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−

See additional ratings on page 13.

Outlooks

DEVK Insurer Financial Strength Ratings	Stable
Echo Re Insurer Financial Strength Rating	Stable

Financial Data

DEVK Deutsche Eisenbahn Versicherung

(EURm)	2018	2017
Total assets	20,003	19,378
Total equity	2,163	2,081
Gross written premiums	3,451	3,333
Combined ratio	94.9	97.3
Net Income	90	77
Total debt and hybrids	0	0

Source: Fitch Ratings, DEVK

Related Research

Insurance Roadshow 2019 – German Non-Life Insurance (March 2019)

Fitch Ratings 2019 Outlook: German Non-Life Insurance (November 2018)

Fitch Ratings 2019 Outlook: German Life Insurance (November 2018)

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Key Rating Drivers

Strong Business Profile: The earnings of the medium-sized DEVK Deutsche Eisenbahn Versicherung (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 Switzerland-based 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 12.8x. In Fitch’s Prism Factor-Based Model (Prism FBM), DEVK scored ‘Extremely Strong’ at end-2018, which we expect to be maintained in 2019. Our view on capitalisation is supported by the group’s regulatory Solvency II ratio at end-2018 of 264% without transitional measures on technical provisions.

Strong Financial Performance: We expect a stable net combined ratio for 2019. DEVK reported a strong German GAAP net combined ratio of 94.9% for 2018, a notable improvement from 97.3% in 2017. We expect DEVK Non-life to report an operating pre-tax return on equity of 8% for 2019. DEVK reported an operating pre-tax return on equity of 9.6% for 2018, up from 7.8% in 2017. 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.

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 more than half of DEVK Non-life’s gross written premiums (GWP) in primary insurance. We estimate that German motor GWP grew 4% in 2018 and expect an increase of 3% in both 2019 and 2020.

Rating Sensitivities

Capital or Reserve Weakening: 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.

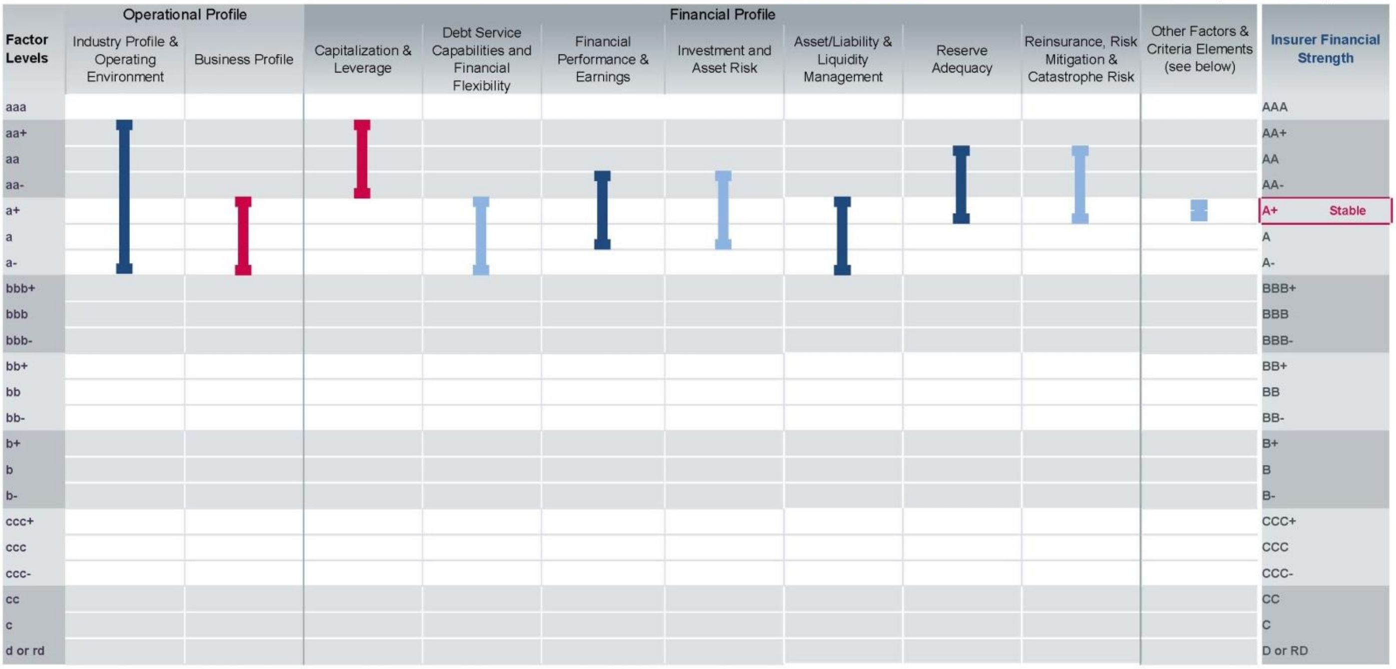
Upgrade Unlikely: Key triggers for an upgrade include a substantial improvement in the market position of the DEVK group’s life operations.

Revision of Echo Re’s Strategic Importance: 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.

DEVK Deutsche Eisenbahn Versicherung

ESG Relevance:

Insurance Ratings Navigator
European Composite



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				A+
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**A+**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**n.a.**

Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ☐ Stable

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 – 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.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Related Criteria

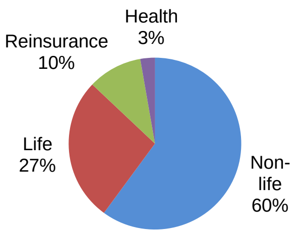
Insurance Rating Criteria (January 2019)

Business Profile

Strong Business Profile

Fitch's assessment of DEVK's business profile is mainly driven by its operating scale, which we regard as moderate. We consider its general competitive positioning to be favourable relative to its Germany-based peers.

Premium Income
By segments, 2018



Source: Fitch Ratings, DEVK

Strong Position in Motor, Household Contents and Individual Liability

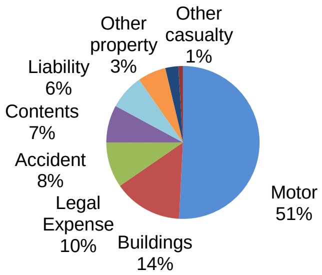
DEVK's GWP increased by 3.5% to EUR3,451 million in 2018 (2017: EUR3,333 million). The five-year compound annual growth rate (CAGR) for 2014-2018 was 3.8%, higher than the German primary insurance market five-year CAGR of 2.3%. DEVK's GWP growth is supported by German motor market GWP, which increased stronger than the market in recent years. We expect this trend to continue for 2019.

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 1.3%. It is the 13th-largest non-life insurer in Germany, but its market position in life is only 26th. Reinsurance operations also form part of the group.

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 2018.

Non-Life Premium Income
By lines of business, 2018



Source: Fitch Ratings, DEVK

Favourable Business Risk Profile

We regard the German non-life sector's business risk profile to be favourable on average as reflected by historically strong underwriting performance and very high reserve adequacy.

DEVK itself 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. DEVK has a strong and reliable customer base through this business.

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. Almost every Sparda-Banken branch includes at least one staff member responsible for distributing DEVK policies.

These facts support DEVK in keeping its business risk profile in line or better than the German non-life market average.

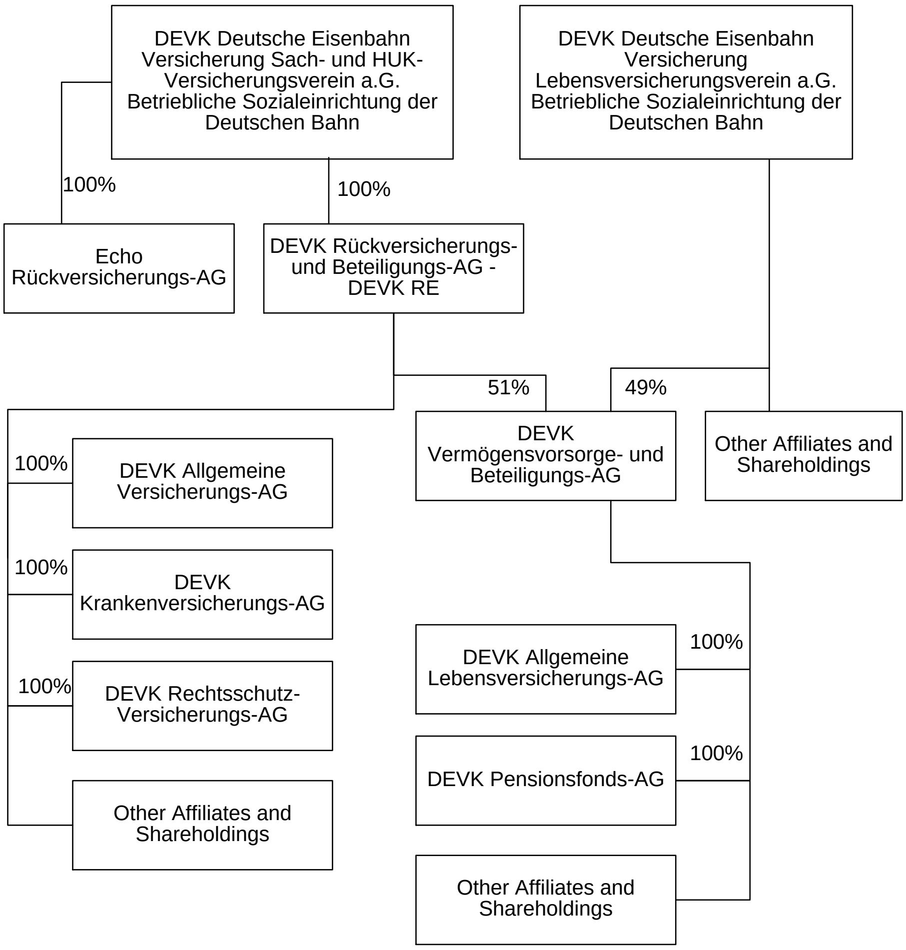
Diversification Constrained by Home Country Concentration

We regard DEVK's diversification to be moderate. DEVK provides all lines of insurance business, namely non-life (60% GWP), life (27% GWP), health (3% GWP) and reinsurance (10% GWP). Primary insurance products are distributed mainly in Germany while reinsurance cover focuses on business outside of Germany.

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, and a second non-life insurer, DEVK Allgemeine Versicherungs-AG. 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 (DEVK Re); and Echo Re.

Structure Diagram



Source: Fitch Ratings, DEVK

Capitalisation, Leverage and Financial Flexibility

	2014	2015	2016	2017	2018	Fitch's expectation
Regulatory group solvency ratio (%)	340[a]	305	284	279	332	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.
Financial leverage ratio (%)	0	0	0	0	0	
Non-life net leverage (x)[b]	2.3	2.3	2.2	2.2	2.2	
Life operating leverage (x)[b]	12.4	12.4	12.2	12.1	12.8	
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: Fitch Ratings, DEVK

Capital Is Strong for Rating Category

We consider capitalisation to be very strong. DEVK's Prism FBM score was 'Extremely Strong' at end-2018. The group reported a regulatory solvency ratio of 332%.

'Extremely Strong' Prism FBM Score and Very Strong Leverage Ratios

DEVK scored 'Extremely Strong' in Fitch's Prism FBM model, based on end-2018 results, which we expect to be maintained in 2019. 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 in recent years. At 12.8x, life operating leverage was very strong at end-2018. We expect this trend to continue in 2019.

Excellent Regulatory Group Solvency Ratio

DEVK reported a strong regulatory group Solvency II ratio of 332% at end-2018 (2017: 279%), 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 264% (2017: 221%). For German life insurers, we primarily focus on the Solvency II ratio without transitional measures, which we believe provides a more realistic view of the underlying economics of the insurers' balance sheet.

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 net income in 2014-2018. 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

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Net combined ratio	96.1	99.1	95.8	97.3	94.9	Fitch expects DEVK's profitability to remain stable in 2019. 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.
Operating ratio[a]	87.2	87.3	87.2	88.7	87.3	
Operating pre-tax return on equity	8.0	10.5	8.6	7.8	9.6	
Pre-tax return on assets	1.2	1.5	1.3	1.1	1.4	
Asset growth (life)[b]	6.0	4.3	3.4	3.3	2.1	
Premium growth (non-life)	8.8	6.2	3.9	4.7	5.6	

[a] Fitch estimate
[b] Includes DEVK Life
Source: Fitch Ratings, DEVK

Strong Profitability Pressured by Germany's Competitive Motor Market

DEVK achieved a very strong combined ratio in recent years. However, its focus on motor insurance pressures its overall profitability. As a mutual, DEVK accumulates its profits which results in a suppressed return on equity.

Underwriting Profitability Driven by German Motor Line Competitiveness

Motor accounts for more than half 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 2019. 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 2019. 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 2019.

Strong Operating Ratio Below 90% in Recent Years

DEVK achieved an operating ratio of 87.3% in 2018 (2017: 88.7%). The ratio has been below 90% since at least 2008. Fitch regards this as strong and likely to be maintained in 2019 and beyond. The gap between the combined and operating ratio is influenced by DEVK's high amount of non-life investments, totalling EUR6.6 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 9.6% for 2018 (2017: 7.8%) and the average return was 8.9% for 2014-2018. The net income return on equity has been influenced by a high tax burden in recent years. DEVK's net income for 2014-2018 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 2014-2018, 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

(EURm)	2014	2015	2016	2017	2018	Fitch's expectation
Investment earnings	387	467	432	481	373	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 (%)	4.0	4.5	3.9	4.0	2.9	
Risky assets (% of surplus)	61	65	60	58	71	
Unaffiliated common stocks (% of surplus)	45	48	45	44	53	
Below-investment-grade bonds (% of surplus)	9	8	7	5	5	

Source: Fitch Ratings, DEVK

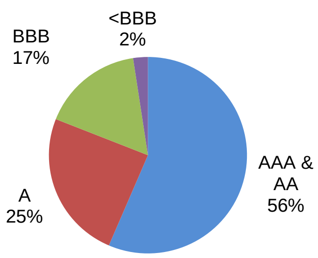
High Exposure to Risky Investments Mitigated by Capitalisation

We regard DEVK's investments to be conservative. However, equity investments accounted for 12% of its total investments – notably exceeding the German market average of 5%.

Equity Investments Far Exceed the German Market Average

Equity investments have accounted for about 10% of DEVK's total investments in recent years and were 12.0% at end-2018 (end-2017: 9.0%). DEVK's proportion of equity investments still far exceeds the German primary insurance market average, which was 5.2% at end-2018. However, when comparing with the non-life insurance industry's average of 7.7%, the gap becomes closer.

Fixed-Income Investments
By Rating categories



Source: Fitch Ratings, DEVK

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 (as proven in 2018), 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 increased to 53% in 2018, which Fitch regards as strong.

DEVK's fixed-income investments were of strong credit quality at end-2018. According to the consolidated annual report, 56.4% were 'AA' rated and better, 24.5% were 'A' rated and 16.6% 'BBB' rated. Unrated and non-investment-grade bonds accounted for only 2.4% 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 EUR22.0 million of goodwill and EUR46.7 million of other intangible assets at end-2018, representing less than 1% of DEVK's total assets and less than 5% of its total equity.

Asset/Liability and Liquidity Management

(Currency)	2014	2015	2016	2017	2018	Fitch's expectation
Liquid assets to policyholder liabilities (life)	87	86	85	82	84	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	184	183	184	185	
Cash and cash equivalents to technical reserves	1.0	1.3	2.9	3.1	2.2	

Source: Fitch Ratings, DEVK

Strong Asset/Liability Management; Low Liquidity Risk

We regard DEVK's duration gap in life business as being of 'A' category. We consider that DEVK's risk arising from guaranteed interest rate policies is 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)

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Loss reserve development to surplus	-8.6	-8.0	-8.9	-8.2	-9.1	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	-8.1	-7.5	-8.5	-8.0	-8.8	
Net technical reserves to net earned premiums	119	119	120	123	123	
Change in the ratio	-4.2	0.2	1.6	2.7	0.0	
Prior year reserve adjustment (PYRA; % of PYR)	7.5	7.0	7.8	7.3	7.9	

Source: Fitch Ratings, DEVK

Very Strong Reserve Adequacy

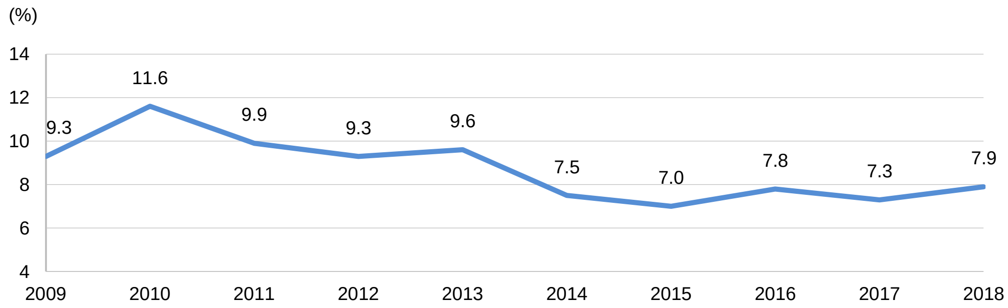
Based on DEVK's Solvency II reporting, DEVK accounted for large claims reserve redundancies, which were far exceeding the German non-life market average at end-2018.

PYRA Better than Market Average

DEVK reported strong PYRAs, averaging 7.5% between 2014 and 2018, 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 6.8% for 2014-2018, 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)
2009 - 2018 in % of Prior-Year Reserve (PYR)



Source: Fitch Ratings, DEVK

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: Industry Profile and Operating Environment

Regulatory Oversight

Fitch considers regulatory oversight in Germany as very strong. The German insurance market is highly regulated, with well-developed regulatory practices and supervision processes. As a member of the European Union, Germany adopted the risk-adjusted solvency framework (Solvency II), which came into force on 1 January 2016. The German insurance regulator is focused on ensuring that insurance organisations are viable and their conduct of business is appropriate. Fitch considers the regulator's enforcement as effective.

Technical Sophistication of Insurance Market; Diversity and Breadth

The German primary insurance market is the third largest in Europe (with EUR207 billion premiums in 2017) after the UK and France. Fitch believes the market is technically highly sophisticated. This is underpinned by the use of strong and generally accepted actuarial practices for underwriting analysis, calculating claims reserves and products pricing. In addition, the adoption of Solvency II improved the level of sophistication of enterprise risk management in the market, especially for smaller players.

The German insurance market is also well diversified. The life and saving business represented 44% of premiums, followed by property and casualty (38%), and health (18%) at end-2017. As the market is highly mature, premium growth is low, though higher in the property and casualty segment than in life and health.

Competitive Profile

Fitch believes the German insurance market is very competitive in all insurance segments. Nevertheless, the market is relatively fragmented, as reflected in the top 10 insurance groups' market share in premium income just over 60% since at least 2010. Including pension institutions, there were 528 active operating insurers in 2017, including 84 life insurers, 46 health insurers, and 200 property and casualty insurers. Consolidation in recent years took place between smaller insurers with little effect on the market shares of the top ten. We expect the number of operating insurers to continue declining.

Life insurance companies have been successfully repositioning their businesses to cope with persistently low interest rates in Europe, favouring the distribution of capital-light and unit-linked savings products. In non-life, the high level of competition creates pressure on prices which is currently mitigated by a phase of "harder" pricing. Health and protection business represents an area of strategic growth for all insurers.

Financial Markets Development

The German financial market is sophisticated and has considerable width and depth both in its insurance and non-insurance segments. The German stock and bond markets are among the largest globally, providing sufficient liquidity in most traded products. Companies' and financial institutions' access to capital markets is strong.

Country Risk

Germany's Long-Term IDR is 'AAA' with a Stable Outlook. The country's ratings are underpinned by a large, wealthy and diversified economy, strong and effective civil and social institutions and a record of macro-financial stability. Germany also benefits from strong financial flexibility, helped by the ultra-loose financing conditions prevailing in the eurozone, and the access to deep and liquid capital markets as a core eurozone member.

Appendix B: Peer Analysis

Performance in Line with the Market

Key Figures for the German Non-Life Insurance Sector, 2018

Company IFS Rating Outlook	Allianz AA Stable	R+V AA Stable	Westf. Provinzial AA- Stable	Nürn-berger A+ Stable	DEVK A+ Stable	German non-life sector[a] n.a. Stable
Total assets (EURm)	23,175	11,791	2,371	1,057	2,344	188,500
GWP (EURm)	9,914	4,052	1,290	620	1,416	86,500
Change in GWP (%)	4.1	5.0	3.1	2.6	3.4	3.9
Reported net income (EURm)	686	272	106	11	97	4,000
Claims ratio (gross, %)	69.8	74.1	74.4	59.0	71.3	69.2
Expense ratio (gross, %)	26.9	26.2	24.4	33.6	23.0	25.8
Combined ratio (gross, %)	96.7	100.3	98.8	92.6	94.3	95.0
Combined ratio (net, %)	97.4	101.4	90.1	95.4	95.0	95.6
Net investment return rate (%)	4.7	3.2	2.4	3.0	2.0	3.0

Based on German GAAP accounts of the operating entities
Reported net income: before profit transfer
[a] Fitch estimates without Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit
Source: Fitch Ratings, companies' annual reports 2018

In 2018, DEVK Allgemeine Versicherungs-Aktiengesellschaft's GWP growth was in line with that of peers and the market average. DEVK's net and gross combined ratio was slightly better than the market's average and of most peers'. This was due to its strong expense ratio, whereas the loss ratio was higher than of peers', driven by DEVK's focus on motor business.

Key Figures for the German Life Insurance Sector, 2018

IFS Rating Outlook	Allianz AA Stable	R+V AA Stable	Provinzial NordWest AA- Stable	Nürn-berger A+ Stable	DEVK A+ Stable	German life sector n.a. Stable
Total assets (EURm)	226,472	56,930	21,501	25,022	5,823	1,068,000[a]
GWP (EURm)	21,890	5,421	1,464	2,275	466	88,696
Change in GWP (%)	8.8	9.0	4.1	0.0	-4.8	2.5
Change in APE (%)	13.4	12.1	6.5	5.9	-5.6	4.1
Gross earnings (EURm)[b]	2,979	794	104	438	37	9,900[a]
Reported net income (EURm)	692	110	11	42	9	1,750[a]
Administration expense ratio (%)	0.9	2.6	2.5	3.5	2.6	2.3
Acquisition expense ratio (%)	3.8	4.5	5.6	6.5	5.1	4.7
Lapse rate (%)	4.0	3.2	3.7	4.4	5.1	4.2[a]
Equity and funds for future appropriation to actuarial reserve (%)						
With terminal bonus funds	6.6	5.8	4.8	8.0	7.4	6.5[a]
Without terminal bonus funds	5.1	4.0	2.4	6.2	5.8	4.7[a]
Net investment return rate (%)	4.2	3.3	3.0	3.5	3.5	3.6

Based on German GAAP accounts of the operating entities
APE: Annual Premium Equivalent = New business's annual premiums + 1/10 single premiums
[a] Fitch estimates
[b] Gross earnings include reported net income (before profit transfer) and expenses for RfB (fund for future appropriation)
Source: Fitch Ratings, companies' annual reports 2018

In 2018, DEVK Allgemeine Lebensversicherungs-Aktiengesellschaft continued to report average acquisition expense ratio and administration expense ratio. Its growth fell notably below the market average and peers. Its capitalisation, measured by equity and funds for future appropriation to actuarial reserve ratio, was stronger than the market average and most peers.

Appendix C: Other Ratings Considerations

Below is a summary of additional ratings considerations 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 the separate Full Rating Report on Echo Re).

Notching

For notching purposes, the regulatory environment of Germany is assessed by Fitch 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
Standard notching was applied between the implied insurance operating company and holding company IDRs for a group solvency regulatory environment.
Holding Company Debt
Not applicable
Hybrids
Not applicable

Source: Fitch Ratings

Short-Term Ratings

Not applicable.

Hybrids – Equity/Debt Treatment

Not applicable.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

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 – DEVK RE	
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 Ratings

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.