

Corporate news

Hannover Re achieves profit of EUR 402 million for the half-year despite substantially increased risk provision for Covid-19

- Reserves for Covid-19 strengthened substantially in first half-year owing to uncertainty around course of the pandemic
- Gross premium grows by 12.2% adjusted for exchange rate effects
- Increased demand for reinsurance coverage results in sometimes significantly improved prices and conditions
- Group net income of EUR 402 million (EUR 663 million)
- Return on investment reaches 2.7%
- Guidance for 2020 currently still not possible

Hannover, 5 August 2020: After the first quarter had passed off broadly in line with expectations, the impacts of the Covid-19 pandemic on Hannover Re left a much clearer mark on the results for the second quarter of 2020. The half-yearly result fell by 39.3% to EUR 402.4 million. This was due to an increase in the reserves established in the Property & Casualty reinsurance business group: in the second quarter Hannover Re set aside reserves for estimated losses associated with Covid-19 in an amount of EUR 380 million and hence reserved altogether EUR 600 million related to property and casualty reinsurance in the first six months.

"We have come through the crisis relatively well so far. This enables us to make appropriate provision for the anticipated Covid-19 losses and take account of the still considerable uncertainty surrounding the scale of the pandemic," Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re, stated. "Our business model is geared to managing such extreme events. We offer our clients and business partners our unqualified support."

The capital adequacy ratio, which measures Hannover Re's risk-carrying capacity, amounts to about 225% as at the end of June based on preliminary figures. This level is significantly above the limit of 180% and the internal threshold of 200%.

Rising demand for reinsurance

The gross written premium for the Hannover Re Group rose by 12.4% to EUR 13.1 billion (EUR 11.7 billion). Growth would have reached 12.2% adjusted for exchange rate effects. Net earned premium increased by 10.9% to EUR 10.4 billion (EUR 9.4 billion). At constant exchange rates growth would have similarly come in at 10.9%.

Contact

Corporate Communications:

Karl Steinle
tel. +49 511 5604-1500
karl.steinle@hannover-re.com

Media Relations:

Oliver Suess
tel. +49 511 5604-1502
oliver.suess@hannover-re.com

Investor Relations:

Julia Hartmann
tel. +49 511 5604-1529
julia.hartmann@hannover-re.com

www.hannover-re.com

Opportunities to expand the portfolio opened up both in property & casualty and in life & health reinsurance during the first half-year. The increased demand for reinsurance coverage was reflected in the treaty renewal negotiations at 1 April, 1 June and 1 July, with partly significant improvements in prices and conditions running into double-digit percentages.

The operating profit (EBIT) contracted by 46.6% to EUR 503.5 million (EUR 942.1 million). Group net income reached EUR 402.4 million (EUR 662.5 million). Earnings per share amounted to EUR 3.34 (EUR 5.49).

Result in property and casualty reinsurance adversely affected by Covid-19

Hannover Re was again able to substantially grow the premium volume of its property and casualty reinsurance portfolio. Covers provided by robustly capitalised reinsurers enjoyed increased demand, with conditions showing improvement overall.

The gross written premium for property and casualty reinsurance increased by 16.9% as at 30 June 2020 to reach EUR 9.2 billion (EUR 7.8 billion). Growth would have reached 16.3% adjusted for exchange rate effects. Net premium earned climbed by 15.2% to EUR 6.9 billion (EUR 6.0 billion). The increase would have been 15.0% at constant exchange rates.

The net major loss expenditure of EUR 737.0 million (EUR 140.5 million) was well in excess of the EUR 414 million budgeted for the first six months. The reserves constituted for losses related to Covid-19 amount to altogether EUR 600 million, the bulk of which is attributable to losses that have still to be reported but are nevertheless anticipated. The move to increase these reserves by EUR 380 million in the second quarter was prompted primarily by the fact that the duration and intensity of the pandemic cannot be foreseen. These reserves are intended for potential additional loss payments, such as for covers in the areas of business interruption, trade credit or event cancellation.

Furthermore, Hannover Re anticipates losses amounting to EUR 31.1 million for tornados in the United States and EUR 26.3 million for bushfires in Australia.

The underwriting result in property and casualty reinsurance retreated to close with a deficit of EUR 160.7 million (previous year: profit of EUR 195.9 million). The combined ratio climbed to 102.3% (96.7%). After factoring out the loss reserves relating to Covid-19 and allowing for large loss expenditure within budget, the combined ratio would have reached 97.6%.

The operating profit (EBIT) in property and casualty reinsurance contracted by 55.8% to EUR 290.0 million (EUR 656.9 million). The contribution to Group net income stood at EUR 244.7 million (EUR 431.3 million).

Influence of Covid-19 on life and health reinsurance moderate

Gross written premium in life and health reinsurance grew by 3.3% to EUR 4.0 billion (EUR 3.8 billion). The increase would have been 3.6% adjusted for exchange rate effects. Net premium earned climbed by 3.5% to EUR 3.5 billion (EUR 3.4 billion). Growth would have been 3.8% at constant exchange rates.

"In life and health reinsurance we saw a sharply increased need for protection among our clients, especially for tailor-made coverage concepts in the financial solutions segment in Asia," Henchoz noted.

The pandemic impacted life and health reinsurance, just as it did property and casualty reinsurance, albeit on a significantly more moderate scale: at the end of the first half-year worldwide loss expenditure associated with Covid-19 amounted to around EUR 60 million, the bulk of which derived from the United States. The operating result (EBIT) declined to EUR 214.2 million (EUR 286.0 million) owing to the strain from the Covid-19 crisis. As a further factor, the previous year's figure had been assisted by one-time income of EUR 99.5 million booked from investments. The contribution to total Group net income contracted to EUR 188.4 million (EUR 257.7 million).

Return on investment reaches 2.7%

The Covid-19 pandemic took a further toll on what was already a challenging investment climate. Prices in financial markets have since all but made good the steep declines seen in March.

The portfolio of assets under own management as at 30 June 2020 increased to EUR 48.8 billion (EUR 47.6 billion) due to the rise in hidden reserves induced by interest rate movements. The allocation of investments to the individual classes of securities was not significantly changed.

Net gains on disposals reached EUR 139.8 million (EUR 127.5 million) and can be attributed primarily to regrouping activities as part of regular portfolio maintenance as well as the successful sale of a real estate investment. Impairments of EUR 85.1 million (EUR 41.5 million) were taken, including EUR 45.0 million on alternative investments. This is a reflection first and foremost of the economic uncertainties associated with the Covid-19 pandemic. Altogether, the assets under own management generated income of EUR 656.8 million (EUR 771.8 million). The resulting annualised return stood at 2.7%. Interest on funds withheld and contract deposits surged to EUR 136.3 million (EUR 93.8 million). Investment income including interest on funds withheld and contract deposits came in lower at EUR 793.1 million (EUR 865.6 million).

Shareholders' equity remains robust

The shareholders' equity of Hannover Re remains extremely robust at EUR 10.7 billion (31 December 2019: EUR 10.5 billion). The annualised return on equity, however, amounted to 7.6% (31 December 2019: 13.3%) due to the decline in profits. The book value per share stood at EUR 88.62 (31 December 2019: EUR 87.30).

Outlook for 2020

"There are still too many uncertainties associated with providing profit guidance for the full year," Henchoz commented. "The development of the pandemic and its implications for economic growth as well as the measures taken by various governments will play a defining role in shaping our loss experience. In view of their global nature and the immense costs that can be incurred worldwide, the coverage of systemic risks is dependent now more than ever on partnership-based approaches. We stand ready to contribute our global expertise in supporting the development of innovative coverage solutions for large risks."

Hannover Re is maintaining unchanged the anticipated 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 continued comfortable level of capitalisation and Group net income within the expected bounds.

Hannover Re, with gross premium of more than EUR 22 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 150 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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