

Corporate news

Hannover Re achieves significantly better prices and conditions in 1 January renewals and further increases profitability of the business

- **Substantially improved market conditions in property and casualty reinsurance due to tighter capacities and continued heavy loss expenditure in 2022**
- **Far-reaching and significant improvements in prices and conditions with insurers carrying higher retentions**
- **Average inflation- and risk-adjusted price increase of 8.0%**
- **Price increases particularly marked for natural catastrophe covers and in aviation and marine reinsurance**

Hannover, 8 February 2023: Hannover Re achieved an inflation- and risk-adjusted price increase on renewed business of 8.0% in the treaty renewals as at 1 January 2023 in traditional property and casualty reinsurance.

The market environment for the renewals was very challenging for all participants. Russia's war against Ukraine, sharply higher inflation and continued heavy losses from natural catastrophes took a toll on the results posted by insurers and reinsurers. The resulting stronger demand among primary insurers for reinsurance protection, however, came up against a tighter overall supply. This gave rise to significant improvements in risk-adjusted prices and conditions for reinsurers. Improving terms and conditions such as higher retentions by primary insurers or limitations of coverage are not fully reflected in risk-adjustments, thereby further improving the risk profile for reinsurers.

"We had to take some conscious decisions on portfolio steering in order to respond to the market challenges," said Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re. "As a result, we have achieved a durable improvement of the quality of our portfolio from which we will benefit in the long run."

Of the total premium volume booked in the previous year on an underwriting year basis in traditional property and casualty reinsurance amounting to EUR 15,543 million (excluding facultative reinsurance, ILS business and structured reinsurance), treaties with a volume of altogether EUR 9,870 million – or 63% of the business – were up for renewal as at 1 January 2023.

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Hannover Re renewed a premium volume of EUR 8,494 million, while treaties worth EUR 1,376 million were either cancelled or renewed in modified form. Including increases of EUR 576 million from new treaties and from changes in prices and treaty shares, the total renewed premium volume came in at EUR 9,798 million. The renewed volume was slightly below the previous year.

Adjusted for the sharp surge in inflation, the pricing momentum slowed in many lines of primary insurance. Non-proportional reinsurance consequently fared better than proportional business, which is linked directly to the market development in primary insurance. Hannover Re therefore responded by growing its non-proportional book by 21.4% in the renewals to a premium volume of EUR 3,162 million. The risk-adjusted price increase amounted to 20.7%. After the vigorous growth recorded in prior years, proportional reinsurance contracted by 8.7% to EUR 6,636 million. The price increase after risk adjustment came to 3.4%.

Regional markets: Appreciable price increases after sustained heavy loss expenditure

In the region **Europe, Middle East and Africa** the premium volume booked by Hannover Re rose 2.5% despite share reductions or cancellation of some large proportional treaties. High inflation as well as extreme weather events such as intense thunderstorms with severe hail adversely impacted the results of insurers and reinsurers alike. Hannover Re achieved significantly higher prices in *Continental Europe*, especially for loss-affected covers in Germany and France.

Germany was again impacted by natural catastrophes in 2022 – in particular winter storms. The expenditures were, however, more moderate than the once-in-a-century losses incurred in the previous year. E+S Rückversicherung AG, the Hannover Re subsidiary responsible for the German market, consequently enjoyed continued growth in demand for high-quality reinsurance protection – including for natural catastrophe covers – in the renewals as at 1 January 2023. Overall, E+S Rück was able to further strengthen its leading position and generate significant price increases and improvements in conditions. The anticipated profitability of the underlying portfolio thus clearly improved.

The premium volume booked by Hannover Re in the **Americas** region rose 6.7%. Further large parts of business in this region are not, however, renegotiated until the 1 June and 1 July renewals.

Impacted by devastating windstorm events such as Hurricane Ian and Hurricane Fiona, extreme cold snaps, storm fronts and tornados, *North America* was again the focus of losses from natural disasters in the past year. Significant price increases were obtained in some cases, also extending beyond natural catastrophe covers. These went hand-in-hand with sometimes marked improvements in conditions and increases in the retentions carried by primary insurers. Improvements in the property lines were much more pronounced than in the casualty lines of business.

In *Latin America* demand for natural catastrophe covers and parametric insurance solutions remained strong. The trend towards improved rates and conditions was sustained accordingly and the profitability of the portfolio was boosted. Large parts of Hannover Re's portfolio in traditional property and casualty reinsurance are not, however, renewed until later in the year, especially in the main round of renewals on 1 July.

In the **Asia-Pacific** region Hannover Re reduced its premium volume by 21.6%. Here, too, market developments were driven by numerous large losses. Along with the severe flooding in Australia, typhoons in South Korea and Japan – among other natural catastrophe events – resulted in heavy expenditures. Hannover Re responded by cancelling or reducing participation on proportional reinsurance treaties that did not meet its requirements on rates or coverage exclusions. However, most business in the region is renewed on 1 April or 1 July.

Global markets: Substantially improved prices and conditions as a consequence of large losses and the Ukraine war

The premium volume in the **credit, surety and political risks** line contracted by 1.3%. Loss ratios, which have been comparatively low in previous year, are expected to increase moderately in the context of the global economic challenges. Hannover Re improved the profitability of its business by reducing participation in the less profitable business.

The premium volume in **aviation and marine reinsurance** contracted by 2.1%. A more rigorous underwriting approach – which has now become widespread in the market – led to some discontinuations and substantial improvements on pricing. This was especially true with an eye to war exclusions as a consequence of Russia's attack on Ukraine. The various rounds of renewals during the year are expected to bring sharply higher prices as well as moves to restructure reinsurance programmes, which should have positive implications for profitability.

Bearing in mind the past loss experience – shaped especially by drought losses in Brazil –, Hannover Re reduced its premium volume in **agricultural lines** by 1.6%. The emphasis in the renewals was on strictly profit-oriented underwriting geared to qualitative improvement of the portfolio, which should have clearly positive implications for the future profitability of the business.

In **structured reinsurance**, which is renewed throughout the year, appreciable market hardening in property business will likely continue to drive rising demand at attractive conditions. The worldwide shortage of capacity resulted in significantly improved prices and conditions, with business therefore expected to deliver further growth this year.

In **facultative reinsurance** Hannover Re anticipates growth of more than 10% on an underwriting year basis. The market environment had already been attractive in recent years, and Hannover Re was able to secure further improvements in prices and conditions for 2023 coming off a correspondingly positive level. These were particularly marked in business exposed to natural catastrophes. The main factor here was the shortage of capacity in traditional reinsurance. This should also open up growth opportunities in facultative reinsurance over the further course of the year.

In **natural catastrophe business** the premium volume booked by Hannover Re grew by around 30% in the 1 January renewals. Further growth is expected in the renewals during the year. Prices and conditions improved sharply and in some instances to an extent not seen in decades, owing to the heavy loss experience of the previous year. Prices increased by an average of 30% on a risk-adjusted basis.

Hannover Re, with gross premium of more than EUR 33 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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