

Corporate news

Hannover Re confirms profit guidance for 2021 despite sharp rise in major loss expenditure in the third quarter

- **Gross premium grows by 14% adjusted for exchange rate effects**
- **Combined ratio increases to 97.9% due to high burden from natural catastrophes**
- **Pandemic-related strains in life and health reinsurance amount to EUR 404 million**
- **Return on investment beats target at 2.9%**
- **Group net income improves by 28%**
- **Return on equity remains above minimum target at 10.2%**
- **Profit guidance for the 2021 financial year confirmed**
- **Outlook for 2022: Group net income of EUR 1.4 billion to EUR 1.5 billion expected**

Hannover, 4 November 2021: Hannover Re increased its Group net income in the first nine months of the financial year by 28% and considers itself still in position to achieve the profit target set for the current financial year despite considerable major loss expenditure incurred in the third quarter.

"In recent months insurers and reinsurers were faced with unusually heavy losses from hurricanes, flooding and other catastrophic events," said Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re. "Our solid nine-month result again demonstrates Hannover Re's resilience in a volatile environment."

Group net income rises after nine months to EUR 856 million

Gross written premium for the Group rose by 12% to EUR 21.6 billion (EUR 19.3 billion). At constant exchange rates growth would have reached 14%. Net premium earned increased by 12% to EUR 17.6 billion (EUR 15.8 billion), corresponding to growth of 14% adjusted for exchange rate effects.

While the underlying business in property & casualty and life & health reinsurance showed a stable development in line with expectations, the investments delivered a substantially better profit contribution than anticipated.

The operating profit (EBIT) on the Group level increased by 42% to EUR 1,281 million (EUR 903 million). Group net income improved by 28% in the first nine months of the year to EUR 856 million (EUR 668 million). Earnings per share thus amounted to EUR 7.10 (EUR 5.54).

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Property and casualty reinsurance records sharp rise in large loss expenditure

Premium income in property and casualty reinsurance once again came in substantially higher. The profitable growth was driven by unchanged strong demand for covers primarily from robustly capitalised reinsurers. As a result, Hannover Re was able to secure improved prices and conditions across a broad front in the various rounds of renewals held throughout the current financial year.

The gross written premium in property and casualty reinsurance climbed by 14% to EUR 15.3 billion (EUR 13.3 billion). The increase would have been 18% adjusted for exchange rate effects. Net premium earned rose by 15% to EUR 12.1 billion (EUR 10.5 billion). At constant exchange rates the increase would have reached 18%.

Due to significant natural catastrophes in the third quarter, net major loss expenditure increased to EUR 1,070 million (previous year: EUR 1,149 million, thereof EUR 700 million relating to Covid-19) as at the end of September and was thus substantially higher than the budgeted expectation of EUR 849 million for the first nine months.

No further reserves had to be established for the Covid-19 pandemic in property and casualty reinsurance.

The largest individual loss for net account in the third quarter was Hurricane Ida, which caused severe storm and flood damage in multiple US states when it made landfall at the end of August as a Category 4 hurricane. The net payments made by Hannover Re to its customers for this event alone added up to EUR 306 million. In addition, Germany and other European countries suffered devastating flood and hail damage in the months of June and July. Hannover Re provided its clients with reinsurance coverage for the low-pressure system Bernd in July in a net strain of EUR 214 million. Further large losses in the third quarter included the civil unrest in South Africa at a cost of EUR 94 million and flooding in China in an amount of EUR 35 million.

The underwriting result including interest on funds withheld and contract deposits for property and casualty reinsurance totalled EUR 253 million (EUR -146 million). The combined ratio reached 97.9% (101.4%). It was thus above the expected level of no more than 96% for the full year.

The operating profit (EBIT) in property and casualty reinsurance surged by 80% to EUR 1,061 million (EUR 589 million). Net income improved by 77% to EUR 739 million (EUR 418 million).

Life and health reinsurance reports losses of EUR 404 million from the pandemic

Gross written premium in life and health reinsurance rose by 7% to EUR 6.4 billion (EUR 5.9 billion). The increase would have been 7% adjusted for exchange rate effects. Net premium earned climbed by 6% to EUR 5.6 billion (EUR 5.3 billion). Growth would have amounted to 6% at constant exchange rates.

Losses relating to Covid-19 in life and health reinsurance totalled EUR 404 million (EUR 160 million) in the first nine months. Of this, EUR 140 million was attributable to the third quarter. It remains Hannover Re's expectation that these expenditures will diminish progressively as vaccination programmes make further progress.

The pandemic-related strains were opposed by a positive special effect from the longevity portfolio of EUR 99 million in the third quarter and by a positive one-time income in the first quarter from a restructuring measure in US mortality business amounting to EUR 129 million.

The operating result (EBIT) in life and health reinsurance fell by 30% to EUR 220 million (EUR 315 million) owing to the pandemic losses. The contribution to Group net income contracted by 50% to EUR 150 million (EUR 297 million).

Return on investment beats target at 2.9%

The portfolio of assets under own management increased to EUR 55.0 billion as at 30 September 2021 (31 December 2020: EUR 49.0 billion). The unrealised gains in the fixed-income portfolio as at the end of September totalled EUR 1.9 billion (31 December 2020: EUR 1.7 billion).

Income from assets under own management grew by 12% to EUR 1,142 million (EUR 1,021 million). The resulting annualised return reached 2.9% and thus came in comfortably above the original full-year target of around 2.4%. Total investment income improved by 15% to EUR 1,357 million (EUR 1,185 million).

Return on equity still above minimum target at 10.2%

The shareholders' equity of Hannover Re totalled EUR 11.4 billion as at 30 September (31 December 2020: EUR 11.0 billion). The annualised return on equity amounted to 10.2% (31 December 2020: 8.2%) and surpassed the minimum target of 900 basis points above the risk-free interest rate. The book value per share stood at EUR 94.60 (31 December 2020: EUR 91.17).

The capital adequacy ratio under Solvency II, which measures Hannover Re's risk-carrying capacity, amounted to 239 % as at the end of September and thus remained clearly above the limit of 180% and the internal threshold of 200%.

Profit guidance for 2021 confirmed despite large loss expenditure

On the Group level, Hannover Re's expectation of Group net income in the range of EUR 1.15 billion to EUR 1.25 billion for the 2021 financial year remains unchanged. After the good investment income booked in the first nine months, Hannover Re now expects to generate a return on investment of more than 2.4% as well as growth in Group gross premium at least in the upper single-digit percentages adjusted for exchange rate effects.

"The third quarter has shown us once again how quickly an unexpectedly benign loss experience during the year can completely turn around," said Jean-Jacques Henchoz. "Despite this, we believe we are in a position to achieve our guidance for 2021."

As already communicated, Hannover Re intends to place even greater emphasis on the continuity of its dividend payments going forward. From the current financial year onwards the ordinary dividend will at least be on the level of the previous year. The ordinary dividend will be supplemented by a special dividend provided the capitalisation exceeds the capital required for future growth and the profit target is achieved.

Achievement of the earnings target is dependent on major loss expenditure not significantly exceeding the budgeted level for the fourth quarter of EUR 251 million and assumes that there are no unforeseen distortions on capital markets.

Outlook for 2022: Sharp rise in earnings reflects profitable growth and cycle management

For the 2022 financial year Hannover Re anticipates Group net income of EUR 1.4 billion to EUR 1.5 billion. The return on investment in the coming year should reach at least 2.3% and Group gross premium is expected to grow by at least 5% adjusted for exchange rate effects.

"The profitable growth and our successful cycle management in recent years will lead to a sharp rise in earnings in the 2022 financial year," said Jean-Jacques Henchoz. "Not only that, in life and health reinsurance we anticipate that the strains from the Covid-19 pandemic will diminish appreciably as vaccination programmes make increasing progress and the underlying healthy profitability of the portfolio will once again be reflected in the result."

The expectations for 2022 additionally reflect an increase in the net major loss budget to EUR 1.3 billion (EUR 1.1 billion) that is commensurate with the growth in the underlying business. As usual, all forward-looking statements regarding future targets are based on the assumption that there are no unforeseen distortions on capital markets and assume that large loss expenditure remains within the expected bounds and the Covid-19 pandemic does not have any significant effect on the result in life and health reinsurance.

Hannover Re, with gross premium of more than EUR 24 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 more than 3,000 staff. Established in 1966, the Hannover Re Group today has a network of more than 170 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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