

RATING ACTION COMMENTARY**Fitch Upgrades Echo Re's IFS to 'A'; Outlook Stable**

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Fitch Ratings - Frankfurt am Main - 18 Jul 2024: Fitch Ratings has upgraded Swiss reinsurer Echo Rückversicherungs-AG's (Echo Re) Insurer Financial Strength (IFS) Rating to 'A' (Strong) from 'A-' (Strong). The Outlook is Stable.

The upgrade reflects an improvement in Fitch's assessment of Echo Re's standalone credit quality to 'bbb+' from 'bbb' on the back of a more seasoned business profile and sustained improvement in underwriting profitability.

The rating reflects Echo Re's ownership by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (DEVK; IFS A+/Stable), which results in a two-notch uplift to Echo Re's standalone credit quality, which in turn mirrors the company's strong capitalisation and its improved company profile and financial performance.

KEY RATING DRIVERS

'Very Important' Subsidiary: Fitch considers Swiss reinsurer Echo Re as 'Very Important' to its parent, German mutual insurer DEVK. Echo Re diversifies DEVK's business with strategically important international reinsurance and contributes positively to the group. As a result, Echo Re's IFS 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.

Improved 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 increased to CHF25 million in 2023. Fitch expects that Echo Re will maintain a Fitch-calculated net combined ratio below 96% between 2024-2026, assuming normal levels of natural catastrophes. Improved underwriting and investment results are anticipated to support a ROE of 8%-10%, with a net income of CHF15 million-CHF25 million.

Improved Business Profile: Fitch believes Echo Re's business profile improved in 2023 by increasing the diversification and resilience of the portfolio. Echo Re had 31.4% premium growth in 2023, driven by premium hikes and expanding operations in Asia. Its small operating scale constrains its competitive positioning, but Echo Re has established strong business relationships and notable geographical and segmental diversification. We expect gross written premiums to decrease in 2024 by around 10%, mainly due to the termination of a quota-share agreement 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 (2022: 3%). Echo Re commissioned KPMG to conduct an independent reserve review in 2023, which confirmed that Echo Re's accounted claims reserves are in the best-estimate range.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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>.

RATING ACTIONS

ENTITY / DEBT ♦	RATING ♦	PRIOR ♦
Echo Rueckversicherungs-AG	LT IFS A Rating Outlook Stable	Upgrade A- Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Global (ex-U.S.) Model, v1.8.1 ([1](#))

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Echo Rueckversicherungs-AG

EU Issued, UK Endorsed

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