Press Release

Hannover Re anticipates greater price stability in the treaty renewals as at 1 January 2017

Monte Carlo, 12 September 2016: The state of the market in property and casualty reinsurance worldwide is virtually unchanged from the previous year. Competition remains intense and primary insurers are still running high retentions thanks to their healthy capital resources. At the same time, the flow of capital from the further expanding ILS market (i. a. catastrophe bonds and collateralised reinsurance) into the reinsurance market continues to increase for lack of higher-yield investment alternatives. Consequently, the supply of reinsurance capacity is still far in excess of demand.

As a further factor, declining interest rates and additional uncertainties on the capital and credit market are depressing potential returns. Despite this, profitability for insurers and reinsurers was generally good. This was, however, facilitated in part by the fact that losses from natural catastrophes in recent years were below the longer-term average. The marked price reductions and softer conditions have therefore impacted underwriting results to only a modest extent. Furthermore, with interest rates still falling, it has been possible to offset the lower reinvestment returns through realised gains. On the other hand, it is becoming increasingly clear that elevated loss expenditures can no longer be so easily absorbed. In some cases this has also been reflected in the results posted by reinsurers.

"It is evident that reinsurers strive to prevent any further drop in the price level. This was already reflected in a considerably more muted price decline for the renewals in the first half of 2016. What is crucial for us in this situation is to only write business that satisfies our margin requirements, even if this leads to lower premium income", commented Chief Executive Officer Ulrich Wallin during a press conference in Monte Carlo.

For the treaty renewals as at 1 January 2017 Hannover Re expects to see greater stability overall in both prices and conditions, not only due to the growing pressure on returns but also owing to the sharply increased burden of attritional losses. Opportunities are available here for rate increases, for example in Germany and Canada, following the heavy losses incurred in some instances as a consequence of natural catastrophe events.

The progressing digitisation also offers new opportunities for the insurance industry. With an eye to the rising risk potential, Hannover Re expects further growth in demand for products designed to protect against cyber risks, not only in the United States but also in other markets.

For the three pillars of its property and casualty reinsurance portfolio – namely target markets, specialty lines and global reinsurance – Hannover Re anticipates the following developments in the treaty renewals as at 1 January 2017:

I. Target markets:

North America
In spite of increased competition the North American primary insurance market is proving to be rather stable, so that the rate level can be largely maintained. The devastating fires in the Canadian province of Alberta prompted a response from the market: reinsurance covers purchased after the event demonstrated that rate hikes are entirely possible. Rate adjustments, most notably in property insurance business but also for some casualty covers, increasingly took hold. In the area of non-proportional reinsurance programmes with a favourable multi-year loss experience, it is Hannover Re's expectation that prices will tend to remain stable in the treaty renewals. Conditions in proportional reinsurance should continue to be sufficient, with no further deteriorations likely. On both the primary and reinsurance side M&A activities had led to realignments, from which Hannover Re largely benefited thanks to its long-standing established customer relationships. This tendency has continued. All in all, Hannover Re is confident to further profitably enlarge its book of business.

Continental Europe
The markets of Northern, Eastern and Central Europe are grouped together under Continental Europe. The largest single market is Germany.

Germany: The German property and casualty market is expected to deliver continued growth. In addition to motor business, homeowners' comprehensive insurance is likely to prove a particularly significant growth driver on the back of rehabilitation efforts. Following a series of natural catastrophe losses in prior years, both lines were again impacted by a number of storms in 2016, including heavy rain leading to localised flooding and hail events. With this in mind, the trend discernible in the preceding renewals towards improvements in natural catastrophe covers should be sustained. Developments were less pleasing in industrial fire business, which suffered heavy losses. The positive results booked in the general liability, householders and accident lines should nevertheless ensure that German composite business – with a combined ratio coming in just below 100% – can still be considered satisfactory overall. Against this backdrop, and with declining investment income, there is no room whatsoever for concessions over conditions in the next round of renewals.

Central and Eastern Europe: Repercussions of the financial and economic crisis, political tensions and fierce competition among primary insurers in the countries of Central and Eastern Europe have done nothing to dampen the growing demand for high-quality reinsurance solutions. Despite vigorous competition throughout the entire region, growth rates overall are stronger than the European average. Over the medium to long term Hannover Re anticipates appreciable growth in premium volume in these markets – with reinsurance prices for the most part likely to remain adequate. Solvency II is influencing the purchasing behaviour of insurance companies, which means that attractive business opportunities should continue to be available.

II. Specialty lines:

Aviation
Aviation reinsurance finds itself in an unchanged soft market phase. Particularly in business involving globally operating airlines, significant premium reductions can frequently be observed despite rising passenger numbers and higher fleet values. In view of the sustained abundant supply of capacity on both the primary and reinsurance side, Hannover Re is not currently expecting any change in this market situation. Although the number of rocket launches in the space market is increasing, the rate level remains under pressure – and the overall premium development consequently cannot be described as positive.

Marine
The marine reinsurance market similarly still finds itself in the soft phase of the cycle, even though some reinsurance renewals are hinting that a bottom may have been reached. The explosion at the Port of Tianjin, the only large loss to impact the marine market in 2015, failed to bring about any broad-based hardening.

In the offshore energy sector low oil prices continue to depress demand for primary insurance coverage. For the second year in succession the premium volume for this subsegment of marine insurance is thus set to remain well below the peak levels of 2014. Given that a number of large losses have been reported for 2016 – as in the previous year too –, there will no easing in the pressure on underwriting results. As long as there are surplus capacities in the market or unless the price of oil recovers, Hannover Re does not expect to see any improvement in the situation.

Credit and surety
In comparison to previous years, loss ratios in credit and surety insurance have moderately increased. The elevated burden of claims costs is particularly striking in emerging markets. The same is also true of the political risks segment. Against this backdrop, prices in primary and reinsurance business will probably tend to stabilise. Parallel to this, stable to slightly increased demand for reinsurance can be observed.

III. Global reinsurance:

Catastrophe business
Natural catastrophe business is still witnessing an oversupply of reinsurance capacity. The mid-year treaty renewals in the US showed, however, that isolated capacity shortages can arise if the proposed prices diverge too far from those expected by the reinsurers. The absence of large losses continues to put prices under pressure and the localised events on a limited scale at the beginning of 2016 did not have any broader implications across the market. Surprisingly, these market conditions have not to date resulted in any further moves towards consolidation in the reinsurance segment in the form of mergers and acquisitions; a number of reinsurers are, however, making an increased push into the primary insurance market.

Hannover Re anticipates the following developments on individual markets:

North America: Prices in the US market showed a further single-digit percentage fall on a risk-adjusted basis during the first half of the year owing largely to the absence of large losses. By mid-year, however, this price decline had been halted and the first so-called shortfall placements were observed for covers in Florida: it proved impossible here to fully place programmes in the market at the proposed price, as a consequence of which the premium for part of the exposure had to be increased. In very broad terms, the future price movement in the United States will be significantly determined by the course of this year's hurricane season and the general profit situation of the reinsurers.

Europe: European reinsurance markets and especially business in the United Kingdom have been under considerable price pressure so far in 2016. It will probably not be possible to push through price increases for programmes that have remained loss-free in recent years until a fundamental trend towards higher prices on reinsurance products takes hold.

Japan: Prices for Japanese programmes fell by single-digit percentages in the current year, while at the same time demand for reinsurance capacity grew. For this reason, a stable price level is anticipated in the next round of renewals for Japan (1 April 2017).

Australia/New Zealand: Growing pressure on prices and increasing competition in primary insurance business also led to further price reductions on the reinsurance side in 2016. Hannover Re's very good rating nevertheless enables it to obtain higher prices than the market as a whole.

Worldwide treaty business
Developments in worldwide treaty business varied across markets and regions.

Asia-Pacific: Intense competition continues to be the hallmark of these markets, although recent (catastrophe) losses in the region are having a restraining effect. In view of these conditions, Hannover Re concentrates on its good, long-term customer relationships and adds to its portfolio only when margins are adequate.

Latin America: Generally speaking, the countries of Central and South America are continuing to grow, albeit at a varying pace. The existing surplus capacity has prompted rate decreases, the extent of which depends upon the line of business and type of cover. Many countries in Latin America nevertheless continue to see increased demand for high-quality protection, hence enabling financially robust reinsurers to write business at adequate prices.

Agricultural risks: The growing need for agricultural commodities and foodstuffs as well as the increased prevalence of extreme weather events continue to stimulate demand for insurance and reinsurance solutions, especially in emerging and developing countries. Overall, the increasingly widespread implementation of public-private partnerships coupled with a continuously expanding range of products is opening up more opportunities to generate profitable business.

Insurance-Linked Securities: Hannover Re accesses the ILS market both to obtain protection for its own catastrophe risks and to transfer its clients' insurance risks to the capital market. The latter primarily takes the form of collateralised reinsurance, supplemented by the issuance of catastrophe bonds. Hannover Re expects demand in this area to show moderate growth over the coming years. The company is also itself an investor in catastrophe bonds, thereby ensuring that it can maximise all the opportunities offered by the ILS market.

Structured reinsurance / Advanced Solutions: In view of the adoption of risk-based models for calculating solvency requirements not only within but also outside the European Union, Hannover Re expects to grow this business. Demand for innovative and tailor-made reinsurance solutions continues to rise, supported by changes in the buying habits of many clients.

Outlook

Hannover Re expects to see greater stability in prices and conditions for the treaty renewals as at 1 January 2017. The renewals over the course of the year have demonstrated that broadly diversified reinsurers with an excellent rating – such as Hannover Re – can profit from this situation. Along with the growing area of cyber risks, the company anticipates opportunities primarily in the property and casualty sector in the United States, in credit and surety business and in connection with the adoption of risk-based solvency systems. Traditional reinsurance is Hannover Re's core competence, complemented with innovative coverage concepts. Product-based cooperations with primary insurance clients may be mentioned here by way of example. All in all, the company remains committed to its existing high-quality book of business, supplemented by opportunities that arise in niche and specialty segments.

Hannover Re is prepared, as it has in previous soft market phases, to relinquish inadequately rated business; the company is, however, keen to make every effort to offer its customers alternative solutions at a commensurate price level.

In view of the business development in the current financial year to date, Hannover Re considers itself well on track to achieve its 2016 year-end targets. The company expects to book a stable or slightly reduced gross premium volume – based on constant exchange rates – and net income after tax of at least EUR 950 million for 2016. This is subject to the proviso that major loss expenditure does not significantly exceed the budgeted level of EUR 825 million and assumes that there are no unforeseen distortions on capital markets.

For further information please contact:

Corporate Communications:
Karl Steinle (Tel. +49 511 5604-1500,
E-Mail: karl.steinle@hannover-re.com)

Media Relations:
Gabriele Handrick (Tel. +49 511 5604-1502,
E-Mail: gabriele.handrick@hannover-re.com)

Investor Relations:
Julia Hartmann (Tel. +49 511 5604-1529,
E-Mail: julia.hartmann@hannover-re.com)

Please visit: www.hannover-re.com

Hannover Re, with gross premium of around EUR 17 billion, is the third-largest reinsurer in the world. It transacts all lines of property & casualty and life & health reinsurance and is present on all continents with around 2,500 staff. Established in 1966, the Hannover Re Group today has a network of more than 100 subsidiaries, branches and representative offices worldwide. The Group's German business is written by the subsidiary E+S Rück. The rating agencies most relevant to the insurance industry have awarded both Hannover Re and E+S Rück very strong insurer financial strength ratings: Standard & Poor's AA- "Very Strong" and A.M. Best A+ "Superior". In 2016 Hannover Re celebrates its fiftieth anniversary.