

## Corporate news

# Hannover Re sees continuing trend towards rising prices in property and casualty reinsurance

- **Market climate necessitates further price increases and improvements in conditions for the 2022 renewals**
- **Low interest rate environment, pandemic impacts, inflation expectations and large losses prompt disciplined underwriting approach by insurers and reinsurers**
- **Focus on long-term partnership with clients even in challenging market situations**
- **Sustained demand for coverage from reinsurers with a particularly robust financial base**

Hannover, 13 September 2021: Hannover Re anticipates a continuing trend towards higher prices and improved conditions in property and casualty reinsurance for the various rounds of renewals in 2022.

Along with the sometimes far above-average large losses recorded in past years, the recent flooding seen in Europe – a natural disaster on a historic scale – and the considerable losses caused by Hurricane Ida have further increased the need for action on the part of reinsurers. Pandemic-related costs and the low interest rate environment are an additional strain on the results generated by primary insurers and reinsurers. Inflation rates have also been rising of late in some regions. This has further heightened risk awareness among primary insurers and given an added boost to demand for high-quality reinsurance protection.

"In property and casualty reinsurance there is a need for further rate increases. Only in this way will reinsurers be able to provide reliable risk protection in an increasingly challenging environment," said Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re. "Particularly where natural catastrophe risks are concerned, adjustments are unavoidable. While the pace of price increases has slowed somewhat of late in the renewals during the year, this was primarily the case in areas where substantial increases had already been recorded in prior years."

In the past rounds of renewals throughout 2021 Hannover Re has already been able to secure improved conditions and higher prices; nevertheless, further adjustments are needed against the backdrop of the multi-layered challenges posed by large losses, pandemic expenditures and the low interest rate level as well as the increasingly intense pressure on margins.

### 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:**  
Axel Bock  
tel. +49 511 5604-1736  
axel.bock@hannover-re.com

[www.hannover-re.com](http://www.hannover-re.com)

For the treaty renewals as at 1 January 2022 in property and casualty reinsurance Hannover Re expects the positive pricing trend to continue, especially in loss-affected lines and regions. At the same time, conditions are also likely to show further improvement on account of the considerable uncertainties, most notably in relation to future pandemics and cyber attacks.

Profitability in proportional reinsurance is satisfactory in light of sometimes marked price increases in the original market. In non-proportional reinsurance the available capacities continue to be adequate. Rates are holding steady or moving slightly higher worldwide.

Given the uncertainties prevailing on the markets, insurers continue to seek primarily high-quality reinsurance protection. This is where first and foremost reinsurers with a top-notch rating and particularly extensive risk-carrying capacity have a pivotal role to play. Thanks to its business model geared to partnership-based client relationships, its extremely robust capitalisation with a capital adequacy ratio under Solvency II of 250% (as at 30 June 2021) and its excellent ratings ("AA-" from Standard & Poor's and "A+" from A.M. Best), Hannover Re is able to participate disproportionately strongly in the market opportunities that are currently opening up.

"In addition to our customer-centricity focused on long-term partnerships, we offer a broad range of products and tailored solutions that encourage our clients to grow with us worldwide and across multiple lines of business," said Sven Althoff, member of Hannover Re's Executive Board with responsibility for property and casualty reinsurance. "In the current year and beyond this will be reflected in further profitable growth in the gross premium booked in property and casualty reinsurance."

Specifically, Hannover Re anticipates the following developments in the treaty renewals as at 1 January 2022:

### **Europe**

Natural catastrophe losses have taken a considerable toll on insurance business in *Germany* in the current year. According to the latest estimates, the disastrous flooding in July caused by the low-pressure weather system "Bernd" alone caused insured market losses of at least EUR 7.5 billion in Germany and the neighbouring countries. Added to this are further hail and severe rainfall events, with the result that even at this stage of the year the heaviest burden of catastrophe losses ever recorded in Germany can already be anticipated. The effects of protective measures taken against the pandemic were particularly evident in the first half of the year in the motor insurance sector as claims frequencies continued to decrease. As the year progressed, however, they climbed back towards pre-pandemic levels. At the same time, a sustained rise in the cost of spare parts and repairs can be observed. Bearing in mind the hail and flood events, results in the motor line are therefore likely to take a significant turn for the worse.

Industrial insurance is seeing a rise in major claims compared to the previous year, hence keeping up the pressure for remedial action in this line. In cyber business, progressive digitalisation and continued growth combined with more widespread cyber attacks are prompting greater risk awareness and adjustments in conditions. There is a need to clarify the handling of silent cyber risks as well as accumulation scenarios, which can be insured only to a limited extent. All in all, against the backdrop of heavy claims expenditures, Hannover Re expects to see appreciable adjustments to conditions for property business in Germany, especially for catastrophe covers.

Further rate increases can be seen on the primary insurance market in the *United Kingdom and Ireland*, although on the whole they are not as marked as in prior years and vary according to the line of business. Rate increases and improved conditions are especially evident in the market for liability covers. Additionally, the international cyber market is posting significant rate increases that will have a positive effect on the proportional portfolio. This development is driven largely by the rise in the frequency and amount of ransomware losses. The international property business written by Lloyd's syndicates has already hardened in recent years owing to worldwide natural catastrophe losses. This trend is set to continue in slightly more muted form. In UK motor business, which Hannover Re writes solely on a non-proportional basis in traditional business, the past few years have already seen substantial price increases; for the upcoming renewals a stable environment is therefore anticipated.

In *France* the price increases seen on the primary side are expected to slow somewhat. Among other things, this is due to the lockdown-related improvement in the claims frequency in motor business and the uncertainty surrounding the strength of the economic recovery. Declining income booked from investments continues to have a stabilising effect on prices, as does the sustained burden of loss expenditures – including from natural perils. Overall, this should also have a positive effect on movements in reinsurance prices.

In the markets of *Central and Eastern Europe* Hannover Re expects growth rates in primary insurance business to pick up over the medium to long term. Price increases are necessary in this region for loss-affected treaties and in natural catastrophe business.

### **North America**

The primary insurance market in North America continues to see rate increases in virtually all lines. Furthermore, the impacts of Covid-19 appear to have affected the economic climate less severely than initially anticipated. Despite the improved state of motor insurance business, the level of claims expenditure nevertheless remains precarious overall due to the unusually early start to wildfire and hurricane season. Further improvements in conditions and rates are again likely for the year ahead in response to this growing threat and the resulting increase in the claims burden.

In view of the continuing economic recovery combined with the challenges presented by the pandemic, rising inflation and a steadily growing potential for losses from various lines, further rate increases and clarifications in the scope of coverage are essential. The focus here continues to be on the capital resources of reinsurers, thereby further strengthening Hannover Re's position in this market.

## **Latin America**

The current challenges facing primary insurers due to the growing exposure to natural catastrophes and social unrest further reinforce the need for robust and well-structured reinsurance solutions. The latest rounds of renewals once again showed the increased demand among cedants and brokers for individual concepts and solutions. This growth trend should be sustained across multiple countries, albeit on a varying level. As an additional consideration, the exposure deriving from social unrest must be factored more heavily into the pricing.

Hannover Re's engagement in cooperation with Global Communities and the United Nations Development Programme (UNDP) is driving lively interest in the development of coverage concepts for local communities and regions, especially in Argentina and Colombia.

## **Asia-Pacific**

The Asia-Pacific region is evolving into one of the largest global insurance markets. This growth holds the promise of further significant business opportunities, in part because the insurance density here is still lower than in more mature markets. Not only in property and casualty reinsurance but also in the health and provision sector, appreciable growth rates can be anticipated over the medium to long term, which will also benefit reinsurers.

Building on its good position in the market, Hannover Re has continuously grown its footprint in the region over the past years. In the Asia-Pacific strategic growth initiative, special emphasis was placed on innovative and customer-centric concepts as well as the expansion of efficient decision paths on a local basis. Two years after the initiative was launched, Hannover Re has successfully achieved and in some instances outperformed the initial profit targets.

For the upcoming rounds of renewals in the Asia-Pacific region on 1 January 2022 and 1 April 2022, Hannover Re anticipates stable reinsurance conditions and prices with more pronounced positive changes for treaties that were affected by the pandemic or other losses.

## **Natural catastrophe business**

Over the last five years the market has experienced a sustained high volume of natural catastrophe events. In response to the elevated loss experience, reinsurance markets have increasingly hardened around the world in previous years and again in 2021.

Despite the strong capital position enjoyed by the reinsurance market, the outlook for 2022 is promising; the pricing level looks set to continue

its upward trajectory. Going into 2022, Hannover Re anticipates the following developments in key markets for natural catastrophe risks – based on the assumption of no further market-changing events until year-end:

*North America:* Although rates for US property catastrophe business increased last year, further price adjustments are necessary. One of the primary reasons here is the claims activity in the first half of 2021 as well as the devastation caused by Hurricane Ida and the subsequent flooding in New York and other parts of the country. Not only that, the US is still very much in the midst of hurricane season. Furthermore, the considerable losses caused by winter storm "Uri" in the United States highlighted the limits of the catastrophe models. The extreme weather anomalies triggered by climate change are leading to a permanent increase in claims frequencies and loss amounts.

*Europe:* Having been spared sizeable catastrophic events for many years, the situation in this region changed in 2020 and 2021. Losses and potential losses for programmes connected with Covid-19 were only minimally priced in for the 2021 renewals because the scale of losses and questions of coverage under the reinsurance treaties were unclear. The Covid-19-related losses for some customer relationships have continued to rise, with the result that further commensurate adjustments to the reinsurance treaties are expected for the 2022 renewals. The pricing of European catastrophe business in 2022 will additionally be driven by the considerable strains associated with the increase in natural disasters that have already made 2021 the costliest year ever for natural perils in Germany. Special mention should be made here of the expenditures incurred in connection with the storm front "Bernd".

*Japan:* The series of typhoons that impacted Japan in the years 2018 and 2019 prompted a gradual raising of rates for catastrophe reinsurance in recent rounds of renewals. On the whole, Hannover Re anticipates further moderate hardening for Japanese catastrophe business in 2022.

*Australia/New Zealand:* In Australia the significant and frequent large losses of recent years will keep up the pressure on the rate level until 2022. Reinsurers are aware of the fact that Australia and New Zealand are particularly vulnerable to major climate change-driven weather anomalies that can cause hail, flooding, droughts or wildfires.

### **Specialty lines**

The ongoing pandemic and associated plunge in passenger numbers in the airline industry continues to influence the *aviation sector*. While the insurance market is consequently benefiting from a sharply lower loss burden, it is at the same time scarcely possible for the premium to grow in absolute terms despite rate increases owing to the reduced exposures. On the reinsurance side, the trend towards higher prices continues – especially in non-proportional business. With surplus capacities still available, however, initial indications can be detected of

a flattening in this trend. Even in this dynamic market phase Hannover Re is keeping unchanged its disciplined underwriting approach geared to the long term. Particularly thanks to the company's good positioning in the market, it has been successful here in maintaining or even expanding shares in profitable business.

The *marine market* was notable for an appreciable upswing in 2020 and 2021. A significant but short-lived slump in world trade due to Covid-19 restrictions was followed by a revival in commercial shipping and the transport of goods, while the cruise ship industry continued to work towards a restart. This development, coupled with rehabilitation efforts made by insurers, was reflected in improved original conditions and prices. Improvements in prices and conditions were secured on the reinsurance market in all the various rounds of renewals.

In the *offshore energy* segment both the insurance and reinsurance markets were stable with slightly higher prices against the backdrop of another rather modest loss experience. Output levels remained constant despite rising oil prices, while surging interest among customers in products for the coverage of renewable energies continued to be evident.

The treaty renewals in the course of 2022 are expected once again to bring stable reinsurance conditions as well as modestly higher prices.

Loss ratios have held mostly steady in *credit and surety insurance* as well as in the area of political risks compared to previous years. On the back of the progressive phasing out of government economic supports intended to mitigate recessionary effects, loss expenditure is likely to rise in the coming months. With this in mind, prices in primary insurance and reinsurance should generally maintain the current elevated level.

When it comes to *agricultural risks*, demand for insurance and reinsurance solutions continues to grow. Hannover Re's involvement here encompasses not only traditional reinsurance but also intensified cooperation with customers and various partners on the development of innovative insurance tools. Index-based products and parametric covers offer substantial growth potential and can also be used to mitigate the adverse effects of climate change as well as to reduce the protection gap.

The market for *insurance-linked securities (ILS)* posted renewed growth after modest declines in the previous years and is heading towards a volume of EUR 100 billion, in part also due to positive rate movements across the entire sector. New issues of catastrophe bonds in the full year will very likely exceed the old high of around USD 12 billion (excl. mortgage bonds). A further factor here is that over the past few years catastrophe bonds – unlike other ILS investments – have been impacted less heavily by losses such as Covid-19.



In 2021, for example, Hannover Re has so far brought four catastrophe bonds to the capital market for US clients with a total volume of around USD 1.4 billion. A particularly gratifying business development in recent years is the transfer of life and health reinsurance risks to the ILS market in a total amount of roughly USD 800 million including coverage of extreme mortality risks. Demand is expected to show moderate growth overall in the coming years. Hannover Re is also itself an investor in catastrophe bonds, thereby maximising all the opportunities offered by the ILS market.

Business in the area of *structured reinsurance* is beating expectations in the current year. The rising demand for innovative and tailor-made reinsurance solutions has not slowed.

New business opportunities are emerging on virtually all continents. In general terms, the purchasing habits of many clients have shifted in recent years towards holistic reinsurance solutions in response to the increasingly complex requirements placed on capital and risk management. This trend continues, prompting growing demand among customers for structured reinsurance solutions.

**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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