

# RatingsDirect®

---

## Hannover Rueck SE

**Primary Credit Analyst:**

Jean Paul Huby Klein, Frankfurt + 49 693 399 9198; jeanpaul.hubyklein@spglobal.com

**Secondary Contact:**

Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com

### Table Of Contents

---

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

Financial Risk Profile

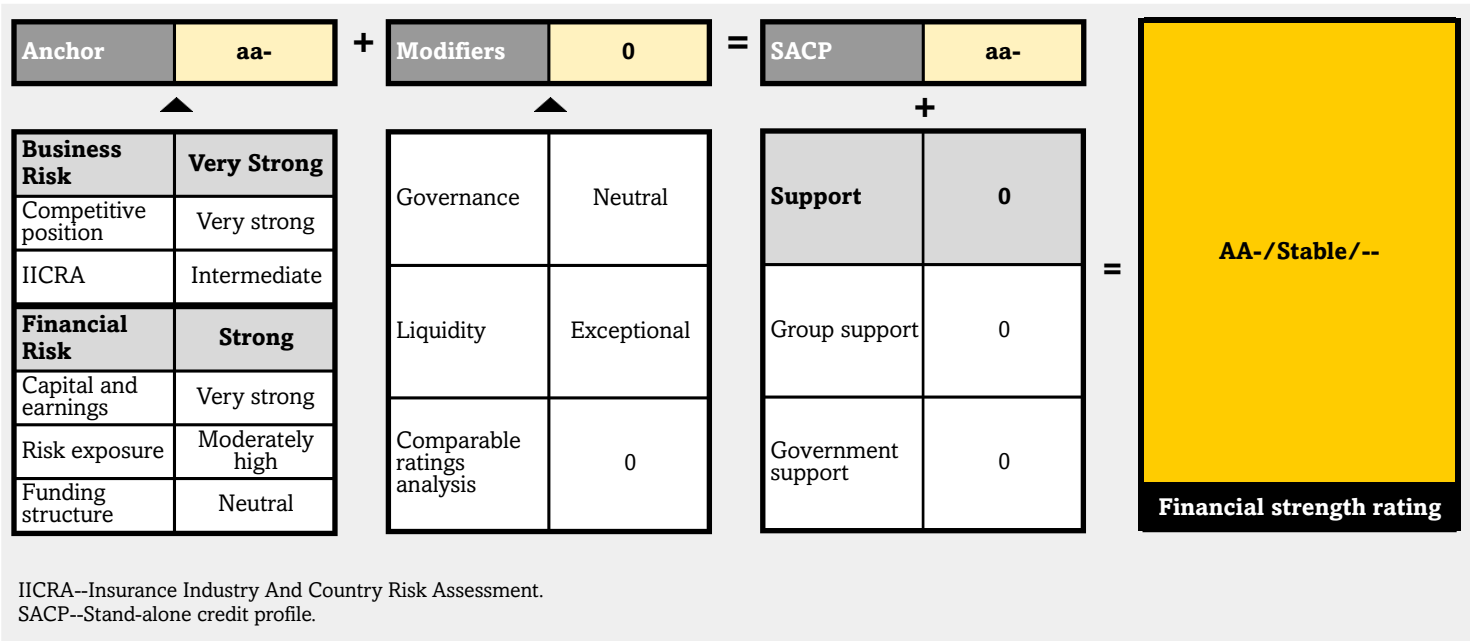
Other Key Credit Considerations

Related Criteria

Related Research

Appendix

# Hannover Rueck SE



## Credit Highlights

### Overview

#### Strengths

One of the top global reinsurers, with very strong diversification by product and geography, a low-cost base, and selective and stringent underwriting capabilities.

Very strong capital under both our risk-based capital model and solvency requirements, with well-defined risk controls and solid reserves.

Operating performance based on return on equity (ROE) and combined ratio that compares favorably with that of peers.

#### Risks

Lower-for-longer interest rates that are putting pressure on investment performance and uncertainties on COVID-19-related losses, especially in the life insurance business.

Potential volatility in capital and earnings because Hannover Rueck SE (Hannover Re) covers large risks such as natural catastrophes.

**S&P Global Ratings expects Hannover Re will remain one of the leading global reinsurers, owing to its very strong diversification and low-cost base.** The group has a top 3 position in the global reinsurance market and a strong brand image, supported by its strong underwriting and claim-settlement expertise. It also enjoys long-standing relationships with brokers and key clients, and has leading positions in some of the reinsurance treaties it underwrites globally. We believe that the group will further demonstrate its competitive strengths compared with those of lower-rated peers by taking advantage of the hardening rate environment.

**Hannover Re's 2020 earnings were affected by pandemic-induced losses, although we expect profitability to improve in 2021.** The group reported a 2020 ROE of 7.9% and a combined ratio of 101.9% compared with 13.1% and 98.5%, respectively, in 2019. The results were affected by about €1.2 billion in COVID-19-related losses and reserving, but are better than the average peer results. We believe that strong underwriting capabilities, superior cost base compared with that of peers, cautious reserving, and sound retrocession strategy will support the group's earnings in the forecast period. We expect the combined ratio will improve to 96%-98% and ROE to 10%-14% in 2021-2022.

**We expect capitalization to remain at least very strong, supported by retained earnings and the issuance of hybrid bonds over the past year.** Our expectations for Hannover Re's capital position are based on strong prospective earnings of €1.1 billion-€1.4 billion over the next two years and recent hybrid issuances of €500 million in 2020 and €750 million in 2021. We believe that retained earnings and the issued hybrid bonds will finance growth, maintaining the group's capital adequacy at the 'AA' level, measured using S&P Global Ratings' risk-based capital model. Furthermore, the strong Solvency II ratio of 252% at March 31, 2021, further supports our view of Hannover Re's capitalization. The group's exposure to large tail risks, such as natural catastrophes, could lead to capital and earnings volatility. However, we believe Hannover Re remains sufficiently capitalized to cope with potential additional pandemic-related losses in 2021 and large man-made losses or natural catastrophes.

### Outlook: Stable

The stable outlook indicates that we expect the group will maintain its competitive advantage as a well-positioned, leading global reinsurer. Hannover Re will also benefit from moderate price increases in the global property and casualty (P/C) reinsurance business in 2021 and growth in its traditional and structured reinsurance products. We also assume earnings will improve in 2021-2022, which should let the group maintain capital securely above the 'AA' level.

#### Downside scenario

We might consider lowering the ratings over the next two years if capital adequacy fell significantly below the 'AA' level over our forecast horizon. This could occur because of large unexpected natural catastrophes, higher risk-capital charges than we expect, or a material erosion of underlying earnings. We could also take a negative rating action if Hannover Re's underwriting controls deteriorated, or if it assumed a riskier profile overall through heightened underwriting or investment risks.

#### Upside scenario

We assess the likelihood of an upgrade as remote over the next 12-24 months. This reflects the continued challenging business conditions in the global reinsurance market, despite the rate increases.

## Key Assumptions

- We forecast a 4.2% GDP in the eurozone in 2021 and 4.4% in 2022. For the U.S., we expect real GDP growth of about 6.5% and 3.1% in 2021 and 2022, respectively.
- Low interest rates remain a key risk to EMEA-based insurers, with eurozone 10-year government bond yields of about 0.2% in 2021 and 0.3% in 2022, based on our economic estimates. The U.S. 10-year Treasury rate will also be low, at around 2.0% in 2021 and 2.3% in 2022.

### Hannover Re--Key Metrics

	2022f	2021f	2020	2019	2018	2017	2016
S&P Global Ratings capital adequacy	Very strong	Very strong	Very strong	Very strong	Very strong	Very strong	Very strong
Gross premium written (mil. €)	>27,500	~26,500	24,765	22,598	19,176	17,791	16,354

**Hannover Re--Key Metrics (cont.)**

	<b>2022f</b>	<b>2021f</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net income (mil. €)	1,100-1,400	1,100-1,300	919	1,373	1,146	1,045	1,226
Return on shareholders' equity (%)	10-14	10-13	7.9	13.1	12.2	11.0	13.2
Net investment yield (%)	2.4-2.6	2.5-2.7	3.0	3.3	3.5	3.5	3.4
P/C: Net combined ratio (%)	96-98	96-98	101.9	98.5	96.9	100.0	94.0
Reinsurance utilization (%)	N.A.	N.A.	9.9	10.0	9.3	9.5	10.7
Return on revenue (%)	N.A.	N.A.	4.0	7.3	7.5	5.6	9.3

P/C--Property and casualty. f--S&P Global Ratings forecast. N.A.--Not available.

**Business Risk Profile: Very Strong**

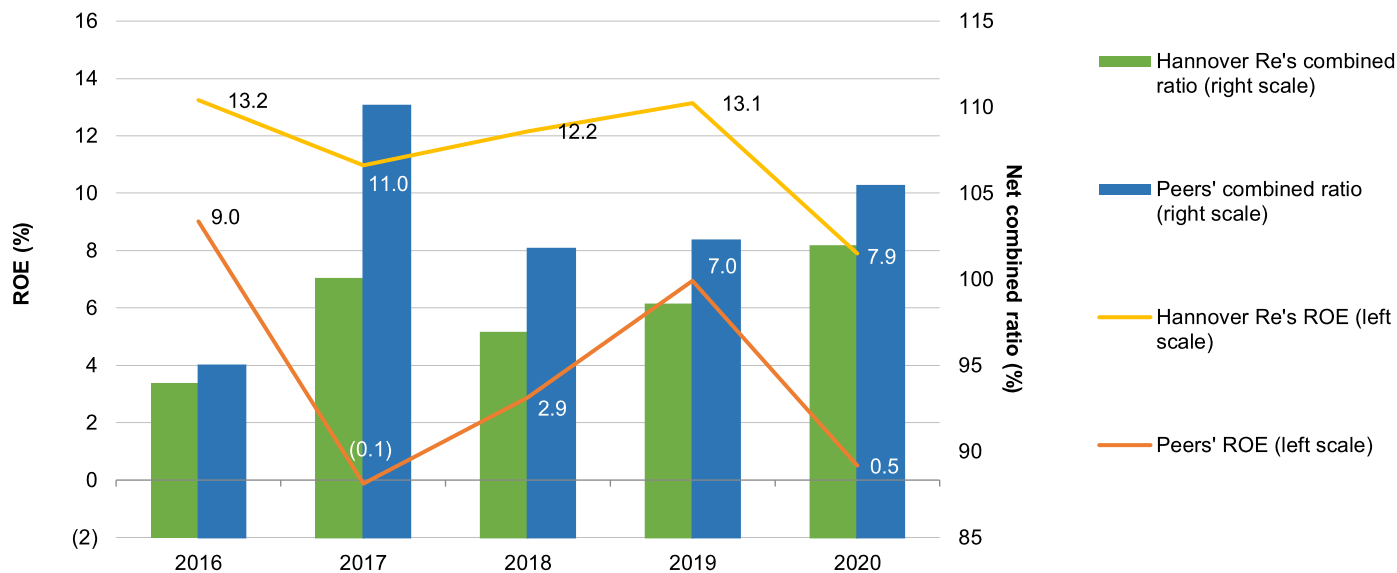
In our view, Hannover Re benefits from its diversified geographic footprint and broad business portfolio offering P/C and life/health reinsurance. Furthermore, the group's competitiveness is underpinned by its well-established brand, strong underwriting and claims services abilities. Within P/C reinsurance, similar to its global peers, we believe that Hannover Re is exposed to product risk, especially because of the unpredictable nature of natural catastrophes and large losses. We saw this risk demonstrated in 2017-2019, when there were large natural catastrophe market losses, and also see it in the pandemic.

In the group's life reinsurance operations, the barriers to entry are higher, in our view, because the market is dominated by a handful of reinsurers. In life reinsurance, Hannover Re is exposed to risks arising from changes to assumptions regarding mortality and morbidity. The pandemic-related losses of €261 million in 2020 are mainly associated with excess mortality in the U.S. These have less potential to increase capital and earnings volatility than the product risks in P/C reinsurance, but we understand that life reinsurance losses could negatively influence 2021 results, depending on mortality, especially in the U.S.

Operating performance in 2020 was hindered by COVID-19 losses of €1.2 billion, which resulted in drop in net income to €919 million. This was better than our expectation of €500 million-€700 million net income from October 2020. In P/C reinsurance, material losses and reserves related to COVID-19 of €950 million, together with natural catastrophes and man-made losses of about €645 million, exceeded the group's large loss budget of €975 million, leading to a combined ratio of 101.9%. Despite the deteriorated earnings in 2020, we see Hannover Re's performance more favorably compared with that of peers, supported by its effective retrocession strategy, stringent underwriting, positive run-off results, and solid investment income. For 2021-2022, we expect the group's combined ratio will improve to 96%-98% and ROE to 10%-14%, driven by the absence of major pandemic losses and a more beneficial pricing environment.

Chart 1

### Hannover Re's Operating Performance Is Resilient Compared With That Of Top Global Reinsurers



Note: Peers include Munich Re, Swiss Re, Lloyds, and SCOR. ROE--Return on equity. Source: S&P Global Ratings.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

In our view, Hannover Re benefits from a lower-than-average administration expense ratio, which also bolsters the group's competitive strength. The group's diverse business mix is a further positive factor. Hannover Re's retrocession strategy helped it withstand recent large natural catastrophes. Nevertheless, its reinsurance utilization ratio is somewhat higher than some peers, which suggests greater reliance on retrocession capacity.

### Financial Risk Profile: Strong

At year-end 2020, Hannover Re still hold capital adequacy above the 'AA' confidence level, based on our risk-based model. Moreover, the group reported a favorable solvency II ratio of 252% at March 31, 2021, further supporting our view of its capitalization. We believe, the group will maintain capitalization at the 'AA' level in 2021-2022 benefiting from its earnings capacity and the recent capital management actions (hybrid capital issued in July 2020 and March 2021 of €1.25 billion in total), which should comfortably finance the group's growth ambitions. Furthermore, we believe Hannover Re remains sufficiently capitalized to cope with further possible large man-made losses or natural catastrophe events.

In 2020, the group reported a drop in earnings to €919 million and in ROE to 7.9% as compared €1.37 billion and

13.1%, respectively, in 2019. However, in 2020 and over the past five years, Hannover Re outperformed its peer group in terms of ROE performance. We expect the group will generate an ROE of 10%-14% in 2021-2022, assuming a normal level on natural catastrophes and large losses, and lower pandemic losses than in 2020 supported by strong reserving. We base this on our expectation that Hannover Re will generate stable earnings at €1.1 billion-€1.4 billion in 2021-2022. We also assume the net investment yield will gradually decline to 2.5%-2.7% in 2021 and 2.4%-2.6% in 2022 because of the low interest rates.

The group's financial risk profile is supported by very strong and prudent reserves, which we take into account in our assessment of the group's capital. We also view positively Hannover Re's good internal economic capital model.

The group is exposed to tail risks from severe natural catastrophes, man-made claims, and pandemics, which could cause some volatility in capital and earnings. Its risk appetite remained broadly stable with a small increase in the large loss budgeted to €1.10 billion for 2021 compared with €975 million for 2020. Still, in our view, Hannover Re has adequately managed these events, as demonstrated recently, thanks to its beneficial cost base, diversified portfolio, strong modeling and risk controls, very strong and prudent reserving, and comprehensive retrocession program.

The group has a well-diversified investment portfolio and maintains a conservative stance on its investments via relatively low-risk asset allocation, limits for foreign currency exposure, and prudent diversification by sectors and single obligors. More than 90% of Hannover Re's fixed income portfolio is allocated to investment-grade securities. Like its peers, we believe the group's investment income to remain under pressure as fixed income investments are facing low-for-longer interest rates.

In our view, Hannover Re has a track record in accessing the capital markets as demonstrated with the recent hybrid issuances. Financial leverage stood at 23% as of 2020 and fixed charge ratio of 11.9x despite lower earnings in 2020.

## Other Key Credit Considerations

### Liquidity

We expect Hannover Re's liquidity to remain exceptional over the next two years. The group has ample liquidity sources available, mainly premium income and a highly liquid asset portfolio. Moreover, there are no refinancing risks, in our view.

### Group support

Our assessment of Hannover Re reflects its stand-alone characteristics. The group is 50.2%-owned by ultimate parent Talanx AG, and the rest of its shares are widely held. We understand that Hannover Re's strategy, capital management, and cash flows are highly independent from Talanx AG.

In March 2021, Hannover Re changed the brand name of its South African life entity to Hannover Re South Africa from Hannover Life Reassurance Africa, operating now as a composite reinsurer rather than a pure life entity.

### Environmental, social, and governance

Hannover Re's exposure to environmental and social risk factors is in line with that of the general insurance industry and with global reinsurance peers such as Swiss Re, Munich Re, and SCOR. Standards for corporate governance are

typically high in Germany and in many other countries where Hannover Re has material exposure. The group is mainly exposed to environmental factors through its P/C reinsurance business. In particular, climate change could cause an increase in the frequency and severity of claims from extreme weather events, including natural catastrophes, as we saw in recent years. Hannover Re managed these events better than many of its mainly P/C reinsurance peers, thanks in part to its diversified portfolio, strong modeling and risk controls, and comprehensive retrocession program. Although we consider that the group's exposure to catastrophe risk could be a source of material capital and earnings volatility, it can reprice its catastrophe contracts annually, which helps it to absorb the gradual increase in claim trends. It sets an annual large loss budget of €1.1 billion as a buffer for extraordinary events. Given Hannover Re's strong risk management and modeling capabilities, we consider it unlikely to experience losses greater than its risk tolerance. The group is exposed to social factors like demographic trends through its life reinsurance business. For example, changes to longevity and mortality could increase liabilities. We do not foresee any material governance issues that could affect the ratings. We think that the management team has a consistent and successful track record of strategic planning, strong execution, and transparent, demanding, and sophisticated financial management. The group also has a strong track record of meeting its financial and strategic targets.

### **Enterprise risk management**

We consider Hannover Re's enterprise risk management (ERM) program an important consideration in our ratings analysis, particularly given the global diversity of the group's business and the potential volatility to capital and earnings from exposure to natural catastrophes and pandemics. Hannover Re benefits from stringent risk controls and a well-established ERM framework. We also factor in our assessment of the group's good economic capital model.

### **Related Criteria**

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

### **Related Research**

- Ratings On Hannover Life Reassurance Bermuda Ltd. Discontinued Following Merger, May 18, 2021
- Hannover Rueck SE Proposed Junior Subordinated Callable Fixed-To-Floating Bonds Rated 'A', March 15, 2021

## Appendix

### Hannover Re--Credit Metrics History

Ratio/Metric	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very strong	Very strong	Very strong	Very strong
Total invested assets	48,986	47,394	42,007	39,969
Total shareholder equity	11,597	10,448	9,414	9,514
Gross premiums written	24,765	22,598	19,176	17,791
Net premiums written	22,323	20,345	17,398	16,094
Net premiums earned	21,356	19,730	17,289	15,632
Reinsurance utilization (%)	9.9	10.0	9.3	9.5
EBIT	1,214	1,853	1,597	1,364
Net income (attributable to all shareholders)	919	1,373	1,146	1,045
Return on revenue (%)	4.0	7.3	7.5	5.6
Return on shareholders' equity (reported) (%)	7.9	13.1	12.2	11.0
P/C: net combined ratio (%)	101.9	98.5	96.9	100.0
P/C: net expense ratio (%)	29.1	29.5	30.0	28.8
P/C: return on revenue (%)	5.5	9.3	11.2	10.8
EBITDA fixed-charge coverage (x)	11.9	17.5	14.5	12.33
EBIT fixed-charge coverage (x)	10.6	16.6	13.7	11.34
Financial obligations/ EBITDA adjusted	2.5	1.8	1.6	1.33
Financial leverage including pension deficit as debt (%)	23.0	25.1	22.8	17.2
Net investment yield (%)	3.0	3.3	3.5	3.5
Net investment yield including investment gains (losses) (%)	3.5	3.9	3.7	4.3

### Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
<b>Very Strong</b>	aa	aa/aa-	<b>aa-/a+</b>	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bbb-	bb-/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb-	bb+/bb	bb-/b+
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb-	bbb-/bbb-	bb+/bb-	b+/b
Weak	bbb+/bbb	bbb/bbb-	bbb-/bbb+	bb+/bb	bb/bb-	bb-/bb-	bb-/b+	b/b-
Vulnerable	bbb-/bbb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b/b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

### Ratings Detail (As Of July 7, 2021)\*

#### Operating Companies Covered By This Report



## Ratings Detail (As Of July 7, 2021)\*(cont.)

**Hannover Rueck SE**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

AA-/Stable/--

Senior Unsecured

AA-

Junior Subordinated

A

**E+S Rueckversicherung AG**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Hannover Finance Luxembourg S.A.**

Junior Subordinated

A

**Hannover Life Reassurance Co. of America**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Hannover Life Reassurance Co. of America (Bermuda) Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

**Hannover Life Reassurance of Australasia Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Hannover Re (Bermuda) Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Hannover Reinsurance Africa Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

**Hannover Re (Ireland) DAC**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Hannover Re South Africa Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

**Domicile**

Germany

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&amp;P Global Ratings' credit ratings on the global scale are comparable

**Ratings Detail (As Of July 7, 2021)\*(cont.)**

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.