share agreements with DEVK, but to grow organically in 2025 and 2026 by 10%-16%.

Strong Capitalisation: Fitch assesses Echo Re's capitalisation as strong, as underlined by its 'Very Strong' score in Fitch's Prism Global model at end-2023. 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 Swiss solvency test (SST) ratio improved to 229% at end-2023 from 193% at end-2022, due to strong underwriting results.

Despite increasing capital requirements due to Echo Re's anticipated strong growth, we expect capitalisation to remain strong in 2024, as strong premium growth will be partially compensated by growth in retained earnings and improved diversification in its business.

Strong Reserve Adequacy: We believe Echo Re's reserving practices have improved in recent years. The company reported a strong positive prior-year reserve run-off of 6% at end-2023 (end-2022: 3%). Echo Re commissioned KPMG to conduct an independent reserve review in 2023, which confirmed that its accounted claims reserves are in the best-estimate range.

Ratings

Echo Rueckversicherungs-AG

Insurer Financial Strength	A

Outlooks

Insurer Financial Strength	Stable

Financial Data

Echo Rueckversicherungs-AG

(CHFm)	2023	2022
Total assets	603	544
Total equity and reserves	198	170
Total gross written premiums	373	284
Fitch-calculated net combined ratio (%)	92	94
Net income	25	13

Source: Fitch Ratings, Echo Re

Applicable Criteria

Insurance Rating Criteria (March 2024)

Related Research

European Reinsurers' Strengthened Profitability and Reserves to Support Ratings in 2024 (March 2024)

European Reinsurers: Record 2023 Results (March 2024)

European Reinsurers' Renewals Confirm Underwriting Margins About to Peak (February 2024)

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Rating Sensitivities

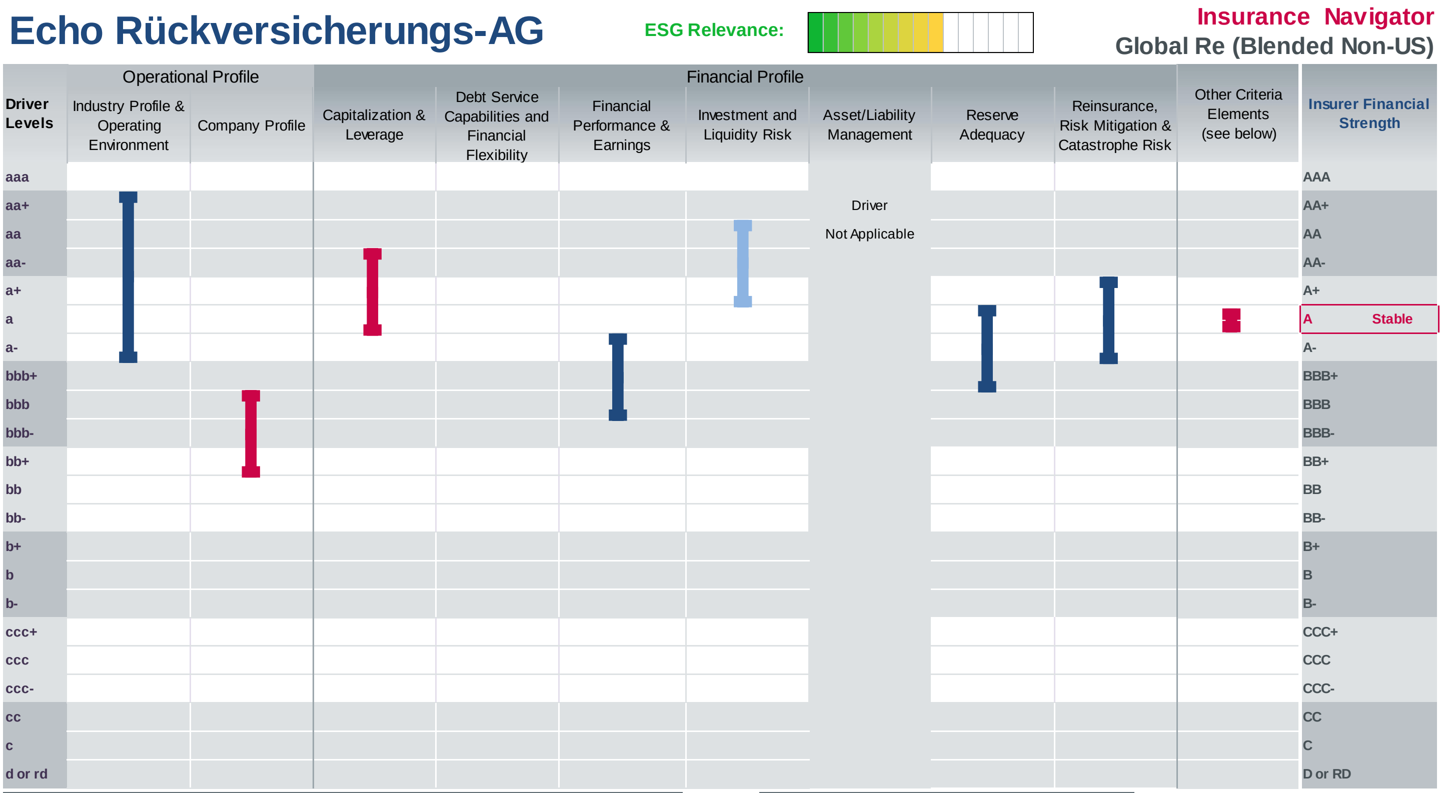
Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of DEVK's rating.
- An increase in Echo Re's strategic importance to DEVK.
- A significant improvement in our assessment of Echo Re's standalone credit quality as shown, for example, by an improved company profile or financial performance.

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 decreased profitability on a sustained basis.

Key Rating Drivers – Scoring Summary



Other Criteria Elements				
Provisional IFS				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				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

Improved Business Risk Profile but Small Size

Fitch ranks Echo Re's company profile as 'Less Favourable' compared with other global reinsurers due to its smaller operating scale, its 'Less Favourable' competitive positioning and its 'Less Favourable' business risk profile. Given this ranking, Fitch scores Echo Re's company profile at 'bbb-' 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. The company experienced a 31.4% growth in 2023 (2022: 17.2%), driven by substantial premium hikes due to reinsurance premium renewals and its operations in Asia, which is the company's main growth region, but remained far below our USD2 billion threshold for the 'Less Favourable' category. Due to the termination of two quota-share agreements with DEVK and less fronting business planned, gross written premiums are anticipated to decrease in 2024 by around 10%, but to increase in 2025 and 2026 between 10% and 16% supported by organic growth.

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. Echo Re's regional business areas are divided into Asia (56.2%), Europe (16.5%), Latin America and the Caribbean (12.7%), the Middle East and north Africa (9.0%), Africa (4.3%) and Australia (1.2%). The premium income from Europe is mainly related to the business assumed from its parent group.

Echo Re's business risk profile has been improved, 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.

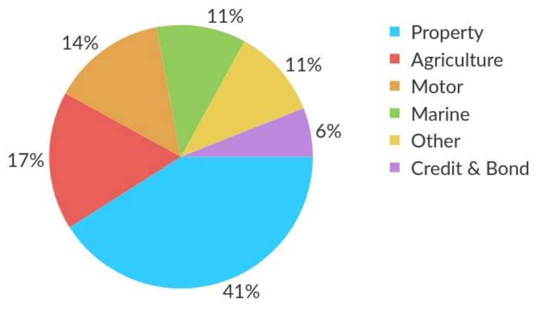
The company's corporate governance assessment of 'Neutral' is driven by its group structure, as well as its effective management board and transparent and timely financial disclosures.

Company Profile Scoring (2023)

Business profile assessment	Less Favourable
Business profile sub-factor score	bbb-
Corporate governance assessment	Neutral
Corporate governance impact (notches)	0
Company profile factor score	bbb-

Source: Fitch Ratings

Gross Written Premiums (2023)



Source: Fitch Ratings, Echo Re

Ownership

Ownership Results in Uplift

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 since Echo Re's formation.

Capitalisation and Leverage

Capitalisation Supportive of Rating

Fitch considers Echo Re's capitalisation to be strong, as shown by its Prism score of 'Very Strong' at end-2023, supported by a very strong SST ratio of 229%.

While our Prism score remained 'Very Strong', the available capital to target capital ratio slightly deteriorated to 102% in 2023 from 112% in 2022. This was due to a new natural catastrophe model in March 2024, assessing probable maximum losses differently than before. The charge for natural catastrophe risk in our model is now more prudent, while Echo Re was able to strengthen its capital in 2023. Echo Re's SST result improved to 229% at end-2023 from 193% at end-2022, due to strong underwriting.

Echo Re's capital has improved significantly in recent years, supported by retained earnings and multiple capital injections from DEVK totalling CHF150 million in 2010-2023. We believe DEVK will continue to provide capital in case of need, for example in stress scenarios, especially now Echo Re is profitable and contributing positively to DEVK's bottom line results.

We expect the company's capitalisation to remain strong in 2024, with increasing capital needs due to continued strong premium growth compensated largely by strong retained earnings and the improved diversification of the business.

Financial Highlights

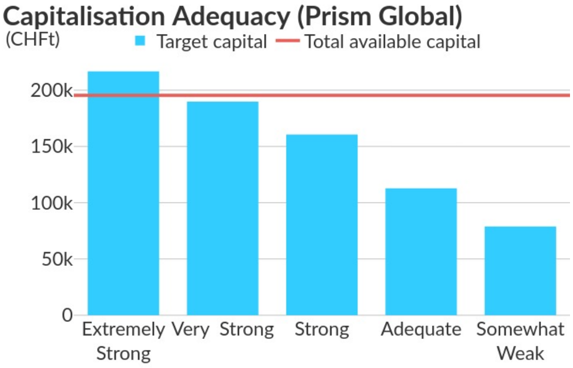
(x)	End-2023	End-2022
Regulatory capital ratio (%)	229	193
Net written premium/capital	1.5	1.4
Net leverage	3.3	3.2
Gross leverage	3.9	3.9

Source: Fitch Ratings, Echo Re

Fitch's Expectations

The SST ratio to remain very strong above 200% and the Prism score to be at least 'Strong'.

Capitalisation Adequacy (Prism Global)



Source: Fitch Ratings

Financial Highlights

(CHFm)	End-2023	End-2022
Prism score	Very Strong	Very Strong
Prism total AC	195	167
Prism AC/TC at Prism score (%)	102	112
Prism AC/TC at higher Prism Score (%)	89	99

AC – Available capital. TC – Target capital
Source: Fitch Ratings, company data

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 the near future.

Financial Performance and Earnings

Sustained Improvement of Financial Performance

Fitch views Echo Re's financial performance as strong and substantially improved over the past five years. The company has strengthened its market position in recent years through business expansion, improved diversification, and underwriting profitability through several measures. Effective underwriting improvements and favourable reinsurance pricing have reduced volatility in underwriting profitability and led to a strong operating performance in 2023, with a Fitch-calculated net combined ratio of 91.9% (2022: 94%) and ROE of 14.3% (8.5%). Looking ahead to 2024-2026, Echo Re is expected to maintain a net combined ratio below 96%, assuming normal levels of natural catastrophes, benefiting from its increased scale and managed underwriting risk.

Echo Re's total income increased to CHF25 million in 2023 (2022: CHF13 million), which is the company's strongest result so far. In 2024, the termination of profitable group internal cessions with DEVK will temporarily reduce Echo Re's operating profits in Fitch's view. However, robust organic growth and higher investment returns are expected to largely compensate for this. Improved underwriting and investment results are anticipated to support an ROE of 8%-10%, with a net income of CHF15 million-25 million from 2024 to 2026.

Financial Highlights

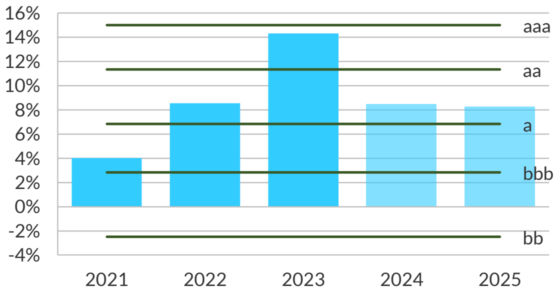
(%)	End-2023	End-2022
Net income (CHFm)	25	13
Net combined ratio[a]	91.9	94.0
Operating ratio[a]	88.8	93.0
Return on equity	14.3	8.5
GWP growth	31.4	17.2

[a] Excluding claims equalisation reserve development.
Note: Reported on a single entity basis.
Source: Fitch Ratings, Echo Re

Fitch's Expectations

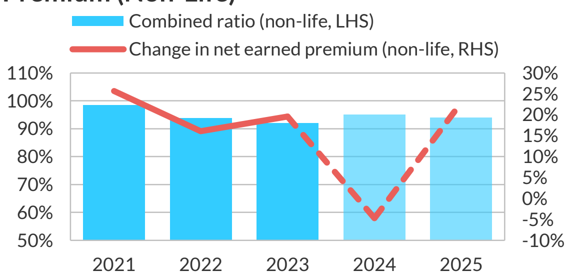
Financial performance to stay strong in 2024, supported by a Fitch-calculated net combined ratio below 96% and an ROE between 8% and 10%, due to sustained improved underwriting profitability.

Return on Equity



Source: Fitch Ratings, Echo Re

Combined Ratio & Growth in Net Earned Premium (Non-Life)



Source: Fitch Ratings, Echo Re

Investment and Asset Risk

Low Investment and Liquidity Risk

We view Echo Re's investment risk as low, due to its very strong risky-asset ratio of 12% at end-2023 (end-2022: 13%).

Fitch views Echo Re's investment allocation as prudent, with about 79% of its investments held in fixed-income investment at end-2023 (end-2022: 76%). The quality of the fixed-income portfolio is strong with 99.6% invested in investment-grade bonds. Other significant asset classes were cash (11%), real estate (3%) and equities (3%).

Echo Re's liquid investments were 141% of loss reserves and loss adjustment expense reserves at end-2023, a level that we assess as strong.

Financial Highlights

(%)	End-2023	End-2022
Risky-assets/capital	12.3	13.0
Unaffiliated shares/capital	6.4	8.1
Investments in affiliates/capital	5.3	4.2
Non-investment-grade bonds/capital	0.6	0.8
Liquid assets/loss reserves (non-life)	158.7	157.7

Source: Fitch Ratings, Echo Re

Fitch's Expectations

The risky-asset ratio to remain very strong, due to no changes in the company's prudent asset allocation.

Reserve Adequacy

Improved Reserve Adequacy

We believe Echo Re's reserving standards have improved in recent years. The company reported a strong positive prior-year reserve run-off of 6% at end-2023 (end-2022: 3%). Its claims reserves are adequate, which is supported by an independent reserve review that has been conducted by KPMG in 2023. This confirmed that Echo Re's accounted claims reserves are well within the best estimate range. This has been also demonstrated by positive reserve developments.

Financial Highlights

(%)	End-2023	End-2022
Loss reserve development/ surplus	-7.2	-3.4
Loss reserve development/net earned premiums	-5.1	-2.6
Net technical reserves/net earned premiums	138	144
Paid losses/incurred losses	0.7	0.7

Note: Reported on a single entity basis. Loss reserve development: a negative number denotes a positive development.
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 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.

Financial Highlights

(%)	End-2023	End-2022
Reinsurance recoverables/capital	21.4	39.3
Net written premiums/gross written premiums	80.2	81.4
Reinsurers' share of earned premiums	22.2	19.0

Source: Fitch Ratings, Echo Re

Fitch's Expectations

The credit quality of reinsurers to 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 July 2024)	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.	bbb+	a+	a	a+	1-notch uplift
Echo Re	A	bbb-	a+	n.a.	bbb+	aa–	a-	a	2-notch uplift

Note: IFS ratings and navigator scores as at 12 July 2024.
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 from its standalone credit quality.

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

FitchRatings **Echo Rückversicherungs-AG** **Insurance Navigator** **Global Re (Blended Non-US)**

Credit-Relevant ESG Derivation

Echo Rückversicherungs-AG has 7 ESG potential rating drivers

- 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.

			Overall ESG Scale
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 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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.