DEVK Deutsche Eisenbahn Versicherung

Full Rating Report

Ratings

DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn

Insurer Financial Strength Rating	A+

DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn

Insurer Financial Strength Rating	A+

Echo Rückversicherungs-AG

Insurer Financial Strength Rating	A−

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA

Outlooks

DEVK Insurer Financial Strength Ratings	Stable
Echo Re Insurer Financial Strength Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

DEVK Group (Non-Life & Life)

(EURm)	31 Dec 16	31 Dec 17
Total assets	18,341	19,378
Total equity	1,953	2,081
Gross written premiums	3,214	3,333
Net income	86	77

Related Research

German Non-Life Insurance – Mid-Year Update (August 2018)

German Life Insurance – Mid-Year Update (August 2018)

Fitch 2018 Outlook: German Non-Life Insurance (December 2017)

Fitch 2018 Outlook: German Life Insurance (December 2017)

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Key Rating Drivers

Strong Business Profile: The earnings of the medium-sized DEVK insurance group (DEVK) are well diversified, as it operates across all primary insurance lines and in international reinsurance. It is headed by non-life insurer DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (DEVK Non-life) and life insurer DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (DEVK Life).

Group Rating Approach: Fitch Ratings views all DEVK-branded entities as “core” to DEVK and rates them based on the credit profile of the group as a whole. Fitch views Echo Rückversicherungs-AG (Echo Re) as “very important” to DEVK as it represents the group’s reinsurance operations outside Europe. Echo Re’s rating incorporates a three-notch uplift from its standalone profile.

Very Strong Capitalisation: We regard DEVK’s capitalisation as very strong with net leverage at 2.2x and operating leverage at 12.1x. In Fitch’s Prism factor-based model (Prism FBM), DEVK scored “Extremely Strong” at end-2017, which we expect to be maintained in 2018. Our view on capitalisation is supported by the group’s regulatory Solvency II ratio at end-2017 of 221% without transitional measures on technical provisions.

Strong Financial Performance: DEVK reported a strong German GAAP net combined ratio of 97.3% for 2017, a slight weakening from 95.8% in 2016. We expect a stable net combined ratio for 2018. DEVK Non-life’s return on equity is depressed by its retention of all profit and capital base build-up resulting from its mutual status. DEVK reported a return on equity of 3.7% for 2017, down from 4.5% in 2016.

Resilient to Motor Competition: Fitch believes DEVK Non-life’s claims reserving buffers are strong enough for the insurer to withstand competitive pressures in Germany’s motor insurance market without a loss of market share or deterioration of capitalisation.

The development of motor premium rates will significantly influence DEVK’s underwriting profitability as the motor line generates over 50% of DEVK Non-life’s gross written premiums (GWP) in primary insurance. We estimate that German motor GWP grew 4% in 2017 and expect an increase of 3% for 2018 and 2019.

Rating Sensitivities

Capital and Reserves: Key triggers for a downgrade of the DEVK group’s ratings include the Fitch Prism FBM score falling to low in the “Very Strong” category or a significant weakening of reserving methodologies as evidenced by a large reduction in reserve redundancies.

Upgrade Unlikely: Key triggers for an upgrade include a substantial improvement in the market position of the DEVK group’s life operations and its non-life underwriting profitability.

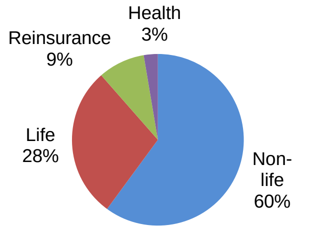
Echo Re’s Importance to DEVK: A reduction of the strategic importance of Echo Re to DEVK could lead to a downgrade of its rating. This could be manifested through a reduction in the importance of Echo Re within DEVK’s reinsurance operations or of reinsurance operations as a whole for DEVK. A significant increase in Echo Re’s strategic importance to DEVK could lead to an upgrade.

Business Profile

Medium-Sized German Group with Focus on Non-Life

- Ranked 21st in Germany's primary insurance market
- Strong position in motor, household contents and individual liability
- Strong links with national railway company and its banking network
- Focus on German domestic market but some foreign reinsurance

Premium Income
By segments, 2017



Source: DEVK annual reports

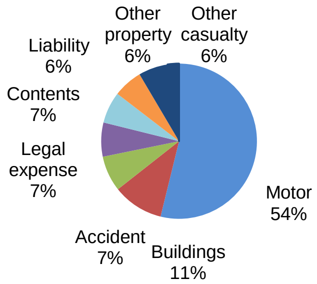
Ranked 21st in Germany's Primary Insurance Market

DEVK is the 21st largest group in Germany's primary insurance market as measured by the GWP of primary insurance entities, and had a market share of 1.4% in 2017.

It is the 13th largest non-life insurer in Germany[1], but its market position in life is only 26th. Reinsurance operations also form part of the group.

DEVK's GWP increased by 3.7% to EUR3,333 million in 2017 (2016: EUR3,214 million). The five-year compound annual growth rate (CAGR) for 2013-2017 was 5.0%, higher than the German primary insurance market five-year CAGR of 2.1%. DEVK's GWP growth is supported by German motor market GWP, which increased year-on-year by 4% or more in 2011-2015 and by around 3% since then. We expect this trend to continue for 2018.

Non-Life Premium Income
By lines of business, 2017



Source: DEVK annual reports, Fitch

Strong Position in Motor, Household Contents and Individual Liability

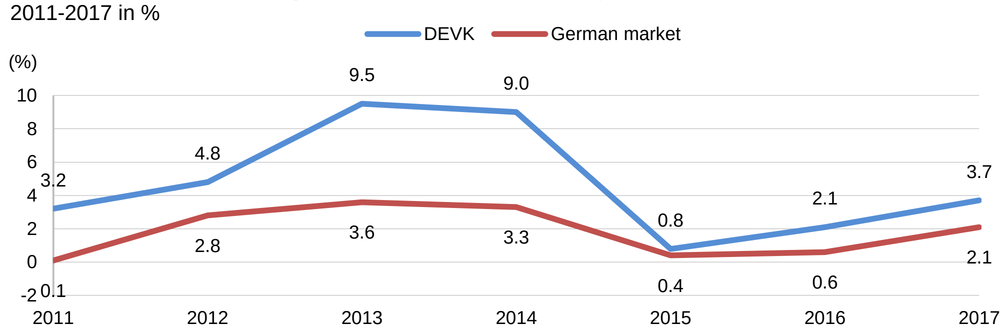
DEVK has a strong market position in the motor line. Measured by GWP, it ranks ninth with a market share of 3.9%. Its market position in the highly profitable household contents line is fifth with a market share of 4.7%, while the overall market position in the liability line is 16th. DEVK primarily provides individual liability cover.

DEVK focuses on individual cover. Fitch estimates that DEVK was among the top five insurers by insured individuals for each, the motor, contents and the liability line in 2017.

Strong Links with National Railway Company and its Banking Network

DEVK has strong historical links with Germany's national railway company, Deutsche Bahn AG (DB; Long-Term IDR: AA-/Stable), and is the traditional insurer for DB's staff. Through this business, DEVK has a strong and reliable customer base. DB provides banking services to its staff through the Sparda-Banken cooperative network, with which DEVK also has strong links. DEVK and the Sparda-Banken have increased their efforts to achieve synergies. Every Sparda-Banken branch includes at least one staff member responsible for distributing DEVK policies.

Premium Growth Compared to German Primary Insurance Market
2011-2017 in %



Source: DEVK's annual report, Fitch

Related Criteria

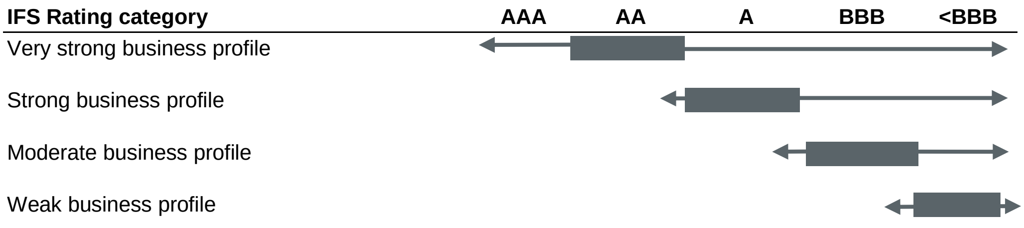
Insurance Rating Criteria (November 2017)

[1] Ranking based on 2016 sectoral data, the latest available at the time of writing

Focus on German Domestic Market but Some Foreign Reinsurance

DEVK distributes its primary insurance products mainly in Germany. In 1997, it started to provide reinsurance cover, focusing on business outside Germany. Reinsurance GWP reached EUR289 million and accounted for 8.7% of the group's total premium income in 2017.

Ratings Range Based on Business Profile



Source: Fitch

Corporate Governance and Management

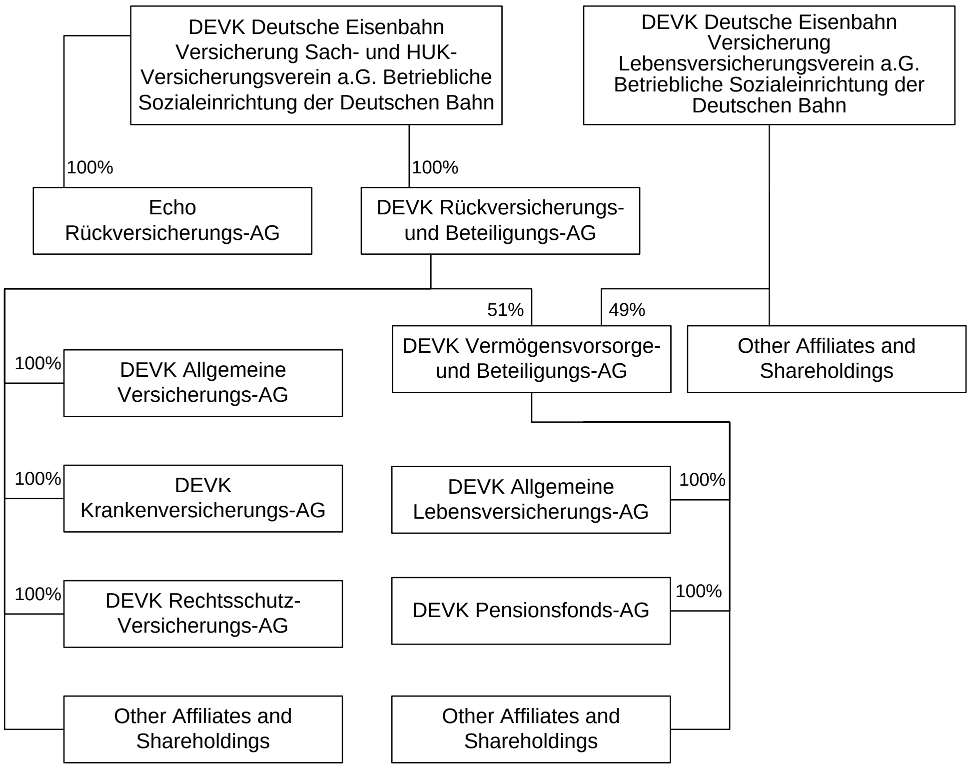
Corporate governance is effective and Fitch expects no significant changes in practices over the next 12-18 months.

Fitch regards DEVK's corporate governance and management as neutral to the rating.

Ownership is Neutral to Rating

DEVK is a mutual insurance group owned by its policyholders. As the mutual insurers, DEVK Non-life and DEVK Life, are limited by their articles of association to servicing the staff of the national railway provider, the group includes a second life insurer, DEVK Allgemeine Lebensversicherungs-AG (DEVK Life 2), and a second non-life insurer, DEVK Allgemeine Versicherungs-AG (DEVK Non-life 2). The group also includes: a legal expense insurer, DEVK Rechtsschutz-Versicherungs-AG; a health insurer, DEVK Krankenversicherungs-AG; a reinsurer and intermediary holding, DEVK Rückversicherungs- und Beteiligungs-AG (DEVK Re); and the Swiss reinsurer Echo Re.

Structure Diagram



Source: Annual report

Ratings Range Based on Ownership Form

Source: Fitch

Sovereign- and Country-Related Constraints

Fitch rates the sovereign obligations of Germany and Switzerland at 'AAA' with a Stable Outlook, and the Country Ceilings are also 'AAA'. Therefore, the ratings of German and Swiss insurance organisations and other corporate issuers are not constrained by sovereign or macroeconomic risks.

Industry Profile and Operating Environment

Non-Life Underwriting Discipline Expected to be Maintained

The German non-life primary insurance industry is well capitalised and reserved. Investments are of strong credit quality. Fitch regards the German primary insurance market as strong from a credit perspective.

The German non-life sector reported a Solvency II ratio of 284% at end-2017, slightly more than the Day One Solvency II ratio of 278%. We expect the market to maintain the ratio higher than 250% in the short to mid-term

German GAAP (HGB) is supportive of conservative claims' reserving in non-life insurance, and as a result, insurers tend to retain profits in claims reserves. Based on Fitch calculations, the sector's prior years' claims reserve adjustment (PYRA) was about -7% of the prior years' claims reserve for 2013 to 2017 which equals a 10% discount on the combined ratio. We expect the PYRA to remain stable for the market as a whole.

The sector has reported strong premium growth for the period 2012-2017 ranging from 2.6% to 5.1%. We expect further growth of 2%-3% for 2018 and 2019. This development is supported by strong underwriting discipline which benefits from the low investment yield environment in which insurers cannot rely on investment income.

We expect that the sector will report underwriting profits with a net combined ratio around 95% for 2018 and 2019. The motor line has reported underwriting profits since 2014 (prior claims equalisation reserve) and we expect this trend to be unchanged for 2018 and 2019. Despite motor growth of more than 30% since 2011, its combined ratio remained in the range of 96% to 99%. Premium growth is strongly offset by increasing claims driven by expensive technology integrated in bumpers, medical inflation and increasing costs for spare parts and annuity payments from longevity.

Since 2012, the home buildings line has reported premium growth of more than 5% each year. After the line reported underwriting losses since at least 2002, it achieved a black zero in 2016. We expect this trend to have continued in 2017. In January 2018, Germany was hit by winter storm "Friederike", which caused almost EUR1 billion claims and the combined ratio is likely to exceed 100% for 2018. However, overall catastrophe activity did not exceed the long-term average in 2017 and so far in 2018. Home buildings premium growth is likely to slow down as there is high competition in this line, further driven by significant product distribution from banks combined with mortgages and loans.

Life Insurance Challenged by Low Investment Yields and Solvency II

The German life insurance industry is operating in a difficult environment, facing low investment yields and earnings pressure. Market interest rates are likely to remain at historical lows for longer and constitute the biggest challenge for the German life insurance industry, in light of significant asset-liability duration mismatches.

Overall, the German primary life insurance industry is well reserved and investments are of strong credit quality. Germany's strong regulatory environment also means that the sector's investment allocation is prudent by international standards. Fitch regards the German primary life insurance market as strong from a credit perspective.

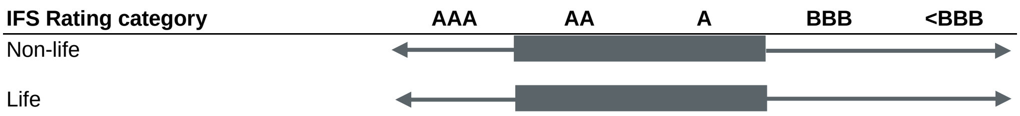
The German life insurance industry does, however, bear investment risk as it has to earn its guaranteed interest rate payments, which requires an investment return of about 1.9% for the industry overall. As long as low investment yields persist, these payments put pressure on the life industry's profitability and have already reduced the level of capital, via a decline in funds for future appropriation in recent years.

Additional risk arises from the product mix of German life insurers because tax incentives for the life insurance business were restricted to annuity-type business from 1 January 2005. Since then, the majority of traditional German life business has become annuity oriented, which has led to very high liability duration. Fitch believes that the German life industry has one of the highest duration mismatches in Europe, which leaves it highly exposed to reinvestment risk.

With the introduction of Solvency II, regulatory capital requirements increased significantly for German life companies and many life companies have applied for transitional measures to limit the initial impact. In 2010, the regulator introduced an additional reserve called Zinszusatzreserve (ZZR) to ensure that insurers would be able to cover their future guaranteed interest rate payments. For end-2017, the reference rate was 2.21%, down from 2.54% at end-2016. For every contract with a higher guaranteed interest rate, the difference between the guaranteed interest rate-discounted reserve and the reference rate discounted reserve has to be held as a buffer.

Over time, life insurers' Solvency II margins will benefit from the ZZR because it will close the gap between the accounted reserve and its market value. Fitch expects that the transitional measures, together with the ZZR, will help the German life industry meet Solvency II capital requirements. However, if low yields persist, available funds are likely to fall further and insurers' capitalisation could deteriorate, putting downward pressure on credit ratings.

Ratings Range Based on Industry Profile/Operating Environment



Source: Fitch

Peer Analysis

DEVK Performance in Line with Peers and Market in 2017

Key Figures for the German Non-Life Insurance Sector, 2017

Company	R+V non-life	Provinzial NordWest	Alte Leipziger	DEVK non-life 2	DEVK non-life	German non-life sector[a]
IFS Rating	**AA**	**AA−**	**A+**	**A+**	**A+**	**n.a.**
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
Total assets (EURm)	11,075	2,319	842	2,301	1,803	180,000
GWP (EURm)	3,861	1,251	441	1,369	370	79,400
Change in GWP (%)	4.2	3.1	2.6	5.8	2.1	3.7
Reported net income (EURm)	269	75	2	90	23	4,000
Claims ratio (gross, %)	70.8	59.4	65.3	71.7	75.7	69.7
Expense ratio (gross, %)	26.5	24.5	31.6	21.7	24.3	25.4
Combined ratio (gross, %)	97.3	83.9	96.9	93.4	100.0	95.1
Combined ratio (net, %)	98.4	86.4	99.4	96.4	98.8	96.0
Net investment return rate (%)	3.7	2.0	2.7	3.1	2.7	3.4

Based on German GAAP accounts of the operating entities
Reported net income: Before profit transfer
[a] Fitch estimate (without Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit)
Source: Companies' annual reports 2017, Fitch

In non-life, DEVK's combined GWP growth of 5.0% was stronger than the market average and at the top of its peer group in 2017. The averaged net combined ratio of DEVK Non-life and DEVK Non-life 2 of 96.9% was better than that of peers R+V Allgemeine Versicherung AG (R+V Non-Life) and Alte Leipziger Versicherung AG (Alte Leipziger), but weaker than that of peer Westfaelische Provinzial Versicherung AG (Provinzial NordWest). DEVK's net combined ratio was slightly weaker than the market average, which is constrained by the company's focus on motor. DEVK's claims ratio tends to be worse than the market average, while its expense ratio tends to be better, because of its above-market-average proportion of motor business.

In life, DEVK's growth was in line with the market, weaker than Alte Leipziger Lebensversicherung auf Gegenseitigkeit's (Alte Leipziger) and R+V Lebensversicherung AG's (R+V Life), but stronger than that of Provinzial NordWest Lebensversicherung AG (Provinzial NordWest). DEVK's surplus (equity and funds for future appropriation) was stronger than the market average and that of peers R+V Life and Provinzial NordWest, but weaker than Alte Leipziger's.

Key Figures for the German Life Insurance Sector, 2017

	R+V life	Provinzial NordWest	Alte Leipziger	DEVK life 2	DEVK life	German life sector
IFS Rating	**AA**	**AA−**	**A+**	**A+**	**A+**	**n.a.**
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
Total assets (EURm)	54,144	21,424	25,263	5,691	5,806	1,049,000[a]
GWP (EURm)	4,975	1,406	2,426	490	331	85,919
Change in GWP (%)	-1.9	-28.5	2.7	-1.4	2.4	-0.2
Change in APE (%)	-1.8	-32.8	9.8	-9.0	-2.9	-2.7
Gross earnings (EURm)[b]	851	30	191	59	36	8,400[a]
Reported net income (EURm)	260	11	42	9	6	2,100[a]
Administration expense ratio (%)	1.3	2.5	1.6	2.7	3.0	2.3
Acquisition expense ratio (%)	4.5	6.0	3.7	5.3	4.2	4.7
Lapse rate (%)	3.3	3.6	4.9	5.3	3.1	4.2[a]
Equity and funds for future appropriation to actuarial reserve (%)						
With terminal bonus funds	5.6	5.0	9.1	7.9	7.3	6.6[a]
Without terminal bonus funds	3.6	2.6	7.3	6.6	5.1	4.7[a]
Net investment return rate (%)	4.4	3.8	4.9	4.7	4.7	4.5

Based on German GAAP accounts of the operating entities
APE: Annual Premium Equivalent = new business's annual premiums + 1/10 single premiums
[a] Fitch estimate
[b] Gross earnings include reported net income (before profit transfer) and expenses for RfB (German FFA)
Source: Companies' annual reports 2017, GDV (German insurance association), Fitch

Capitalisation, Leverage and Financial Flexibility

	2013	2014	2015	2016	2017	Fitch's expectation
Total equity (EURm)	1,545	1,611	1,720	1,844	1,965	The group's growth in non-life business and life actuarial reserves has increased capital requirements in recent years, but Fitch expects DEVK to maintain its very strong capitalisation in the near to medium term.
Regulatory group solvency ratio (%)	358[a]	340[a]	305	284	279	
Financial leverage ratio (%)	0	0	0	0	0	
Non-life net leverage (x)[b]	2.2	2.3	2.3	2.2	2.2	
Life operating leverage (x)[b]	12.2	12.3	12.3	12.2	12.1	
Non-life net premiums written to equity (x)[b, c]	1.0	1.0	1.0	1.0	1.0	

[a] Solvency I, excluding DEVK Life
[b] Fitch estimate
[c] In this ratio, equity includes the claims equalisation reserve
Source: Consolidated DEVK Non-life annual reports, Fitch

Very Strong Capitalisation

- Strong regulatory group solvency ratio
- "Extremely Strong" Prism score and very strong leverage ratios
- Capitalisation benefits from strong reserving methods
- No outstanding debt

Strong Regulatory Group Solvency Ratio

DEVK reported a strong regulatory group Solvency II ratio of 279% at end-2017 (2016: 284%), in line with recent years. With the introduction of Solvency II, DEVK Non-life and DEVK Life adopted a fully consolidated Solvency II group approach. DEVK reports its Solvency II ratios including transitional measures on technical provisions. Without transitional measures, DEVK would have reported a still strong group Solvency II ratio of 221% (2016: 209%). For German life insurers we primarily focus on the S2 ratio without transitional measures, which we believe provides a more realistic view of the underlying economics of the insurers' balance sheet.

"Extremely Strong" Prism Score and Very Strong Leverage Ratios

DEVK scored 'Extremely Strong' in Fitch's Prism FBM model, based on end-2017 results, which we expect to be maintained in 2018. DEVK's high equity exposure and investment risk are the main drivers for Prism FBM's target capital. Fitch has granted some capital credit for DEVK's claims reserve redundancies in Prism FBM.

DEVK reported very strong and stable non-life net leverage at 2.2x and life operating leverage at 12.1x in recent years. We expect this trend to continue in 2017.

Capitalisation Benefits from Strong Reserving Methods

DEVK's capitalisation benefits from its prudent reserving standards and Fitch estimates that the company has significant reserve redundancies on its balance sheet. Prior-year reserve adjustments (PYRAs) have been strong in recent years. Calculated as a gross income figure, PYRAs exceeded DEVK's non-life consolidated income in 2013-2017. As DEVK is a mutual insurance group, profits are retained in the group and PYRAs have contributed significantly to DEVK's strongly increased equity position in recent years.

No Outstanding Debt

DEVK has no debt outstanding, as is typical of German mutual insurers. We do not expect DEVK to need external capital resources in the near to medium term.

Financial Performance and Earnings

	2013	2014	2015	2016	2017	Fitch's expectation
Net income (EURm)	65	68	88	80	71	Fitch expects DEVK's profitability to remain stable in 2018. Continued GWP increases in the motor line could lead to more deferral of profit because of DEVK's high reserving standards. Fitch expects DEVK to maintain its strong operating ratio.
Pre-tax income (EURm)	141	126	174	153	148	
Net combined ratio (%)	98.5	96.1	99.1	95.8	97.3	
Operating ratio (est.) (%)[a]	88.3	87.2	87.3	87.2	88.7	
Operating pre-tax return on equity (%)	9.4	8.0	10.5	8.6	7.8	
Pre-tax return on assets (%)	1.5	1.2	1.5	1.3	1.1	
Asset growth (life, %)[b]	5.5	6.0	4.3	3.4	3.3	
Premium growth (non-life, %)	9.6	8.8	6.2	3.9	4.7	

[a] Fitch estimate
[b] Includes DEVK Life
Source: Consolidated DEVK Non-life annual reports, Fitch

Strong Profitability Pressured by Germany's Competitive Motor Market

- Underwriting profitability driven by German motor line competitiveness
- Very strong operating ratio below 90% in recent years
- Strong return on equity

Underwriting Profitability Driven by German Motor Line Competitiveness

Motor accounts for more than 50% of DEVK's non-life primary insurance GWP and is the main driver of DEVK's underwriting profitability. In line with the German motor market, DEVK's net combined ratio improved with the turnaround in premium rate levels in 2011.

Fitch expects further motor rate increases in 2018. However, increasing costs per claim in the German motor market will most likely compensate for the price increases and we expect DEVK's net combined ratio to be stable in 2018. The strong growth in recent years may lead to additional reserve strengthening within DEVK's book of business (see *Reserve Adequacy* below) and the net combined ratio may finally be weaker than in 2017.

Strong Operating Ratio Below 90% in Recent Years

DEVK achieved an operating ratio of 88.7% in 2017 (2016: 87.2%). The ratio has been below 90% since at least 2008. Fitch regards this as strong and likely to be maintained in 2018 and beyond. The gap between the combined and operating ratio is influenced by DEVK's high amount of non-life investments, totalling EUR6.3 billion compared to EUR2.2 billion of non-life net written premiums. Every percentage point of investment return in the non-life segment is reflected in a 3% decrease in the operating ratio compared with the combined ratio.

Strong Return on Equity

DEVK reported a strong operating pre-tax return on equity of 7.8% for 2017 (2016: 8.6%) and the average return was 8.9% for the period 2013-2017. The net income return on equity has been influenced by a high tax burden in recent years. DEVK's net income for 2013-2017 was only around half the level of pre-tax income and the average net income return on equity was only 4.4%.

As a mutual company, DEVK retains all earnings within the group and has built up a reasonable capital buffer. Mutual insurers tend to accumulate capital in the saturated German insurance market.

The average pre-tax return on assets was 1.3% during 2013-2017, which Fitch regards as very strong. However, DEVK is primarily a non-life insurer and Fitch puts only limited weight on the return on assets for non-life insurers.

Investment and Asset Risk

	2013	2014	2015	2016	2017	Fitch's expectation
Investment earnings (EURm)	393	387	467	432	481	Fitch believes that DEVK will maintain higher equity investments than the market average. Fitch therefore expects DEVK's investment returns to be more volatile than those of competitors, reflecting equity market volatility.
Investment return (%)	4.4	4.0	4.5	3.9	4.0	
Risky assets (% of surplus)	76	66	69	62	58	
Unaffiliated common stocks (% of surplus)	50	47	49	44	42	
Below-investment-grade bonds (% of surplus)	13	11	9	8	6	
Goodwill and intangibles (% of total assets)	0.6	0.6	0.6	0.5	0.5	

Source: Consolidated DEVK Non-life annual reports, Fitch

High Exposure to Risky Investments Mitigated by Capitalisation

- Equity investments far exceed the German market average
- Resilient against low bond yields
- Goodwill and intangibles negligible

Equity Investments Far Exceed the German Market Average

Equity investments have accounted for around 10% of DEVK's total investments in recent years and were 9.0% at end-2017 (end-2016: 9.8%). DEVK's proportion of equity investments still far exceeds the German primary insurance market average, which was 5.1% at end-2017. However, when comparing with the non-life insurance industry's average of 7.9%, the gap becomes much closer.

DEVK can afford its high equity proportion due to its very strong capitalisation. This view is supported by DEVK's risky assets to surplus ratio, which has been less than 75% in recent years, a level that Fitch regards as strong ('A' median).

Significant equity market declines would be likely to lead to below-market-average investment returns for DEVK, but Fitch believes that DEVK can withstand equity market shocks as long as it maintains its high level of capital resources. DEVK's unaffiliated equities ratio has been decreasing from 50% to 42% in recent years, which Fitch regards as very strong as it falls into the 'AA' median guidelines.

DEVK's fixed-income investments were of strong credit quality at end-2017. According to the consolidated annual report, 54.8% were 'AA' rated and better, 24.8% were 'A' rated and 17.6% 'BBB' rated. Unrated and non-investment-grade bonds accounted for only 2.8% of DEVK's fixed-income investments.

Resilient Against Low Bond Yields

German life insurers are obliged to make guaranteed investment rate (GIR) payments to policyholders. This will be a negative rating factor if low bond yields persist. However, Fitch considers that DEVK would be more resilient than many of its competitors in such a scenario.

This is because DEVK's non-life operations contribute the majority of the group's earnings, DEVK's creditor insurance line contributes significant proportions to its life actuarial gross earnings, and the German funds for future appropriation ("freie RfB") would be likely to be available to help cover GIR payments. Fitch expects that support for DEVK Life would be provided, if needed, by DEVK Non-life.

Goodwill and Intangibles Negligible

Fitch views positively the low level of goodwill and intangible assets on DEVK's balance sheet. DEVK reported EUR13.3 million of goodwill and EUR54.6 million of other intangible assets at end-2017, representing less than 1% of DEVK's total assets and less than 5% of its total equity.

Asset/Liability and Liquidity Management

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Liquid assets to policyholder liabilities (life)	86	87	86	85	82	Fitch expects DEVK to continue to have a high ratio of liquid assets to technical reserves. We also expect liquidity to be supported by ongoing premium income.
Liquid assets to loss and loss adjustment expense reserves (non-life)	188	188	184	183	184	
Cash and cash equivalents to technical reserves	2.0	1.0	1.3	2.9	3.1	

Source: Consolidated DEVK Non-life annual reports, Fitch

Strong Asset/Liability Management; Low Liquidity Risk

- Asset duration shorter than liability duration for life operations
- Significant claims reserve redundancies in non-life
- GIR risk low
- Liquidity risk low

Asset Duration Shorter than Liability Duration for Life Operations

DEVK's modified duration of assets is shorter than that of liabilities for the life segment, as is typical of a German life insurance operation, so it is exposed to reinvestment risk when bond yields fall. The liability duration has increased in recent years as DEVK's life business mix has shifted from endowments to annuities, in line with a product shift in the German life insurance market towards annuities with long durations of more than 20 years.

DEVK has increased its life asset duration and reduced the duration mismatch significantly since 2013. We regard DEVK's life duration gap to be in the 'A' category. (Fitch's 'A' category guideline range for duration gap is 1.5-2.9 years.)

Significant Claims Reserve Redundancies in Non-Life

DEVK non-life claims reserves include a high safety margin, as is typical for German GAAP accounting, and a notable portion of its claims reserves is redundant. The high reserving standards add to DEVK's liquidity position, as the prior-year reserve adjustments generate positive cash flows year-on-year.

GIR Risk Low

If bond yields remain low for many years, DEVK's life operations could face a situation where investment earnings are insufficient to cover GIR payments, particularly given the duration mismatch. However, DEVK's life operations would be able to cover GIR payments from investment earnings for more than 10 years, even in a scenario with a reinvestment rate as low as 1.5%. Including other life profit sources, the life operations could withstand more than 20 years with a reinvestment rate of only 1.5%.

Fitch believes that the risks arising from sustained low bond yields (including GIR risk) are low for DEVK as a whole and that DEVK Non-life would provide DEVK Life with support if needed.

Liquidity Risk Low

Fitch considers liquidity risk to be low for DEVK. The company has reported steady growth in recent years and its liquidity needs are covered by premium income. Due to the duration mismatch, additional liquidity from maturing bonds is available within the life segment. The high proportion of equity investments supports DEVK's liquidity position.

Reserve Adequacy (Non-Life)

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Loss reserve development to surplus	-10.8	-8.6	-8.0	-8.9	-8.2	Fitch expects DEVK to maintain its strong reserve development. Fitch expects reserve development will contribute a significant proportion to DEVK's underwriting results.
Loss reserve development to net earned premiums	-10.6	-8.1	-7.5	-8.5	-8.0	
Net technical reserves to net earned premiums	125	120	120	122	124	
Change in the ratio	0.7	-4.5	-0.1	1.6	2.5	
Prior year reserve adjustment (PYRA; % of PYR)	9.6	7.5	7.0	7.8	7.3	

Source: Consolidated DEVK Non-life annual reports, Fitch

Very Strong Reserve Adequacy

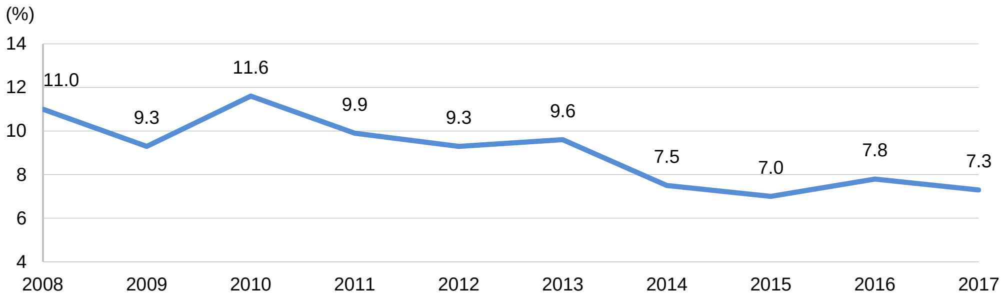
- PYRA better than market average

PYRA Better Than Market Average

DEVK reported strong PYRAs, averaging 7.8% between 2013 and 2017, consistently more than 7% of the prior-year reserve. As DEVK reports under German GAAP, its PYRA can be directly compared with the German non-life market average. Based on Fitch's analysis, the German non-life insurance market had an average PYRA of 7.0% for 2013-2017, falling below DEVK's average.

Fitch considers DEVK's high PYRA indicates strong non-life claims reserve adequacy overall, which mitigates risks associated with the high proportion of motor business on DEVK's books.

Prior-Year Reserve Adjustments (PYRA)
2008-2017 in % of Prior-Year Reserve (PYR)



Source: DEVK's annual report

We believe that DEVK's non-life claims reserves include significant redundancies. The claims reserve redundancies support DEVK in withstanding motor competition. While initially higher reserves increase liabilities, the offsetting amount increases the company's investments, and DEVK benefits from higher investment income. Additionally, reserving methods can be adapted to be more flexible, taking into account the existing reserve cushion and the motor market's pricing environment.

Reinsurance, Risk Management and Catastrophe Risk

Catastrophe Risks Limited by Adequate Reinsurance Programme

DEVK focuses on individual cover in primary insurance, which limits catastrophe risk. Its reinsurance strategy includes ceding larger risks and purchasing adequate excess cover. Extensive aggregate excess-of-loss cover is bought for the primary and reinsurance operations, which limits DEVK's one-in-250-year probable maximum loss to 15% of its non-life capital. Fitch considers DEVK's catastrophe risk to be low: DEVK falls into the 'AA' bucket under Fitch's sector credit factor for probable maximum losses.

The credit quality of DEVK's reinsurers is strong. The 20 largest reinsurers' ratings by ceded premiums were all in the 'AA' or 'A' categories.

Appendix A: Additional Financial Exhibits

DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	1,982[a]	1,963[a]	498	466	461
Gross written premiums	330	343	355	362	370
Net combined ratio (%)	101.4	100.2	104.4	95.0	98.8
Equity (EURm)	950	968	986	1,013	1,036
Equity to net earned premiums (%)	344	336	331	333	334
Net claims reserve to net earned premiums (%)	121	120	122	120	122
Net investment return rate (%)	3.3	2.9	3.5	3.2	2.7
Net earnings (EURm)	25	18	18	27	23

[a] Solvency I
Source: Annual reports, Fitch

DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	234[a]	215[a]	446	487	703
Gross written premiums (EURm)	379	415	336	323	331
Administration expense ratio (%)	2.7	2.3	2.9	2.7	3.0
Acquisition expense ratio (%)	6.4	4.9	6.4	4.9	4.2
Equity (EURm)	94	98	104	110	116
Equity and funds for future appropriation to actuarial reserve (%)					
With terminal bonus funds	8.2	7.7	7.4	7.4	7.3
Without terminal bonus funds	5.4	5.0	5.4	5.7	5.1
Net investment return rate (%)	5.3	4.3	4.1	4.3	4.7
Net earnings (EURm)	10	4	6	6	6

[a] Solvency I
Source: Annual reports, Fitch

DEVK Allgemeine Versicherungs-Aktiengesellschaft

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	197[a]	189[a]	344	322	301
Gross written premiums	1,088	1,179	1,240	1,294	1,369
Net combined ratio (%)	96.9	93.6	97.6	94.6	96.4
Equity (EURm)	332	342	342	342	342
Equity to net earned premiums (%)	36	34	32	31	30
Net claims reserve to net earned premiums (%)	127	121	121	121	124
Net investment return rate (%)	4.8	3.8	4.8	3.4	3.1
Net earnings (EURm)	92	88	97	88	90

[a] Solvency I
Source: Annual reports, Fitch

DEVK Rechtsschutz-Versicherungs-Aktiengesellschaft

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	155[a]	167[a]	102	287	269
Gross written premiums	118	121	129	141	152
Net combined ratio (%)	106.8	105.6	106.6	104.3	103,9
Equity (EURm)	37	41	61	61	61
Equity to net earned premiums (%)	31	34	47	43	40
Net claims reserve to net earned premiums (%)	154	156	155	155	157
Net investment return rate (%)	6.5	3.8	4.0	3.3	3.6
Net earnings (EURm)	5	1	1	2	3

[a] Solvency I
Source: Annual reports, Fitch

DEVK Allgemeine Lebensversicherungs-Aktiengesellschaft

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	167[a]	166[a]	226	225	308
Gross written premiums (EURm)	530	571	518	497	490
Administration expense ratio (%)	2.1	2.2	2.5	2.7	2.7
Acquisition expense ratio (%)	6.2	5.6	5.7	5.4	5.3
Equity (EURm)	103	123	143	143	155
Equity and funds for future appropriation to actuarial reserve (%)					
With terminal bonus funds	7.9	7.8	7.9	7.5	7.9
Without terminal bonus funds	6.1	6.0	6.7	6.6	6.6
Net investment return rate (%)	4.7	4.2	4.1	4.1	4.7
Net earnings (EURm)	7	7	7	8	9

[a] Solvency I
Source: Annual reports, Fitch

DEVK Krankenversicherungs-Aktiengesellschaft

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	198[a]	234[a]	431	476	717
Gross written premiums (EURm)	65	70	75	81	88
Administration expense ratio (%)	3.7	3.4	3.4	2.8	2.7
Acquisition expense ratio (%)	9.8	8.2	10.0	8.2	9.4
Equity (EURm)	16	20	23	26	29
Equity to actuarial reserve (%)	14.4	14.6	15.1	15.8	15.2
Net investment return rate (%)	4.4	4.0	3.6	3.3	4.0
Net earnings (EURm)	3	3	3	3	3

[a] Solvency I
Source: Annual reports, Fitch

DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft

Based on German GAAP financials	2013	2014	2015	2016	2017
Regulatory solvency margin (%)	2,709[a]	2,462[a]	427	394	382
Gross written premiums (EURm)	350	379	409	427	472
Net combined ratio (%)	99.1	95.6	91.7	92.6	97.5
Equity (EURm)	1,012	1,043	1,091	1,139	1,169
Equity to net earned premiums (%)	466	406	382	361	317
Net claims reserve to net earned premiums (%)	76	72	73	75	82
Net investment return rate (%)	8.7	8.0	9.3	7.8	7.7
Net earnings (EURm)	51	46	63	63	45

[a] Solvency I
Source: Annual reports, Fitch

Echo Rückversicherungs-AG

Based on Swiss GAAP financials	2013	2014	2015	2016	2017
Gross written premiums (CHFm)	49	71	91	103	120
Net combined ratio (%)	94.0	106.6	119.6	118.9	100.4
Equity (CHFm)	85	84	65	84	95
Equity to net earned premiums (%)	201	131	81	89	87
Net claims reserve to net earned premiums (%)	123	133	142	156	147
Net investment return rate (%)	3.4	2.2	2.0	2.9	2.2
Net earnings (CHFm)	1	-3	-17	-15	-6

Source: Annual reports, Fitch

Appendix B: Other Rating Considerations

Below is a summary of additional rating considerations of a “technical” nature that are part of Fitch’s ratings criteria.

Group IFS Rating Approach

Fitch views all DEVK-branded entities as “core” to DEVK, as defined in the agency’s insurance rating methodology, and has applied its insurance group rating methodology to assign an ‘A+’ IFS rating to these entities, based on a combined group assessment.

Fitch views Echo Re as “very important” to DEVK as it represents the group’s reinsurance operations outside Europe. Echo Re’s rating incorporates a three-notch uplift from its standalone profile (for more detail see separate *Full Rating Report* on *Echo Re*).

Group IFS Ratings – Non-Core Entities

Name	Standalone assessment	Type	Strategic category	Rating assigned	Uplift
Echo Rückversicherungs-AG	BBB−	IFS	Very important	A−	+3

Source: Fitch

Notching

For notching purposes, the regulatory environments in Germany and Switzerland are assessed by Fitch as being effective and classified as following a group solvency approach.

Notching Summary

Holding Company

Not applicable.

IFS Ratings

A baseline recovery assumption of Good was applied to the IFS ratings and standard notching was used from the IFS “anchor” rating to the implied operating company IDRs.

Criteria Variations

None.

Complete Ratings List

DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn	
Insurer Financial Strength Rating	A+
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn	
Insurer Financial Strength Rating	A+
DEVK Rückversicherungs- und Beteiligungs- Aktiengesellschaft	
Insurer Financial Strength Rating	A+
DEVK Allgemeine Versicherungs- Aktiengesellschaft	
Insurer Financial Strength Rating	A+
DEVK Allgemeine Lebensversicherungs-Aktiengesellschaft	
Insurer Financial Strength Rating	A+
DEVK Rechtsschutz-Versicherungs-Aktiengesellschaft	
Insurer Financial Strength Rating	A+
DEVK Krankenversicherungs-Aktiengesellschaft	
Insurer Financial Strength Rating	A+
Echo Rückversicherungs-AG	
Insurer Financial Strength Rating	A−

Source: Fitch

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.