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Press Release

Hannover Re expects stable treaty renewals as at 1.1.2018

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Monte Carlo, 11 September 2017: The market environment in worldwide property and casualty reinsurance shows little change overall and remains challenging. Pricing is essentially determined by the intense competition: despite poorer business results in some areas and the erosion of reserves, many companies have healthy capital resources. Relatively low inflation is also a supportive factor here. Stronger demand can nevertheless be observed not only in certain parts of Asia and North America but also in specific lines such as cyber, some specialty lines and for covers taken out for capital management purposes.

Low interest rates continue to encourage the expansion of ILS activities, resulting in an oversupply of traditional reinsurance capacity; rates are consequently still under pressure. A further factor is that the increase in natural catastrophe losses has only had positive pricing implications in the affected regions. The downward trend has been sustained under loss-free programmes. It is now becoming evident that the industry's business results are more vulnerable to higher loss expenditures. In some cases, this has also meant that the profits posted by reinsurers fell short of expectations.

"It is very important to take a sober approach to the upcoming price negotiations. In light of the overall situation, it would not send out the right signal to set premium targets based on an excessively low price level. Given that the potential returns on investments are still low, it is imperative to adhere strictly to underwriting margins in the treaty renewals. Despite this, we certainly see good growth opportunities in some business segments", Chief Executive Officer Ulrich Wallin stated during a press conference in Monte Carlo.

The excess supply of capacity on the reinsurance side notwithstanding, Hannover Re anticipates stable prices and conditions for the treaty renewals as at 1 January 2018. This is especially true of North America in the wake of recent natural catastrophe events such as Hurricane “Harvey”. Furthermore, weaker earnings industry-wide and the increased burden of attritional losses point to an improvement in market conditions.

Another factor of special significance is the digitalisation of process chains to optimise internal cost structures. Hannover Re considers itself well placed to tackle these challenges. What this means for the company is, firstly, exploring business opportunities with existing and new partners, while at the same time further improving its own structures through automation initiatives.

For the three pillars of its property and casualty reinsurance – namely target markets, specialty lines and global reinsurance – Hannover Re anticipates the following developments in the treaty renewals as at 1 January 2018:

I. Target markets:

North America
The primary insurance market in North America has proven durable despite the competition, hence enabling rates to be kept on a stable level and sustaining the promise of further growth. With insurers raising their retentions in past years, the slightly increased prevalence of mid-sized losses of late has repercussions chiefly for the primary market and is hence reflected in moderate price adjustments in loss-impacted lines. Hurricane "Harvey" has caused considerable economic and insured losses in Texas. While the scale of this natural disaster cannot yet be entirely foreseen, it is safe to assume that the insurance market, too, will be faced with losses running into the billions: a surge in demand for flood insurance can be anticipated on both the insurance and reinsurance markets. In the case of proportional reinsurance covers Hannover Re expects to see – particularly in property insurance – a reduction in commissions and stable treaty conditions. Non-proportional reinsurance is in a robust state and treaty conditions for the upcoming renewals can therefore again be expected to adequately reflect the risks, although in property insurance some price adjustments are to be expected overall. Relevant adjustments in treaty conditions – flood losses excepted – are scarcely likely; stronger demand for aggregate excess of loss covers can, however, be observed.

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 insurance market is expected to deliver continued growth. This will be driven once again by motor insurance and, most notably, by homeowners' comprehensive insurance on the back of rehabilitation efforts. Reinsurers should similarly benefit through proportional cessions in these lines and generate corresponding premium growth. As things currently stand, the impacts of a series of natural catastrophe losses due to torrential rainfall are unlikely to affect the reinsurance side, remaining instead very largely within the retention run by primary insurers.

Motor insurance will likely see a further rise in expenditures connected with severe personal injury claims as well as with the installation of cost-intensive vehicle electronics. It is Hannover Re's assumption that this trend can at least to some extent be reflected in a rising overall premium level. The company sees a need for adjustments with respect to selected customer accounts depending on the performance of motor reinsurance cessions.

In the months ahead further FinTech players are likely to enter the German insurance market; the focus here is on business with retail customers. Additional business potential can be anticipated in this segment.

Central and Eastern Europe: Primary insurance business in France is showing modest growth. The landscape nevertheless remains competitive, especially in fire and industrial business. The state of the motor line remains difficult. On the reinsurance side, too, the market in France is very competitive, although demand for high-quality reinsurance solutions remains strong. A pickup in construction activity will likely open up further potential in builder's risk insurance, from which Hannover Re expects to benefit owing to its leading position in this line.

Growth rates in Eastern European countries are still higher overall than the European average; this is true of both the primary and reinsurance market. The brisk demand for reinsurance solutions remains undiminished. The more exacting requirements for capital resources imposed by Solvency II and supervisory authorities are an additional factor here. Despite intense competition, sizeable growth opportunities can also be anticipated over the medium and long term in this region – with reinsurance prices and conditions likely to remain very largely adequate.

All in all, it is Hannover Re's expectation that it can continue to profitably expand its portfolio in the target markets, especially in North America.

II. Specialty lines:

Aviation
The market for aviation reinsurance continues to experience a soft phase. In the primary market, however, especially in the segment of globally operating airlines, the first indications of price stabilisation can be discerned. Nevertheless, Hannover Re does not expect the overall situation to change significantly in the short to medium term in view of the unchanged abundant supply of insurance and reinsurance capacity. The pricing level in the space segment remains under pressure due to excess capacity and the consistent success of proven launch systems.

Marine
The marine reinsurance market similarly still finds itself in a soft phase of the cycle, although some reinsurance renewals suggest that

the situation may now have bottomed out to a certain extent. In light of minimal strains from large losses in 2016 and the first half of 2017, it remains open to question when the market is likely to see any broad-based hardening.

In the offshore energy sector the low price of oil continues to squeeze demand for primary insurance covers. For the third consecutive year, therefore, the premium volume in this subsegment of marine insurance will remain well below the peak levels of 2014. Unlike in 2015 and 2016, no large losses were incurred in the first half of 2017, hence easing the pressure slightly on customers' 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 continue to trend moderately higher. The elevated burden of claim costs is particularly striking in emerging markets. This development can similarly be observed in the political risks segment. Against this backdrop, prices in primary and reinsurance business should continue to stabilise; demand for reinsurance covers in the area of credit, surety and political risks is stable or rising slightly.

United Kingdom/Ireland
The market environment in the United Kingdom and Ireland remains very competitive. In view of the pricing pressure in recent years, treaties are now expected to renew on stable terms and rate levels. Due to the change in the "Ogden rate tables" which have been announced earlier in 2017 and which specify the discount rates for personal injury lump-sum payments, a market reaction is to be expected. Hannover Re assumes that significant rate increases will be achieved for UK motor business. As one of the market leaders in this line, the company is confident of being able to benefit more than the average from this development.

III. Global reinsurance:

Catastrophe business
Natural catastrophe business worldwide is still witnessing an oversupply of reinsurance capacity, a situation exacerbated by additional capacities originating from the insurance-linked securities market (ILS). This state of affairs, combined with the fact that market-changing large losses were once again absent, led to a further rate decline in property catastrophe business. While a number of loss events certainly were reported in some countries – also resulting in price adjustments on a local basis –, they did not have any market-wide implications.

Hannover Re anticipates the following developments on individual markets for natural catastrophe risks:

North America: Further rate decreases were recorded in the mid-year treaty renewals. In Florida, where demand remains unchanged and the availability of capacity and capital from ILS investors was larger than anticipated, the rate erosion was even more marked than in other US states. On average, the price erosion under loss-free programmes was similar to the previous year in a range of 3% to 7%. Prior large losses, such as Hurricane Matthew or the various tornado and hail events, only led to rate improvements for lower layers. The severe damage caused by Hurricane "Harvey" will likely prompt greater awareness of flood exposures and ultimately help to bring about an improved rate level.

Europe: Prices on European reinsurance markets, and especially for business in the United Kingdom, similarly remained under pressure in 2017. The flooding – for the most part localised – that was seen in Germany should at least influence the purchasing behaviour of ceding companies with respect to the capacity and structure of future catastrophe covers.

Japan: Modest price reductions were observed here for catastrophe covers in the current year. Demand for reinsurance capacity rose, however, on the back of a number of mid-sized losses. The price level is expected to remain roughly stable in the next round of treaty renewals for Japan (1 April 2018).

Australia/New Zealand: Rates in New Zealand have stabilised following the severe earthquake experienced by that country in 2016. In Australia, on the other hand, the pressure on prices is still considerable. While Cyclone Debbie resulted in losses under reinsurance programmes, these merely led to limited rate increases in the affected layers. Reinsurers with a very good rating, long-standing expertise and excellent business relationships – such as Hannover Re – nevertheless have opportunities to generate more attractive prices than those seen on the market as a whole.

Latin America: With Latin American markets similarly experiencing an oversupply of reinsurance capacity, the price erosion here is likely to continue.

Worldwide treaty business

Developments in worldwide treaty business varied across markets and regions.

Asia-Pacific: As in the previous year, competition in the region remains fierce. Hannover Re concentrates on following a disciplined, margin-oriented underwriting strategy and thereby continues to refine its client relationship management tools. Positioning as a preferred reinsurer is one of the company's primary goals in order to safeguard future profitability.

Latin America: The pace of growth varies in the countries of Central and South America. The continued oversupply of capacity has prompted further rate declines, the extent of which depends on the line of business and type of cover. The devastating floods in Peru have so far failed to bring about any appreciable changes in conditions owing to the surplus capacity in the market. Many countries in Latin America nevertheless continue to see increased demand for high-quality risk protection, hence enabling financially robust reinsurers to write business at adequate prices. Recent acceptances of sizeable portfolios by primary insurers in Latin America have prompted significant overhauls of reinsurance placements and generated demand for natural catastrophe capacities.

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. The InsuResilience initiative launched by the G7 countries has set itself the goal, for example, of improving access to insurance coverage against climate risks for millions of particularly poor and vulnerable people in developing countries by the year 2020. The resulting, increasingly widespread implementation of public-private partnerships is opening up new opportunities for Hannover Re to write profitable business in markets that have still to establish themselves. Furthermore, the growing availability of new technologies, such as remote sensing by satellites, is enabling continuing expansion of this segment with innovative insurance products.

Insurance-Linked Securities: Hannover Re accesses the ILS market both to obtain protection for its own catastrophe risks and to transfer its clients' life & health and property & casualty risks to the capital market. The latter primarily takes the form of collateralised reinsurance, the largest business segment within Hannover Re's ILS activities, but is also supplemented by the issuance of catastrophe bonds. In the second quarter of 2017, for example, the company brought three catastrophe bonds to market for US clients with a total volume of almost USD 1 billion. Over the coming years Hannover Re expects demand to show moderate growth overall. 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, it was possible to grow this business appreciably as had been anticipated. Going forward, too, Hannover Re expects demand for innovative and customised reinsurance solutions to continue rising. This can also be attributed to changes in the buying habits of many customers, who are seeking ever more complex reinsurance solutions.

Outlook

Hannover Re expects to see stability in prices and conditions for the treaty renewals as at 1 January 2018: while improvements should be possible under loss-impacted programmes, covers that were spared losses will likely show a stable trend overall. The renewals over the course of the year have demonstrated that reinsurers with expertise and a very good rating are able to benefit from the current state of the market. The company thus remains satisfied with the business renewed to date in 2017 and also anticipates extensive business opportunities for 2018. Along with the growing area of cyber risks and activities associated with the increasingly widespread drive towards digitalisation, opportunities should open up now above all in US property and casualty business, where prices have firmed up. In addition, the company anticipates sufficient potential for further growth in the area of motor covers in the United Kingdom, in credit and surety business and from covers taken out for capital management purposes following the implementation of risk-based solvency systems. Hannover Re expects natural catastrophe business to bottom out as a consequence of the active hurricane season.

In the present climate the company will stay focused on its core competence: traditional reinsurance, also extending to individual coverage concepts. All in all, the company remains committed to its existing high-quality book of business, complemented by opportunities that arise in niche and specialty segments.

In view of the business development in the current financial year to date, Hannover Re considers itself well on track to achieve its 2017 year-end targets. Based on constant exchange rates, the company anticipates an increase of more than 5% in its gross premium volume and Group net income after tax in excess of EUR 1 billion for 2017. This is conditional upon major loss expenditure not significantly exceeding the budgeted level of EUR 825 million and assumes that there are no unforeseen distortions on capital markets. Even allowing for Hurricane “Harvey”, the large loss budget set aside by Hannover Re for the first nine months of this year will in all probability not be fully utilised. For further possible major losses, such as Hurricane “Irma”, the exceeding, unused large loss budget becomes available.

Hannover Re, with gross premium of EUR 16.4 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 2,900 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".