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Hannover Rueck SE

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Hannover Rueck SE

Anchor	aa-	+	Modifiers	0	=	SACP	aa-

Business Risk	Very Strong
Competitive position	Very strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

Support	0
Group support	0
Government support	0

= **AA-/Stable/--**

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
One of the top global reinsurers, with very strong diversification by product and geography, a low-cost base, and selective and stringent underwriting capabilities.	Geopolitical and economic risks, capital market volatility, and inflation trends are adding uncertainty to financial targets.
Very strong capital under both our risk-based capital model and solvency requirements, with well-defined risk controls and solid reserves.	Potential volatility in capital and earnings because it covers large risks such as natural catastrophes.
Operating performance based on return on equity (ROE) that compares favorably with peers'.	

Hannover Rueck SE (Hannover Re) will remain one of the leading global reinsurers, owing to its very strong diversification, robust growth, and low cost base. The group has a top-three position in the global reinsurance market and a strong brand image, supported by its robust 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. These competitive strengths are underlined by consistent and profitable premium growth of 11.2% on average over the past five years compared with about 6% for peers. S&P Global Ratings believes that the group will further demonstrate its competitive strengths by taking advantage of rising rates.

Technical performance has been affected by large losses in 2021 and first-half 2022, mainly compensated with investment returns. Hannover Re reported a combined ratio (loss and expense) of 98.0% at year-end 2021 and 99.0% in first-half 2022, which is higher than its 96% target. Natural catastrophe losses and reserves related to potential claims from the Russia-Ukraine war negatively affected the group's property/casualty (P/C) results. In life and health, performance was hit by large COVID-19-related losses in 2021 but is recovering year-to-date in 2022. However, sound investment income of 3.3% and 3.0% in 2021 and first-half 2022 respectively enabled the group to achieve a strong ROE of 10.6% and 12.4%. We believe that strong underwriting capabilities, a 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 95%-98% and ROE remain solid at 11%-13% in 2022-2023.

We expect capitalization to remain at least very strong, despite a large decline in shareholders' equity of about 25% in first-half 2022. The sharp increase in interest rates during the first half caused unrealized losses of €3.6 billion, bringing shareholders' equity down to €9.0 billion from €11.9 billion at year-end 2021. However, we expect that close asset-liability matching mostly mitigated the negative effects on capitalization, as seen in a moderate decline in the regulatory solvency ratio to 235% at June 30, 2022, compared with 243% at year-end 2021. Our expectations for Hannover Re's capital position are also based on strong prospective earnings of €1.4 billion-€1.6 billion over the next two years. We believe that retained earnings will finance growth, maintaining the group's capital adequacy at the 'AA' level, measured using S&P Global Ratings' risk-based capital model. 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 large man-made losses or natural catastrophes in 2022.

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 P/C reinsurance business in 2022 and growth in its traditional and structured reinsurance products. We also assume earnings will improve in 2022-2024, 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 continued challenging business conditions in the global reinsurance market, despite rate increases.

Key Assumptions

- The Russia-Ukraine conflict's global macroeconomic effects seem moderate for now after the world economy had a healthy start to 2022. That said, downside risks exist. We forecast eurozone GDP growth of 2.6% in 2022, followed by 1.9% in 2023. We also forecast U.S. GDP growth of 2.4% in 2022 and 1.6% in 2023.

- Global inflation has moved to the front and center as a policy challenge. Higher U.S. dollar rates will tighten financial conditions, limit growth, and spill over to other economies, while the European Central Bank's tightening will be much more gradual. We expect eurozone inflation to increase to 7.0% in 2022 compared with 2.6% in 2021. We also expect U.S. inflation will increase to 7.5% in 2022 from 4.7% in 2021.
- Global reinsurers will likely assume about half of the potential specialty insurance losses arising from the Russia-Ukraine conflict. Losses from specialty lines are likely to be an earnings event for most reinsurers but could become a capital event for a few outliers.
- Reinsurance's positive pricing momentum will continue in the upcoming renewals in 2022. Furthermore, capitalization remains a key strength for the sector.

Hannover Rueck SE--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
Gross premium written (mil. €)	>31.000	>29.500	27,762.3	24,770.3	22,597.6	19,176.4	17,790.5
Net income (mil. €)	1.400-1.600	1.400-1.600	1,300.2	918.8	1,373.4	1,145.5	1,044.6
Return on shareholders' equity (%)	11-13	11-13	10.6	7.9	13.1	12.2	11.0
Net investment yield (%)	2.7-2.9	2.9-3.1	3.3	3.0	3.3	3.5	3.5
P/C: Net combined ratio (%)	95-97	96-98	98.0	101.9	98.5	96.9	100.0
Reinsurance utilization (%)	N.A.	N.A.	10.5	9.9	10.0	9.3	9.5
Return on revenue (%)	N.A.	N.A.	5.7	4.0	7.3	7.5	5.6

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

Business Risk Profile: Very Strong

In our view, Hannover Re benefits from its diversified geographical footprint and broad business portfolio, offering P/C and life/health reinsurance. Furthermore, the group's competitiveness is underpinned by its well-established brand, and 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 recent years, when there were large natural catastrophe and pandemic market losses.

In our view, barriers to entry are higher for the group's life reinsurance operations, because the market is dominated by a handful of reinsurers. We believe life reinsurance business has low industry risk, owing to its positive underlying earnings in the absence of pandemic-related losses. These have less potential to increase capital and earnings volatility than the product risks in P/C reinsurance. We understand that life reinsurance losses are persisting in 2022, although at a lower level compared to 2021.

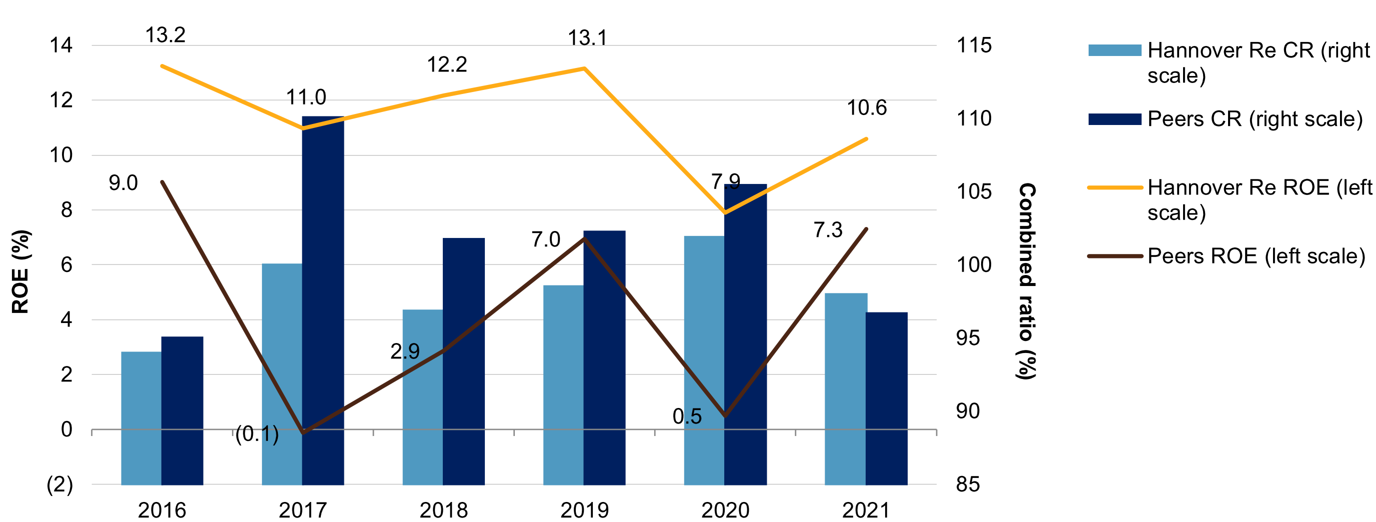
In our view, Hannover Re has demonstrated its ability to take advantage of increasing reinsurance prices across business lines, as well as structured reinsurance deals, backed by the group's strong reputation. Additionally, inflation trends, high loss experience, and still-low interest rates encouraged firmer prices in 2021 and 2022 year-to-date. The group's competitive strength has been evidenced by a strong increase in gross written premiums (GWP) of 12.1% in 2021 and a five-year average of 11.2% compared with a five-year average of about 6% for peers. We expect Hannover

Re will take further advantage of rate hardening in the P/C reinsurance market and leverage its competitive strength, organically increasing its GWP more than 7% in 2022. Our expectation is backed by a strong GWP increase of 19.9% in first-half 2022, mainly spurred by high growth in traditional and structured P/C reinsurance.

The group's above-average growth rates did not reduce its earnings generation capacity, having demonstrated a consistently higher ROE than the peer average over the past five years (see chart 1). Operating performance was hindered by a high net large losses exceeding the company's budget by €150 million in 2021. However, the lower amount of COVID-19-related losses and strong investment result increased net earnings 42% to €1.3 billion. For 2022, we expect earnings will improve to €1.4 billion-€1.6 billion. Technical performance will likely remain below expectations with a combined ratio of 96%-98% due to high large losses and provisions budgeted for losses related to the Russian/Ukraine war. However, we expect investment returns to largely compensate for this, mainly due to a strong contribution from inflation-linked bonds, sound real estate returns, and higher investment yields.

Chart 1

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



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

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 that of some peers, which suggests greater reliance on retrocession capacity.

Financial Risk Profile: Strong

At year-end 2021, Hannover Re still held capital adequacy above the 'AA' confidence level, based on our risk-based model. Moreover, the group reported a favorable Solvency II ratio of 243%, further supporting our view of its capitalization. We believe Hannover Re will maintain capitalization at the 'AA' level in 2022-2023 despite a material decline in shareholders' equity in first-half 2022, driven by a decline in fixed-income valuations due to higher interest rates. However, we expect that close asset-liability matching mostly mitigated the negative effect on capitalization, as seen in a moderate decline in the regulatory solvency ratio to 235% at June 30, 2022. Furthermore, we believe Hannover Re remains sufficiently capitalized to cope with further possible large man-made losses or natural catastrophe events.

In 2021, the group reported an increase in earnings to €1.3 billion and in ROE to 10.6%, compared with €919 million and 7.9% in 2020. Hannover Re has been able to outperform its peer group in terms of ROE over the past five years. We expect the group will generate an ROE of 11%-13% in 2022-2023, assuming a normal level on natural catastrophes and large losses, supported by strong reserving. In our view, the group will generate earnings of €1.4 billion-€1.6 billion in 2022 and 2023 despite high large losses and provisions set for potential claims related to the Russia-Ukraine war in first-half 2022. We expect investment returns of 2.9%-3.1% to support net earnings in 2022, contributing to the group's ability to finance its growth ambitions.

Hannover Re's financial risk profile is supported by very strong and prudent reserves, which we consider in our assessment of its capital. We also view positively its 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, although the large loss budget increased to €1.4 billion for 2022 compared with €1.1 billion for 2021 and €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 an effective 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.

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 26.4% as of 2021 and the fixed charge ratio of 16.6x was supported by higher earnings compared with 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.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5
- Physical risk.					- N/A					- N/A				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Hannover Re's exposure to environmental and social risks is consistent with that of the global insurance industry and broadly in line with global reinsurance peers. Environmental factors are a moderately negative consideration in our analysis of Hannover Re. However, Hannover Re has built a strong capital buffer and an effective retrocession to safeguard its business against adverse market developments, including high catastrophe losses like those seen in recent years, and by diversifying its portfolio across various business lines and regions. We view the group's exposure to losses from extreme weather as a source of potentially material capital and earnings volatility. We also take into account the group's option to reprice its catastrophe contracts annually, which should mitigate the potential increase in claims stemming from natural catastrophes, in part due to climate change. Given the group's strong risk management and modeling capabilities, we think it is unlikely to experience losses greater than its risk tolerance.

Through its life reinsurance business, Hannover Re is exposed to social factors such as changes in demographic trends. Greater longevity and other mortality trends can increase insurance liabilities. That said, this is a common problem for life reinsurers. We anticipate that Hannover Re's diversification in its global book of business and the variety of life insurance products it offers will mitigate risks.

Standards for corporate governance are typically high in Germany and in many of the other countries where Hannover Re has material exposure. We do not foresee any material governance issues that could affect the ratings. We think the management team has a consistent and successful track record of strategic planning, strong execution, and transparent, demanding, and sophisticated financial management. Hannover Re 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 in 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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers 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

Appendix

Hannover Re--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
Total invested assets	55,965.0	48,766.9	47,394.4	42,006.6	39,968.6
Total shareholder equity	12,297.8	11,596.9	10,448.3	9,414.3	9,513.6
Gross premiums written	27,762.3	24,770.3	22,597.6	19,176.4	17,790.5
Net premiums written	24,857.3	22,327.6	20,345.4	17,397.5	16,094.4
Net premiums earned	24,143.7	21,360.8	19,729.7	17,289.1	15,631.7
Reinsurance utilization (%)	10.5	9.9	10.0	9.3	9.5
EBIT	1,734.8	1,214.1	1,853.2	1,596.6	1,364.4
Net income (attributable to all shareholders)	1,300.2	918.8	1,373.4	1,145.5	1,044.6
Return on revenue (%)	5.7	4.0	7.3	7.5	5.6
Return on shareholders' equity (reported) (%)	10.6	7.9	13.1	12.2	11.0
P/C: net combined ratio (%)	98.0	101.9	98.5	96.9	100.0
P/C: net expense ratio (%)	28.7	29.1	29.5	30.0	28.8
P/C: return on revenue (%)	8.4	5.5	9.3	11.2	10.8
EBITDA fixed-charge coverage (x)	16.6	11.9	17.5	14.5	12.3

Hannover Re--Credit Metrics History (cont.)

Ratio/Metric	2021	2020	2019	2018	2017
EBIT fixed-charge coverage (x)	15.5	10.6	16.6	13.7	11.3
Financial obligations / EBITDA adjusted	2.4	2.5	1.8	1.6	1.3
Financial leverage including pension deficit as debt (%)	26.4	23.0	25.1	22.8	17.2
Net investment yield (%)	3.3	3.0	3.3	3.5	3.5
Net investment yield including investment gains/(losses) (%)	3.7	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+
Very Strong	aa	aa/aa-	**aa-/a+**	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/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 August 22, 2022)*

Operating Companies Covered By This Report	
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/--

Ratings Detail (As Of August 22, 2022)*(cont.)	
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&P Global Ratings' credit ratings on the global scale are comparable 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.