

Corporate news

Hannover Re generates strong nine-month result and raises profit guidance for the full year

- Group net income up by 38.3% to EUR 1.0 billion
- Combined ratio impacted by considerable large losses in the third quarter
- Strong performance in life and health reinsurance
- Return on investment (3.5%) and return on equity (13.7%) comfortably beat targets
- Shareholders' equity increases by 22.3% to EUR 10.7 billion
- Group net income guidance for 2019 raised from originally EUR 1.1 billion to more than EUR 1.25 billion
- Outlook for 2020: Group net income target of around EUR 1.2 billion

Hannover, 6 November 2019: Hannover Re increased its Group net income as at 30 September 2019 by a substantial 38.3% to EUR 1,003.2 million (previous year: EUR 725.3 million) and is raising its full-year profit guidance in view of this good performance.

"After nine months we are looking at an excellent result and a very good return on equity", Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re, said. "In life and health reinsurance the good underlying profitability is becoming increasingly evident, while property and casualty reinsurance continues to deliver stable results on a high level despite persistent strains from large losses. A further factor is the very strong investment income, enabling us to raise our profit guidance for 2019 to more than EUR 1.25 billion."

Significant growth in Group profit and premium income

Gross written premium for the Group surged by 16.0% as at 30 September 2019 to EUR 17.4 billion (EUR 15.0 billion). At constant exchange rates the increase would have been 13.3%, comfortably in excess of the targeted growth – adjusted for exchange rate effects – in the single-digit percentage range. The retention was virtually unchanged from the previous year at 90.5% (90.8%). Net premium earned rose by 12.7% to EUR 14.4 billion (EUR 12.8 billion), or 10.3% adjusted for exchange rate effects.

The operating profit (EBIT) improved by 20.6% to EUR 1,395.4 million (EUR 1,157.1 million). Group net income rose sharply by 38.3% to EUR 1,003.2 million (EUR 725.3 million), a record for a nine-month result. Earnings per share amounted to EUR 8.32 (EUR 6.01).

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Property and casualty reinsurance:**Major loss expenditure within the envisaged budget**

The market for reinsurers continues to be marked by a number of considerable challenges. The long-standing excess of capacity for coverage of insurance risks remains a drag on prices for reinsurance protection. In addition, low interest rates are restricting investment income for the industry, necessitating rigorous discipline in technical underwriting. Reflecting the market's response to these challenges, Hannover Re discerned a growing turn for the better in the development of prices and conditions in the various rounds of renewals during the year. These rebound effects are not adequate in all areas, however, with further price increases needed in some sub-markets.

Gross written premium in property and casualty reinsurance climbed by 20.7% to EUR 11.7 billion (EUR 9.7 billion) on the back of the aforementioned rate increases and appreciable growth, most notably in North America, Asia, Germany and structured reinsurance business. At constant exchange rates growth would have come in at 17.5%. Net premium earned rose by 15.8% to EUR 9.3 billion (EUR 8.0 billion); adjusted for exchange rate effects, growth stood at 13.1%.

After a very moderate major loss experience in the first half of the year, large loss expenditure in the third quarter reached EUR 405.3 million and clearly surpassed the quarterly budget of EUR 295 million. The largest loss events in the third quarter included Hurricane Dorian with a net strain of EUR 186.6 million, Typhoon Faxai in Japan in an amount of EUR 75.9 million and the insolvency of UK tour operator Thomas Cook at a cost of EUR 112.4 million. Altogether, the net burden of large losses in the first nine months was higher than in the previous year at EUR 545.9 million (EUR 364.6 million), but within the budget of EUR 665 million set aside for this period.

The combined ratio deteriorated to 98.6% (96.8%) and thus failed to reach the targeted level of no more than 97% for the full year. This can be attributed to the heavy losses in the third quarter and an unchanged prudent reserving policy.

The operating profit (EBIT) in property and casualty reinsurance contracted by 8.4% to EUR 919.0 million (EUR 1,003.6 million). The EBIT margin amounted to 9.9% (12.5%) and was thus marginally below the minimum target of 10%. The contribution made by property and casualty reinsurance to Group net income fell by 4.8% to EUR 640.1 million (EUR 672.4 million).

Life and health reinsurance:

Result rises on the back of actions to improve profitability

"We are highly satisfied with the development of our life and health reinsurance portfolio in the current year", Mr. Henchoz said. "In the United States we recorded a strong profit contribution after the actions taken here in the previous year to improve the profitability of US mortality business."

Gross written premium in life and health reinsurance increased by 7.6% to EUR 5.7 billion (EUR 5.3 billion); growth would have reached 5.8% adjusted for exchange rate effects. Net premium earned climbed to EUR 5.1 billion (EUR 4.8 billion). At constant exchange rates net premium would have grown by 5.6%.

The investment income generated by the business group soared by a substantial 43.0% to EUR 527.8 million (EUR 369.1 million); the increase was crucially driven by a one-time effect associated with the release of hidden reserves in connection with a participating interest in the second quarter.

The operating result (EBIT) in life and health reinsurance consequently tripled to EUR 477.7 million (EUR 155.2 million), supported among other things by sharply improved profitability in the United States. In the previous year this had still been overshadowed by a one-time charge due to treaty recaptures in mortality business. The contribution made by life and health reinsurance to Group net income therefore increased considerably to EUR 402.9 million (EUR 93.0 million).

Investments and shareholders' equity:

Return on investment and return on equity both appreciably better than anticipated

The portfolio of assets under own management grew to EUR 47.8 billion (31 December 2018: EUR 42.2 billion) thanks to a sustained very positive cash flow, higher valuations and exchange rate effects. Ordinary investment income was up by 4.8% to EUR 1,039.3 million (EUR 991.4 million), reflecting in particular higher ordinary income from fixed-income securities and another rise in earnings from real estate and private equity. Interest on funds withheld and contract deposits fell to EUR 147.7 million (EUR 163.3 million). Driven by the increased ordinary income, Hannover Re generated total investment income including interest on funds withheld and contract deposits of EUR 1,331.9 million (EUR 1,155.4 million). This produces a very pleasing annualised average return (excluding effects from ModCo derivatives) of 3.5%.

Shareholders' equity increased by 22.3% as at 30 September 2019 to EUR 10.7 billion (31 December 2018: EUR 8.8 billion). The book value per share thus stood at EUR 88.97 (31 December 2018: EUR 72.78). The annualised return on equity as at 30 September 2019 amounted to 13.7% (31 December 2018: 12.2%), again comfortably beating the minimum target of 9.4%.

Guidance for 2019:

Profit target raised to more than EUR 1.25 billion

Bearing in mind the good result for the first nine months, Hannover Re is raising the profit guidance for the current year to more than EUR 1.25 billion from the originally envisaged EUR 1.1 billion. Gross premium should see growth of around 10% based on constant exchange rates. This compares with the single-digit percentage increase that had originally been anticipated.

In its property and casualty reinsurance business Hannover Re is looking to book significant growth – adjusted for exchange rate effects – at broadly stable conditions. The target combined ratio for the full year remains unchanged at no more than 97%.

In life and health reinsurance Hannover Re continues to anticipate moderate premium growth at constant exchange rates. The strategic target of at least 5% EBIT growth should be comfortably surpassed.

Hannover Re is raising the expected return on investment for 2019 from at least 2.8% to at least 3.2%.

Hannover Re envisages an unchanged payout ratio for the ordinary dividend in the range of 35% to 45% of its IFRS Group net income. The ordinary dividend will be supplemented by payment of a special dividend subject to a sustained comfortable level of capitalisation and Group net income in line with expectations.

Outlook for 2020:

Group net income target of around EUR 1.2 billion

"In the coming year we are looking for a relatively stable profit contribution from property and casualty reinsurance and sustained good contribution from life and health reinsurance. Investment income will likely contract slightly, however, owing to the elimination of the non-recurring effect. We therefore anticipate Group net income of around EUR 1.2 billion in 2020", Mr. Henchoz said.

Based on constant exchange rates, Hannover Re expects to book gross premium growth of around 5% and a return on investment of roughly 2.7% for the 2020 financial year.

In addition, Hannover Re is raising the net major loss budget for 2020 from EUR 875 million to EUR 975 million. This is motivated primarily by the continued expansion of the underlying business. The risk appetite on the underwriting side remains unchanged. As usual, all statements regarding future objectives are conditional upon major loss expenditure remaining within the bounds of expectations and assume that there are no unforeseen distortions on capital markets. The dividend policy of the previous years will also be retained going forward.

Hannover Re, with gross premium of more than EUR 19 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 3,200 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 outstanding financial strength ratings: Standard & Poor's AA- "Very Strong" and A.M. Best A+ "Superior".

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